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# JANUARY 1966 ECONOMIC REPORT OF THE PRESIDENT

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## HEARINGS

BEFORE THE

### JOINT ECONOMIC COMMITTEE

### CONGRESS OF THE UNITED STATES

EIGHTY-NINTH CONGRESS

SECOND SESSION

FEBRUARY 3, 4, AND 8, 1966

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# JANUARY 1966 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 3, 1966

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

The joint committee met at 10 a.m., pursuant to recess, in room S-407, the Capitol, Representative Wright Patman (chairman of the joint committee) presiding.

Present: Representatives Patman, Reuss, Griffiths, Curtis, Widnall, and Ellsworth; Senators Douglas, Proxmire, Javits, and Miller.

Also present: James W. Knowles, executive director; John R. Stark, deputy director; Donald A. Webster, minority counsel; and Hamilton D. Gewehr, administrative clerk.

Chairman PATMAN. The committee will please come to order.

This morning we will hear Secretary of the Treasury Fowler on the subject of the President's Annual Economic Report. It is obvious that the activities of the Treasury Department play a crucial role in the functioning of the economy—taxation, management of the public debt, Government expenditures and monetary policy have an extensive effect on the total performance of the economy. They also affect each other in many ways and cannot be separated.

From time to time I will have something to say about the lack of coordination of economic policy and I will have some questions on the subject later. We hope, too, that you can enlighten us as to current problems in the management of the public debt.

Looking over the Treasury Department's figures on the public debt, I see that the outstanding amount under the statutory ceiling at the end of the year was \$316.5 billion. Of that amount, \$61.7 billion was held by U.S. Government investment accounts, like the social security trust fund; and another \$40.7 billion was in the hands of the Federal Reserve banks.

This left a total of \$213.9 billion in the hands of private investors. Of that amount, about \$53.5 billion was not marketable so that the public marketable issues amount to \$160.4 billion which is just about half of the total debt. This important fact is often overlooked in discussions of the public debt and particularly of public debt ceilings.

Mr. Secretary, we are glad to have you with us today. You may proceed in your own way. I believe that you have a prepared statement, have you not?

**STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE  
TREASURY; ACCOMPANIED BY FREDERICK L. DEMING, UNDER  
SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS, AND  
ROBERT A. WALLACE, ASSISTANT SECRETARY OF THE TREASURY**

Secretary FOWLER. I do, Mr. Chairman. Thank you.

Chairman PATMAN. And you may also extend your remarks if you desire to do so in connection with any germane matter that you have.

Secretary FOWLER. Thank you, Mr. Chairman.

In addition to the statement before you, I have supplementary comments that have been prepared overnight and are now in the process of duplication. I would like the privilege of adding those to the statement before you when they are available.

Chairman PATMAN. Certainly; you may do so.

Secretary FOWLER. Mr. Chairman, and members of the Joint Economic Committee, we meet today in economic circumstances of rather different complexion from those of a year ago or any of the past several years. At home our work force, more productive than ever, is also more fully employed than at any time in nearly a decade.

Adding to the increasing demands of our own people for more of the fruits of our highly productive economy is our firm commitment to the defense of freedom of Vietnam, which places a high-priority claim on our human and material resources. Rather than stimulate the economy further, it is now the broad task of Government economic policy to take in some sail. We have become more concerned with economic overheating than with the shortfalls of demand that marked most recent years.

Our international economic position has taken a decided turn for the better—and we expect that it will do still better in this current year. Yet here, too, our progress in meeting older problems has tended to uncover new ones—in this case the need to move ahead with improved machinery to cope with the international financial problems we will face in the future.

With the President's Economic Report now before you, there is no need to recount in detail the economic accomplishments of 1965. A few highlights will serve to make the point.

In this fifth full year of business expansion, real output gained 5½ percent. During the year, industrial production climbed 7.4 percent; about 2.5 million more workers found employment, and the unemployment rate fell from 5.0 percent at the end of 1964 to just 4.1 percent of the civilian labor force at the end of 1965. In early 1961, when the current economic upswing was just getting underway, the unemployment rate reached a high of about 7 percent.

No stronger witness is needed to the success of earlier policies. The stimulus of carefully planned reductions in tax rates, working in tandem with a moderately expansive monetary policy, and blended with a range of Government programs addressed to more specific economic problems, has helped produce a 5-year economic rise of enormous scope. Our real growth rate during the expansion from early 1961 through 1965, 5½ percent annually, can stand proudly beside the record turned in by other industrial countries. And it far

overshadows our own frustratingly slow growth during the recession-pocked 1950's.

Yet the very success of earlier policies has brought into range a different set of problems and hence of near-term policy objective. On the whole, our long economic expansion has been remarkably free of price increases, but in the past year there has been greater upward pressure—understandable in light of our own closer approach to capacity operations and full employment—but nevertheless most unwelcome.

Amidst all our progress toward greater economic well-being, however, there remains a residue of older problems—ameliorated, but not solved, by gains in the economy at large. Unemployment among nonwhites, for example, has declined but remains about double the rate for whites, and it is surely too high.

Too many pockets of poverty remain; perhaps their number and extent are less than before, but their very existence is the more glaring in view of the general economic advance. And even among the employed, and among the many who are above the poverty threshold, there is much more they can contribute and gain in the framework of a healthy expanding economy.

It is the overall economic picture to which general Government financial policy must be addressed, however, and that picture is clearly changed. The key factor calling for a different policy approach is our commitment in Vietnam—but I would emphasize that we had a very solid economic upswing in progress well before the buildup in our Vietnam effort that started this fall. It was an upswing that resoundingly demonstrated the logic of the reductions in tax rates of the last few years.

In this current fiscal year, for example, our income tax—even with its lower rates—will bring in substantially higher revenues than ever before because of the higher income base. The investment tax credit enacted in 1962 and improved in 1964, and the steps taken in 1962 and 1965 to liberalize depreciation have also borne fruit, stimulating a level of investment that not only contributed to overall economic activity and productivity, but also added to our productive capacity, so that our economy could expand without generating excessive inflationary pressure.

Industrial capacity is being more fully utilized than at any time in the past decade, but overall, we have the potential to meet both our commitments in Vietnam and our economic demands at home. I am convinced that the fiscal measures of the last few years to encourage investment deserve a good share of the credit for this.

Taken together, the stimulative effect of tax reductions on the economy has been such that tax revenues in the current fiscal year, apart from the effect of our new recommendations, are estimated to be \$21 billion more than in fiscal year 1961, despite tax rate reductions that have cut the burden of taxes by some \$20 billion at this year's income levels—more than twice the revenue increase in the preceding 5 years when there were no substantial tax reductions.

Now, however, with the economy already moving in high gear and our Vietnam commitment superimposed on robust private demands, there is a clear need for a shift away from the stimulative policies of the past few years. An obvious first step is that additional "fiscal dividends" in the form of tax cuts must be put off for the time being.



This was already apparent several months ago, before our new budget for fiscal 1967 began to take solid shape.

Moreover, in mapping out that new budget, and in modifying our posture for the balance of fiscal 1966, it is clearly not sufficient merely to come up with a 1967 deficit that is no greater than that of 1966. With private demands running stronger, the flexible exercise of sound fiscal policy means that the Government's posture should be more restraining.

This is precisely what underlies the President's request for an acceleration of revenues in the balance of this fiscal year 1966 and fiscal 1967. The principle behind this tax program is to take actions that can be put in effect quickly and that do not make basic changes in tax programs already enacted. For corporations and individuals there is no change at all in final tax liabilities, but only a speedup in the payment of taxes against the currently accruing liabilities.

The proposed 2-year postponement in certain excise tax reductions which Congress had previously scheduled for graduated reduction follows through on the standard adopted by the Congress to govern these excise taxes—that their reduction be scheduled so as to be of particular benefit to the economy as they take effect. Their reduction now would be stimulative when stimulus is not needed; their reduction later will come at a time when it is more likely that stimulus would be welcome or appropriate.

Altogether, these tax measures will be withdrawing an extra \$2.9 billion in cash payments during calendar 1966. Coupled with the most rigorous pruning of expenditure plans consistent with meeting our urgent commitments abroad and at home if enacted promptly they will substantially lower a budget deficit in fiscal 1966 and lead to a budget deficit of just \$1.8 billion in fiscal 1967. On a cash basis, the proposed budget would produce a surplus of \$500 million, while on a national income basis there would be a deficit of about \$500 million.

The estimated deficit for fiscal 1966 are: administrative, \$6.4 billion; cash \$6.9 billion; and national income, \$2.2 billion—not far from the averages during the current expansion. But now with the need to shift in the direction of fiscal restraint, the administrative deficit will be reduced by about \$4½ billion during fiscal 1967 and the cash and national income budgets will be coming into approximate balance over the same period.

Some critics have called our tax proposals one-shot remedies. Indeed they are. None of us knows the duration and extent of our commitment to the defense of freedom in Vietnam. We earnestly hope that our objective can be achieved quickly. In that case our one-shot measures are quite appropriate.

But if it turns out that our needs in Vietnam are of longer duration, then the meeting of that commitment will take first claim on the fiscal dividends deriving from an expanding tax base in fiscal year 1968. And if our Vietnam needs are greater in magnitude than is currently contemplated, or should unforeseen inflationary pressures develop, then further fiscal measures will be requested.

This is the course of maximum flexibility—requesting some moderately restraining measures, appropriate to the tasks at hand, and that can be put into effect quickly, while standing alert to ask for whatever further actions might be needed as circumstances unfold.

Developments in the credit markets during 1965 reflected stronger demands from a variety of sources, centered in the private economy, while the central bank followed a somewhat less accommodative policy. Thus, while we had record flows of funds through the markets, in support of the record level of economic activity, these funds moved at higher rates of interest.

For short-term interest rates the rise during 1965 represented a continuation of the upward trend that has proceeded over the last several years from the low point in the 1960-61 recession. For longer term rates, the rise after mid-1965 was the first significant upturn in the extended period of business expansion that began in 1961.

Through most of this period, long rates were little changed despite rising demands for long-term money, because ample savings flows were augmented by the enormous efficiency of our financial institutions in placing relatively short-term deposits in long-term employment. The higher long-term rates of the past year emerged as demands for long-term credit accelerated further.

Against the background of less receptive credit markets, Treasury debt management in the past year faced a difficult task even though the Treasury's net cash borrowings were relatively modest; indeed, with the Federal Reserve and Government investment accounts adding significantly to their holdings of Treasury debt there was actually a decline in the volume of Federal debt in the hands of the public during calendar year 1965.

As the year progressed, the prodigious value of earlier advance refunding operations was increasingly apparent. Those operations, including one completed very successfully in January 1965, lightened the task that remained to be accomplished later in the year, and built up a reserve that we could draw on in subsequent debt operations. That cushion cannot be drawn on indefinitely, however, and in our current refunding we are taking advantage of an opportunity to lighten the refinancing tasks awaiting us next spring and summer.

We see our savings bond program as another area of prime importance to debt management. A higher rate on these savings, and a planned invigoration of the savings bond sales program, is expected to play a significant part in achieving our overall economic objectives in 1966. Indeed, in addition to the higher rate which will be announced shortly, we are exploring intensively the feasibility of several new types of special appeal to the 8 million participants in the industrial and Government payroll savings bond programs and to new participants as well.

It has also become increasingly clear over the past year that Treasury debt management, and other official financial policies, require close coordination with the multitude of other Federal credit activities. To a growing extent, Federal credit programs are expanding their reliance on the private sector for financing, rather than use Treasury financing as a permanent crutch.

In view of the great variety of different programs involved here, and the increased level of activity, an effort is now being made to centralize the bulk of these asset sales so as to achieve the best marketing terms and maximum coordination with overall financial policy.

Like debt management and fiscal policy, monetary policy also has a new environment to work with during this period. In view of

recent events, I believe it would be more appropriate for this committee to hear directly from the monetary authorities on this important topic.

As the President stated last December 5:

\* \* \* I will continue to do my best to give the American people the kind of fully coordinated, well-integrated economic policy to which they are entitled, which has been so successful for the last 58 months, and which I hope will preserve the price stability so necessary for America's continued prosperity.

In 1965, we developed some cracks in the excellent record of cost and price stability that has characterized the current economic expansion. Consumer prices rose 1.7 percent over the past year, a slightly greater rise than the gradual increases of other recent years which averaged about 1.3 percent. In wholesale prices, we saw virtual stability from 1958 to early 1965, but then a 3.4 percent rise by the end of 1965.

These increases are still quite mild, and of limited duration as of now, compared either with U.S. experience in the mid-1950's, or the more recent experience of practically every other country in the world—but even a mild rise is not welcome and is a cause for concern.

We are well aware that any complacency toward mild increases in costs and prices is an open invitation to more persistent or larger increases, and this we cannot have without endangering an enviable record of substantial economic growth at home with relative price stability, declining unemployment, and progress toward balanced international payments.

The attainment of nearly full employment means that our efforts to maintain stable costs and prices must be even greater than before. This calls for a combination of coordinated policies. The framework of fiscal and monetary policy is already in the process of shifting away from the stimulative leaning of recent years. But greater effort is needed on the cost and price side, too. "Responsible restraint" whether urged upon business, labor, or Government, is meant to be more than a catch phrase. I believe it can work.

But as the president pointed out in his January 27 economic message to Congress, the—

extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power over wages and prices.

Turning to another subject, our progress in the balance of payments.

The United States made a giant stride last year in its march toward balance-of-payments equilibrium. Between 1960 and 1964, we reduced our overall deficit, in uneven steps, from \$3.9 billion to \$2.8 billion. In 1965, it was cut to \$1.3 billion—the improvement exceeding the total progress of the previous 4 years.

While the data for 1965 are still incomplete, it appears that this gain was achieved despite some setbacks on particular items. Our trade surplus, for example, was down about \$1.9 billion and our tourist deficit widened by about \$200 million. Direct investment by U.S. corporations rose by roughly \$900 million for the year and was only partly offset by a \$500 million increase in direct investment income. Moreover, purchases of U.S. securities by foreigners were offset by liquidations of securities and other U.S. assets totaling over \$500 million by the United Kingdom Government.

How, then, was such outstanding overall progress made in 1965? The voluntary restraint program, announced by the President just a year ago, deserves the lion's share of credit. Its impact was felt first, and most dramatically, in the field of bank credit. Outflows of short- and long-term bank credit were reduced from \$2.5 billion in 1964 to virtually nothing in 1965. As for nonbank capital, excluding the direct investment flows which did increase, we moved from an outflow of almost \$1 billion in 1964 to an estimated inflow of around \$300 million last year.

More than half of this improvement came from repatriation of liquid funds by corporations in response to the voluntary program guided by the Commerce Department. Operating alongside the voluntary program, the interest equalization tax—strengthened by the Congress and extended to July 1967—continued as an integral and effective part of our overall effort.

In early December, the administration announced its balance-of-payments program for 1966, continuing the measures initiated in February and intensifying the effort to moderate corporate direct investment abroad.

On the assumption that our trade surplus, in the absence of special factors, will improve in 1966, and in the expectation of smaller direct investment outflows, sustained success in other areas covered by the voluntary restraint program, continued vigilance on Government expenditures abroad, and the cessation of the large United Kingdom asset liquidations—we believe we can achieve equilibrium in our international payments—\$250 million on either side of balance in this year.

The importance of reaching equilibrium is vividly brought home by the fact that last year, despite the smaller payments deficit, the United States lost \$1,664 million in gold—the largest loss since 1960. Of this \$259 million represented our payment of 25 percent of our quota increase to the International Monetary Fund, which will be offset by increased automatic drawing rights on the Fund.

Much of the remainder of the loss was attributable to the large deficits we incurred in previous years, as foreign countries used their dollar accumulations to acquire gold. The rate of gold loss fell steadily throughout the year; \$832 million in the first quarter, before the President's voluntary program had taken effect; \$589 million in the second quarter, including the IMF payment of \$259 million; and then, because of the encouraging situation in our balance-of-payments picture, only \$124 million in the third quarter, and \$119 million in the fourth quarter.

The fact that so much of last year's gold drain went to a single country—nearly \$900 million to France—coupled with the fact that the rate of drain dwindled as the year progressed and our payments position improved, make it clear that there is at present no general lack of confidence in the dollar. The reverse is certainly the case.

We must make sure this confidence continues. If further action is necessary to bring our payments into equilibrium in 1966—either because circumstances change or our present expectations of success are unjustified—such action will be taken.

We look forward, of course, to the day when the restrictions necessary today can safely be removed. None of us wants to keep these

trappings of constraint any longer than necessary. But we do have to be reasonably confident that the underlying conditions for sustained balance are met, and this will require continued effort on our part and on the part of others as well.

Given price stability at home, the ingenuity of our marketing and scientific community, and the energy of our businessmen, I am sure that over the long run our trade surplus will widen—and this will help.

Given the high level of overseas direct investment by our corporations in recent years and the sizable level still permitted under the new Commerce Department guidelines, I am confident that investment income will grow—and this will help.

Given passage of the foreign investors tax bill we will have created a domestic climate more conducive to foreign portfolio investment here—and this will help, too.

But over and above these, there must be a greater understanding by all industrial nations that the task of sustaining meaningful equilibrium—over the long term—requires adjustment by both surplus and deficit countries. Obviously, we simply cannot all be in surplus at once. We are unlikely all to be in equilibrium at once.

Before turning to a discussion of international financial arrangements, I wish to take note of your request that the advantages and disadvantages of wider permissible limits of exchange rate variation be examined. The Treasury has begun such a study and will carry it forward in consultation with other agencies. We hope to be in a position to make our conclusions available to the committee during this congressional session.

Now, a word about international financial arrangements.

There is no need to remind this committee that our progress in correcting our own balance-of-payments deficit gives added urgency to the problem of strengthening the international payments system. The committee and its members have made substantial and highly useful and influential contributions to the now nearly universal recognition of this need.

As international trade and payments continue to expand, we need to provide for the appropriate growth of world reserves. The dollar will no longer be supplying the rest of the world with increased monetary reserves as it has in the past.

You will recall that I visited many of the capitals of Europe last summer to impress upon my colleagues in the finance ministries the importance which this Government places upon timely preparation for the period when some additional form of international monetary asset will be required. The President's Economic Report reviews this question again this year and points out that progress is being made. We have moved from the discussion stage to the negotiating stage, and are coming to grips with some specific proposals.

Two major lines of approach have received serious attention in discussion and negotiations over the past year. One involves the gradual expansion of automatic drawing rights in the International Monetary Fund. A second approach involves creation of a new reserve unit to supplement the dollar as a part of available liquidity. Participating countries would put up their own currencies as backing for the new units and would undertake to accept the units under agreed procedures in international monetary settlements.

At the moment, negotiations are proceeding actively among the Group of Ten nations that are of major importance in international financial arrangements. Within the past few days, the U.S. representatives at the Group of Ten, headed by Under Secretary of the Treasury for Monetary Affairs Frederick Deming, who is at my left, have introduced certain proposals for consideration by the group which reflect some of our basic thinking and which entail a combination of drawing rights and new reserve units.

I would not be so rash as to predict when some measure of agreement may be reached, or precisely what form it will take, but it is encouraging that these negotiations are going on, and are tackling the underlying issues.

When the Group of Ten countries have reached agreement on general lines of approach this will mark the first phase in realizing an improved system. A second phase will be needed to insure that the interests of countries not among the 10 are fully heard and weighed. The third phase will be to achieve adoption of a satisfactory plan by the governments concerned.

The potential for growth in production and trade, which has been so dramatically demonstrated in the postwar period, must not be constrained by inadequacy of world liquidity. Once we have agreed on satisfactory means of providing for the appropriate expansion of reserve assets, providing flexible responses to changing needs, and providing proper safeguards for our own best interests (including appropriate provision for the role of the dollar), we shall have set the foundation for a significant improvement in the international monetary system.

In conclusion, I feel compelled to observe that the path of progress consists inevitably of substituting one set of problems for another. In the economic sphere, some of the problems emergent today are a bit more welcome than those that beset us for the last few years.

Domestically, the more immediate danger is one of overexuberance and upward pressures on costs and prices, rather than unemployment and shortfalls in activity. On the international payments side, we are well along the road to eliminating our own payments deficit, but we have the rest of the way to go; and we have seen that as our own deficit is reduced we bring to the forefront the adjustment problems thus placed on the rest of the world, and the potential strains on international liquidity.

If these problems are less unwelcome than their predecessors, it does not follow that they are any more easily solved. Yet, I believe these challenges, too, are within our capabilities.

Mr. Chairman, that concludes my original statement. I know it is trespassing a little bit upon the time noted, but, with the permission of the Chair, I have a supplementary statement.

Chairman PATMAN. You may proceed. That is the statement you mentioned at the beginning of your testimony. Go ahead.

Secretary FOWLER. In light of some of the developments that have occurred during the course of the last 2 days of hearings before this committee, I have prepared a supplementary statement, copies of which are now available and have been distributed, and which I will now read.

#### SUPPLEMENTARY STATEMENT OF SECRETARY FOWLER

During these hearings, members of the committee have expressed their concern about the threat of inflation. The administration shares

that concern. Its actions on the Government employee pay raise in August, the steel settlement in September, and the aluminum, copper, and steel price situations this past fall, as well as its current budget, bear witness to this concern.

There are those who propose that the administration come forward now with a program to enforce much harsher restraints on the economy than those now in effect or proposed in the President's budget. The administration disagrees with the premise that more needs to be done now. However, it welcomes the putting forward of any specific proposals since they may add to the range of contingency planning in which it, itself, is engaged. Indeed, it suggests that the House Ways and Means Committee—or this joint committee—study, review, and recommend the type of tax increases which would be most suitable if inflationary pressures require additional fiscal action.

First, let us be very clear as to the position of the administration in the uncertainties that the situation in Vietnam makes inescapable. The President has given to the Congress an unqualified commitment that:

Should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability.

He has pointed out that:

The extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power over wages and prices.

This is our answer to those who ask, "Will the Government go for tax increases later this year?"

Second, the administration does not believe it is wise to impose measures of restraint on the economy in addition to those in effect or proposed in the President's budget and Economic Report unless or until the "unforeseen inflationary pressures" develop.

We have seen too many expansions turned into recessions by slamming down too hard on the brakes. We have seen too much unemployment and underemployment too long to cut back drastically and unnecessarily on private demand to provide purposefully an idle reserve of manpower and capacity. We advocate a course of moderation and balance in dealing with any danger of economic excess, as we have advocated moderation and balance in curing economic deficiency.

The national economic objectives as set forth in the Employment Act of 1946, under which this committee functions, provide that:

It is the continuing policy and responsibility of the Federal Government to use all practicable means \* \* \* for the purpose of creating and maintaining, in a manner capable to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.

This administration includes price stability as a goal to be sought along with these more particularized objectives of full employment and a healthy rate of growth. It believes that there is a fundamental compatibility of these three objectives and that in seeking one of them it is unwise to sacrifice the others. If one objective, such as price stability or full employment, is sought with the utmost rigor without concern for the others, this is not wise national policy.

Of course, from time to time very special situations may force one economic objective to move ahead of the others. It is quite conceivable that the threat of an inflation of such size or duration might cause stabilization of the price level to be given top priority. These black and white situations seldom occur. The more usual task is to seek price stability, growth, and high employment simultaneously and in a reasonable degree.

The challenge today is to find the mix of monetary, credit, and fiscal measures best designed to achieve all these objectives, recognizing that public policies will not be adequate if some groups who enjoy and exercise substantial market power choose to push up or maintain prices or wages at unwarranted levels.

Against this background let us look at the present situation objectively and carefully with a concern that we press toward all these goals rather than become preoccupied with a single one. In this calendar year 1966 restraints which did not characterize 1965 have already been imposed upon the economy. Beginning in January an extra \$6 billion a year in social security and medicare taxes is being withdrawn from private purchasing power to flow into the trust funds. This was not true of December 1965, or November, or October.

In December 1965, the Federal Reserve Board announced two actions designed, in its words—

to dampen mounting demands on banks for still further credit extensions that might add to inflationary pressures.

The full effect of these actions, which take a considerable period of time to be felt, is yet to be ascertained.

The new tax proposals recommended by the President, if adopted by March 15 as he urged, would withdraw from private purchasing power an additional \$2.9 billion during calendar 1966.

The shift in the budgetary situation from substantial deficits in fiscal 1966, brought on by the response to the challenge of Vietnam, to surpluses or minor deficits in the administrative, cash, and national income account budgets has been made possible by expenditure reductions coupled with the new tax proposals.

Coming onstream in 1966 are vast quantities of new industrial capacity which are the fruits of investment made in recent years. Coming into the labor force are a million and one-half additional new entrants from the younger age group and, in addition, many hundreds of thousands are being given the benefit of manpower training to better equip them to fill the needs of the labor market. And, of course, the dwindling rate of unemployment is stimulating renewed effort in the private sector to train and better utilize the available labor force.

Given all these new factors, the wise course of balance and moderation in pursuing continued growth, a higher rate of employment and relative price stability would seem to call for determining how the economy reacts to this new mix of relatively moderate restraints before adopting without apparent present reason the far harsher measures—presumably increased tax rates, direct price and wage controls, and much tighter monetary restraint.

Chairman PATMAN. Thank you, sir.

I certainly agree with you, Mr. Fowler, that we should not impose any restraints until it is absolutely necessary, and until we know



that we have public sentiment in favor of them because during World War II we had some sad experiences on price and wage controls. While we had about 8 million prices and wages to control then, we would probably have about 16 million now which, of course, would make our problems even more difficult and the black market, of course, enters into it in a very sad way.

In respect to the quote from the Employment Act of 1946, will you get that before you again, please?

Secretary FOWLER. Yes, sir.

Chairman PATMAN. Would you read the part about coordination?

Secretary FOWLER. I do not have the full text, Mr. Chairman. In order to save time, I excerpted part of it.

Chairman PATMAN. You will recall the Employment Act of 1946 requires that the Federal Government and all of its agencies and officials work in coordination for maximum employment.

Secretary FOWLER. Indeed.

Chairman PATMAN. That word "coordination" is there. And, of course, that contemplates that all agencies will coordinate their efforts in that direction.

Were you consulted by Mr. Martin of the Federal Reserve before he took the action on December 6, Mr. Fowler?

Secretary FOWLER. Yes, Mr. Chairman.

Chairman PATMAN. You were consulted about it?

Secretary FOWLER. Yes, sir.

Chairman PATMAN. The Federal Home Loan Bank Board was not consulted about it; I believe Mr. Martin testified to that effect.

Did you understand that the pressure of the \$16.5 billion in certificates of deposits in a few banks was a major reason for the urgency of the particular increase at the time?

Secretary FOWLER. I received the impression from the public hearings held by this committee that this so-called flow-of-funds consideration was a major factor in the concern of the Board.

Chairman PATMAN. There has been a lot said here about inflation and whether or not we have inflation now. If we have inflation now—certainly we have expansion, but I make a big difference between expansion and inflation—if we have inflation it is due, in my opinion, to that December 6 order, because in that order of the Federal Reserve the interest rates were increased not only from 4 to 4½ percent on the rediscount rate, but the CD's, certificates of deposit of 90 days or more, from 4½ to 5½ percent, or a 22.2-percent increase, and from 4 to 5½ percent on the shorter CD's, a 37½-percent increase.

Do you not think that is way beyond the guidelines that you have set out in the past, Mr. Fowler?

Secretary FOWLER. Well, I am not knowledgeable about any guidelines in the field of interest rates, Mr. Chairman.

Chairman PATMAN. Would you not think they applied to interest rates as well as anything else? Interest rates certainly affect the prices of goods and commodities, do they not, Mr. Fowler?

Secretary FOWLER. Mr. Chairman, there is no question but that the cost of money is a cost, as well as the cost of materials and services.

Chairman PATMAN. Do you not think, then, that a guideline is important in monetary matters just the same as it is on the price of goods that are affected by interest rates?

Secretary FOWLER. I think fixing a guideline on the extent to which interest rates will go up is perhaps a more complicated problem, Mr. Chairman. Monetary policy certainly should be taken into account, particularly in what I would call the long-term structural view. The fact is that in this country we have a capital generation system capable of transferring large sums from savers to the money market. You might say that a relatively low cost of money, compared to other countries, is an important national asset which, over the long term, should be considered.

Chairman PATMAN. May I invite your attention to the fact that in World War II, before and after, from June 30, 1939, until June 30, 1951, 12 full years, we had the worst time in our history—we had inflation, at least we had the potentials of inflation, because we were shooting away a quarter of a billion dollars a day on the battlefield. However, during those 12 years we had monetary guidelines on interest rates and the long-term rate never went above 2½ percent. No one was compelled to sell his bonds below par, and on the short-term rate where we paid \$1 for interest during World War II now we are paying \$30 for the same interest. That is pretty inflationary itself.

So, inasmuch as we saved tens of billions of dollars on interest in World War II and subsequent to that time, I feel that we should consider it now, going into this Vietnam war. We hope it does not expand, we hope it does not become a Korea or World War II, but we never know. I sincerely trust, Mr. Secretary, that you will give great consideration to a program for paying the cost of this war, if it should expand, by selling bonds to everyone who has the money to buy bonds—the corporations as well as individuals—and obtain money wherever you can get it; but when you have gotten all the money you can that way from the sale of bonds and it is then necessary to create the money, to manufacture it on the books of the banks in order to buy the bonds. I hope you will not find it necessary to do that because it is highly inflationary.

It was in World War II and it will be at any other time. I hope that you will consider instead doing a part of this financing, especially the part of the money creation, through the Federal Reserve at a great reduction in cost to the American people.

I wish you would begin to study that because I think the Federal Reserve Board in World War II did a wonderful job under Mr. Eccles; just a magnificent job. Mr. Eccles was one of the greatest public servants I ever knew; he was going contrary to his convictions at some times; he did not believe in some things he was doing; but he was a good public servant and he was trying to represent the public interest. I think he did a wonderful job and I think we better consider now some of the things that were considered at the beginning of World War II for the purpose of saving the enormous amount of interest that we would have to pay on these very high, and I consider extortionate, rates of interest.

What is the average rate of interest paid for social security trust funds at the present time, Mr. Fowler, just approximately? I would not ask you for the exact figure.

Secretary FOWLER. I think I would prefer to supply that for the record, Mr. Chairman.

Chairman PATMAN. Is it about 3 or 3½ percent?

Mr. DEMING. It is a little higher than that, Mr. Chairman.

Chairman PATMAN. How does it compare with the rate that is paid to the Federal Reserve? You know, the Federal Reserve gets interest, too. They are getting 5 percent now on these 5-percent bonds, are they not?

Mr. DEMING. Well, they get an average interest rate, of course, depending on what their issues are.

Chairman PATMAN. That is right, but is it higher or lower than the rate of the social security trust fund?

Mr. DEMING. I cannot answer that, Mr. Chairman. We will have to supply that for the record. I think it is about the same.

Chairman PATMAN. You do think it is about the same; yes, sir. (The material which follows was submitted by the Department.)

*Average rates of earning on Treasury issues held by official accounts*

[In percent]

	Federal Reserve <sup>1</sup>	Social security <sup>2</sup>	Government investment accounts <sup>3</sup>
December:			
1950 .....	1.41	2.19	2.59
1955 .....	2.09	2.31	2.60
1960 .....	3.61	2.67	2.84
1965 .....	4.05	3.29	3.45

<sup>1</sup> As of last Wednesday in each year; includes amortization of discount or premium on all issues.

<sup>2</sup> Excludes minor amounts of savings bonds and savings notes; average is on basis of interest rates on coupon issues at face value.

<sup>3</sup> Excludes bills and minor amounts of savings bonds and savings notes; average is on basis of interest rates on coupon issues at face value; covers all accounts handled through the facilities of the Treasury, including social security.

The table above shows that at various dates the Federal Reserve's rate of earnings has been both above and below the rate of earnings for the social security funds and the total of Government investment account funds (including social security). The changes in these relationships reflect the fact that a large part of the social security funds and other Government investment account funds are invested in special nonmarketable issues, while the Federal Reserve's holdings are entirely in marketable issues and therefore fully subject to market fluctuations in interest rates. The sensitivity of the earnings rate on the Federal Reserve's holdings to market fluctuations is increased by the fact that the Federal Reserve's holdings are concentrated in relatively short-term issues, which turn over faster and fluctuate more in yield.

Chairman PATMAN. Do you believe that increased interest rates, Mr. Fowler, tend to raise prices and costs on all other goods in the economy?

Secretary FOWLER. It is a cost.

Chairman PATMAN. Yes, sir; it is a cost. And do you not think, therefore, Mr. Fowler, that the administration should do everything in its power to hold down interest rates?

Secretary FOWLER. Well, as in the case of most decisions, Mr. Chairman, there are a number of objectives to be achieved. I think that you have to take various objectives into account and, I want to be very frank about this, I would not be one who would deny to monetary policy an appropriate role in a time of sharp cyclical change, where inflation was underway or threatened; by the same token, I would not be one who would deny that monetary policy has an important role

to play to stimulate the economy at a time when recession might be threatened.

I think it has an important role to play. In the process of playing that role interest rates, as well as credit restraints, may be a contributing factor. We have to take all these things into balance.

Therefore, at the time when it is actually needed to provide a restraint on the economy, higher interest rates for that period of time may be a necessary consequence, something not welcome, something not desirable, but something to be tolerated.

By the same token, as I have stated on various occasions, it should be an objective of our national economic and financial policy to preserve over the long pull, a relatively low cost of money. Low cost of money is an important economic factor and a real national asset.

Chairman PATMAN. Of course, if that was the only alternative, I would agree with you. But I cannot agree with you because I believe it is not the only alternative. We do not have to raise interest rates every time in order to impede the economy. There are other ways of doing it—numerous ways. One way is to raise the reserve requirements of banks. That is the most effective way on earth.

Secretary FOWLER. Sometimes, Mr. Chairman, I think the consequences of other credit restraints operating in a market of rising demands may entail some increase in interest rates. I am drawing a distinction between the cyclical performance of monetary policy and the structural one.

Chairman PATMAN. My time has expired, Mr. Secretary.

Senator JAVITS?

Senator JAVITS. Mr. Secretary, since the President's Economic Report has been filed, upon which you are testifying, the President has announced the end of the bombing pause in North Vietnam.

Now, as you are speaking for the administration here, can you give the American business and private community any word as to whether or not it needs in the ensuing fiscal year to look for a tax increase in addition to what the President has already asked for from the Congress, in view of its estimate of the Vietnam war, its fiscal situation, and the fiscal dividends, as you call them, which are coming in from the increasing tax base and so on?

Taking all these factors into consideration, do you see any additional increase in taxes being requested in the ensuing fiscal year?

Secretary FOWLER. Senator Javits, I cannot foresee the unforeseeable. I think the President has been very clear in his budget statement and in the Economic Report on the circumstances under which the Congress could expect to receive additional requests for fiscal action. Just so that we can be fairly precise about it, let me read the statement on page 10 of the budget message:

If on the other hand events in southeast Asia so develop that additional funds are required, I will not hesitate to request the necessary sums. And should that contingency arise, or should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability.

I cannot go beyond that statement. Obviously, the budget in its preparation, and the Economic Report in its presentation, contemplated the continuance of the activities in South Vietnam on the scale and of the nature currently underway.

There has been no change in the situation since the budget message was presented, or the Economic Report was presented, that would

cause me to say anything more than the President has said in the budget message.

I tried to answer this question as best I could in my supplementary statement by quoting the President, that:

Should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability.

And that:

The extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power over wages and prices.

And I said in my statement, this is our answer to those who ask "Will the Government go for tax increases later this year?"

I cannot predict, you cannot predict, no one can predict the course of developments in Vietnam that may require funds beyond those that are currently contemplated. Neither you, nor I, can precisely predict the course of action in the wage and price field. We have our own judgments about the extent to which understanding and appreciation of our situation is developing among the leaders of labor and the leaders of business. Your judgments and mine might be the same, or they might vary; but you cannot expect any of us at this table, or any other table, to come back to my opening note, to foresee the unforeseeable.

Senator JAVITS. Mr. Secretary, I was not asking you about any of that; with all due respect, I was only asking whether in the budget and in the forecasts of the Economic Report you have included expenditures for Vietnam at the present level of operations, including the end of the bombing pause?

Secretary FOWLER. Yes; to my knowledge, that is the case. The Director of the Budget was here yesterday. He would be much better informed on that, but from all my information I would certainly say that that is contemplated in the budget.

Senator JAVITS. Good.

Now, the second point: You say that we are getting abreast of our balance of payments pretty well, but you point out also that we leave a number of things to be desired and you specify them, which I think is very laudable and typical of your great competence.

Now, does the administration have any plans to promote greater exports, for example, is there any idea of perhaps giving a tax incentive or another incentive to spur exports, and what are the administration's plans about cutting down the tourist deficit?

Secretary FOWLER. First, on the general plans for export promotion. The Department of Commerce has been and continues to be heavily engaged in what I would call a continuing exploration of various measures that may be suggested from any quarter on export promotion.

There are at the present time, under the National Export Council, a series of definitive studies being made in cooperation with people from the private sector on various proposals. One subcommittee is considering possible tax incentives that might be developed. We have been working with that subcommittee.

I cannot tell this committee that we have come up with anything that seems to be satisfactory or to justify its presentation to the Congress—although the search continues.

Insofar as the tourist area is concerned, I think you are generally familiar with the fact that the Vice President heads an interdepartmental committee which has developed working cooperation with most of the areas of the private sector that are concerned with tourist promotion. The essence of the program is to encourage Americans to see America first and to increase travel of foreigners within the United States.

The degree to which this effort is receiving cooperation from the airlines, resort owners, and those that have a definite stake and operating stance in the tourist area, would better come from the Vice President's committee than from me.

Senator JAVITS. Well, may I say, Mr. Secretary, that the whole effort is completely unsatisfactory and, in my judgment, completely bankrupt. The private enterprise people are putting up \$500,000 to finance the "Discover America" project, which is peanuts; the Federal Government has not included adequate funds for the U.S. Travel Service in its budget for years, and it is still not doing it, and it is doing nothing appreciable to expand the service, seek legislation, ask for money, which will result in directing attention to internal travel in the United States. In short, there is a lot of talk about this and a lot of motion and a lot of meetings but mighty little action and here you come up with a figure shown in your statement that our tourist deficit has widened by \$200 million.

May I ask, Mr. Secretary, what is the total of the tourist deficit? It is widened by \$200 million. What is its total?

Secretary FOWLER. It has widened from about \$1.6 to about \$1.8 billion. May I comment on several of your comments?

A good deal of the problem of the availability of funds for the U.S. Travel Service has not been the failure of the administration to request the funds, but of the Congress to appropriate them. I think in every year, or certainly in recent years, there has been a substantial reduction in what Congress has been willing to allow. I am delighted to hear from you, Senator Javits, an expression of opinion on this and I hope it will be functional with your colleagues in the appropriations field.

Senator JAVITS. May I point out, Mr. Secretary, that it is you people who have the majority, the overwhelming majority, in the Congress, and one of the President's strong points is that he has been able to carry so much through the Congress and I would hope very much that the same kind of muscle would be put behind this matter as is put behind many others in which he has been successful.

Secretary FOWLER. We would certainly also welcome support from the minority. I am sure the President would. Sometimes that is very useful in getting some desirable measures across.

Senator JAVITS. This particular person in the minority is your most ardent evangel around here in support of an effective national travel program, and I have tried time and again to increase the appropriations of the USTS on the Senate floor without success and I would welcome and could very much use strong administration support.

Secretary FOWLER. Senator Javits, I would also like to add that I, too, share some of your expressed concern about the scale and magnitude of the effort of our private sector in the travel field to step up and meet this challenge. I believe a great deal more can

and should be done along that line. I have from time to time publicly expressed the same concern that you have.

Senator JAVITS. Mr. Fowler, do you not think, in all honesty that this is one item in our balance-of-payments deficit that ought to really be melted away, considering the magnificence of this Nation and its travel attraction?

Secretary FOWLER. I think you and I are very much on the same wavelength on this particular topic, Senator Javits.

Senator JAVITS. I have one other subject.

I have introduced Senate Concurrent Resolution 73 to deal with this problem of coordination between the Federal Reserve Board and all the agencies of Government and to give it a sense of regularity and authority. Have you had a chance to go over that?

Secretary FOWLER. I have not seen that resolution. I have seen one by Congressman Ellsworth; I do not know whether they are comparable—

Senator JAVITS. It is the same one.

Secretary FOWLER. My principal comment, although I have not had an opportunity to carefully study the resolution, is that it would more or less tend to put on the statute books a practice which has, in fact, been followed. During the past year, we have had about seven meetings of the so-called Quadriad, at which the Chairman of the Federal Reserve Board, the Chairman of the Council of Economic Advisers, the Director of the Budget, and the Secretary of the Treasury met with the President for a general review of the economic situation.

I do not have the resolution in front of me, but I believe the second paragraph would require the Secretary of the Treasury, or the Chairman of the Council of Economic Advisers, to acquaint the members of the Federal Reserve Board with information. Would you mind reading the second paragraph?

Senator JAVITS. It reads as follows:

That the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and the Director of the Bureau of the Budget should keep the Chairman and the members of the Board of Governors of the Federal Reserve System and other members of the Federal Open Market Committee fully apprised of any developments or information of which they are respectively aware and which should be brought to the attention of the Board for the effective discharge of its responsibilities.

Secretary FOWLER. I would say that up to now the principal liaison has been with the Chairman of the Federal Reserve Board and we have looked to him to pass information on to his colleagues. We meet regularly; I usually meet with the Chairman of the Federal Reserve Board every Monday and sometimes more often. In addition, Treasury people usually go over to the Federal Reserve Board and meet with their staff every Wednesday. So there is a good deal of informal communication at that level. As for passing on information, we have felt it appropriate to provide information to the Chairman and then leave it to him to pass it on to his colleagues.

Senator JAVITS. Thank you very much, Mr. Secretary.

Chairman PATMAN. Senator Douglas?

Senator DOUGLAS. Mr. Secretary, I wonder if you have been able to make tentative estimates as to the total magnitude of the unfavorable balance of payments for the last calendar year.

Secretary FOWLER. We have preliminary estimates, Senator Douglas. They will be complete in another few weeks. But these preliminary estimates indicate that on the so-called overall basis we will have a \$1.3 billion deficit.

Senator DOUGLAS. As compared with—

Secretary FOWLER. The same basis of calculation last year, a \$2.8 billion deficit.

Senator DOUGLAS. So you have cut it in half?

Secretary FOWLER. Better than half.

Senator DOUGLAS. Is that on the Bernstein basis, or is it on the previous—

Secretary FOWLER. That is on the so-called overall basis.

Senator DOUGLAS. Not the Bernstein basis?

Secretary FOWLER. Not the Bernstein basis.

Senator DOUGLAS. I think that is a very notable achievement.

May I ask what has happened in the field of investment in foreign countries by American corporations, the investments which they make in their own subsidiaries or affiliates; has that program developed as you would like it to?

Secretary FOWLER. It would appear, subject to revision, that direct investment in the calendar year 1965 increased about \$900 million, from about \$2.4 billion to \$3.3 billion. After adjusting for the portion financed by security sales abroad, the amount in 1965 was about \$3.1 billion, an increase of less than \$800 million over 1964.

Senator DOUGLAS. Now, this raises a very interesting question. These companies took the voluntary pledge to the President, the Secretary of Commerce, that they would hold down their investments in their subsidiaries and affiliates. How do you account for this increase of \$900 million?

Secretary FOWLER. Well, several things, Senator Douglas.

In the first place, the voluntary program was not announced until February 10 and the more or less definitive guidelines were not made available to members of the business community concerned until the weeks that followed. As a result, there was very little opportunity in the first quarter for the voluntary program to take effect so there was a very high volume of investment outflow during the first quarter—approximately \$1.2 billion.

There was a reduction in the second quarter in response to the program—bringing the investment outflow down to approximately \$850 million. Due to the fact a bad time was involved in those cases where plans had been in various stages of development when the program was announced, the third-quarter figures were even lower—in the neighborhood of \$500 million.

Our preliminary estimates on the fourth quarter would indicate that it was only slightly above the third quarter, after adjusting for the portion financed by security sales abroad. Because of the first-quarter factor, and the slowness at which the program took hold, the outflow for the year was more than what we had hoped for. However, I think it would be fair to say that the multinational companies, those operating abroad, did put in motion a very credible program.

As you may know, in our arrangements for this year we refined the so-called voluntary program so as to make the guidelines in the direct investment area more specific.



Senator DOUGLAS. In what ways?

Secretary FOWLER. The Commerce guidelines asked corporations to restrict the total of their direct investments, plus reinvested earnings, for 1965 and 1966 combined, to 90 percent of the total for the preceding 3 years—1962 through 1964.

It is difficult to know exactly what figure this guideline calls for in 1966 until the final figures in 1965 become available. But we think our target for 1966 under this guideline will be in the vicinity of \$2.4 billion—a decrease of nearly \$1 billion from the present estimate of 1965. Given reasonable performance in the voluntary program, I hope that we would achieve that goal.

Senator DOUGLAS. Mr. Secretary, earlier in the year I urged the Government departments to discontinue aid to the former French colonies of Africa which are now associated nations of the French complex on the ground that the aid given them found its way into the Paris banks and constituted claims of the French Government against the United States and that this meant that there was an added drain of gold because of this French policy.

I addressed this letter to nearly every Government agency involved; I recall a reply from only one, the Department of State, which I take it was—

Secretary FOWLER. I replied.

Senator DOUGLAS. Well; perhaps you did, but the response which I received was very equivocal. [Laughter.]

I did get a reply from Mr. MacArthur. His defense was that French colonies needed that aid.

Now, in view of the fact that the French policy internationally has been one of getting their claims presented to the United States and demanding gold, do you not think that it would be to the general advantage if we quietly discontinued aid to French Africa?

Secretary FOWLER. Well, Senator Douglas, I think the—

Senator DOUGLAS. Quietly, not ostentatiously, but just as you sometimes cut people socially without telling them; just gently drop them. [Laughter.]

Secretary FOWLER. I believe that Mr. Bell, the very excellent AID Director, would be in a better position to give you the economic consequences of this discontinuance. I do not know the precise conditions in those countries that are receiving aid, and I do not know what damage or dislocation would result in those countries as a result of a sudden discontinuance of aid.

Senator Douglas, I was also encouraged—though this was completely unrelated—to note in the President's foreign aid message a reference to a transition in the African aid program to one dealing with regional units, such as the African Development Bank, as distinct from having detailed programs for individual countries.

Senator DOUGLAS. If this is a way of bypassing the former French colonies, I would heartily approve of it; if this is a disguise or front so that the aid can continue to flow, I would not approve of it. Now, which is it, a detour or a front?

Secretary FOWLER. I have no knowledge, sir.

Senator DOUGLAS. Have you published the details of the American plan on international financing?

Secretary FOWLER. We do not have what would be properly called a plan, although there have been some references in the press to it.

We have made some tentative proposals. Mr. Deming returned late last night from a negotiating session in Paris. We have not made the written descriptions of those proposals available to the public, but we would welcome an opportunity to review them with you.

As Mr. Deming will explain to you, there are a lot of papers being passed back and fourth in meetings of the Group of Ten. We believe the negotiating process would be facilitated if there is not too much publicity.

Senator DOUGLAS. I believe it was Woodrow Wilson who said he believed in an open covenant openly arrived at.

Secretary FOWLER. I believe we have a greater likelihood of achieving success in the negotiations if parties, and individual countries, are not drawn into rigid public positions—such as the French position, the German position, the United Kingdom position, the United States position. This is a matter of give and take.

Senator DOUGLAS. There are some very important general principles, whether the new international currency will be tied strictly to gold, dollar for dollar, or whether there will be an expansionist element, and, if so, in what ratio? Whether the International Monetary Fund or other agent should have the power of independent lending irrespective of gold reserves? All these issues that Mr. Reuss and Mr. Ellsworth explored so well in their report last fall.

Secretary FOWLER. Senator Douglas, with your observations in mind, in the Economic Report of the President and in the Annual Report of the Council of Economic Advisers, at pages 155 through 160, there is a discussion of the U.S. policy on the various matters you have referred to. We have used this vehicle to let the basic American position be known.

For example, on page 159 the relationship between new reserve units and existing types of assets is set forth as well as the particulars required to achieve an appropriate relationship. And you will see in that paragraph, for example, the U.S. position on the matter of gold.

Senator DOUGLAS. My time is up, but do I take it these comments represent the official position of the administration and the Treasury?

Secretary FOWLER. They do, indeed, sir.

Chairman PATMAN. Mr. Curtis?

Representative CURTIS. Mr. Secretary, I have to preface my remarks by saying that regrettably the minority—the loyal opposition—and in this instance I think I can speak also in behalf of the Congress itself, have not had the benefit of the information on some very crucial issues that you could have given us back in December. I am speaking in reference to the Federal Reserve action. We thought you were going to testify before this committee, likewise on our request to hold hearings on wage price guidelines.

This puts us in a spot here at the beginning of February. There is so much different ground to cover that it is going to be difficult to zero in.

The chairman has been very cooperative and I hope that you will be available this afternoon so that I will be able to complete my interrogation of the many subjects that I think we need to explore.

Chairman PATMAN. Just a moment.

Will this afternoon be satisfactory, Mr. Fowler?

Secretary FOWLER. Yes, indeed, Mr. Chairman.

Chairman PATMAN. Shall we agree now that we will meet at 2 o'clock following our noon recess?

Representative CURTIS. Thank you, Mr. Chairman.

Now, Mr. Secretary, you are a member of what has been called the Quadriad; are you not?

Secretary FOWLER. Yes.

Representative CURTIS. I understand that a great deal of the criticism of the Fed's action is geared to the fact there was not coordination; am I correct in that observation?

Secretary FOWLER. Well, to clarify the coordination point, I want to make very clear that comments I have made regarding coordination have been addressed to another aspect; namely, the publicly expressed feeling I had that it would have been better to make any decision in the monetary field at the time the budget, the state of the Union message, and the Economic Report were at least in hand—particularly the budget. I have not complained of any failure of coordination in the process of communication back and forth.

Representative CURTIS. That is what I was going to ask.

Secretary FOWLER. Oh, we have had very excellent communication—frequent, frank, and full. Insofar as I am personally concerned, I have no complaint on that score.

Just so the record may be complete on that, on November 28, in a public statement a week in advance of the Fed action, I said that there may be room for honest differences of opinion among well-informed and unprejudiced persons on this issue; however, it is my strong belief that any orderly adjustment of a procedural coordinated mix of fiscal and monetary policies to deal with the period ahead calls for that policy mix to be determined only with the full knowledge of the President's new budget.

That has been my only comment on coordination.

Representative CURTIS. In other words, what it really is, is a difference of opinion.

Secretary FOWLER. As to timing and nature.

Representative CURTIS. But not as far as communications are concerned?

Secretary FOWLER. None whatsoever.

Representative CURTIS. I am glad to clarify that because I was going to go on with the next point. The Director of the Budget is a member of the Quadriad, is he not?

Secretary FOWLER. He is.

Representative CURTIS. To my amazement, I found that the Quadriad has not met since the Federal Reserve action.

Secretary FOWLER. It met on the Monday following the Federal Reserve action. The Federal Reserve action occurred on Friday and the Quadriad met at the ranch on the following Monday.

Representative CURTIS. I mean, it has not met since then.

Secretary FOWLER. That is right.

Representative CURTIS. And this is in light of the fact that the December Wholesale Price index went up the way it did, from December 1964 to 1965, an increase in the Wholesale Price Index of 3.4 and in the consumer price of 2.2. Yet the Quadriad has not met?

I will say this: Without communication, it is certainly true you are not going to have much coordination. I frankly am very worried in

this period when the administration says that our greatest problem is inflation, and the President does say it in his message, how can you treat that problem with the kind of gravity that it deserves if you do not even meet?

Secretary FOWLER. We have very frequent communication, Congressman Curtis.

Representative CURTIS. I am talking about the actual meetings. Is it true that the Quadriad has not met since that action?

Secretary FOWLER. Since what action?

Representative CURTIS. Since the action of the Federal Reserve which you just described—

Secretary FOWLER. No. I just told you we met 3 days later.

Representative CURTIS. I say, referring to what you testified to and what Mr. Schultze said yesterday, that since that date, when was it, early December or late November?

Secretary FOWLER. We met on the 8th or 9th of December; I have forgotten the exact date.

Representative CURTIS. Your meetings, according to Mr. Martin in his testimony before this committee in December, had been on more than a monthly basis, leading up to this action.

Secretary FOWLER. I do not know what meetings he referred to. Since last April, when I became familiar with the meetings of the Quadriad, we have had approximately six or seven meetings.

They do not meet on any regular fixed schedule—

Representative CURTIS. I understood they did.

Secretary FOWLER. More characteristically than not they meet each month—certainly every other month—depending upon the season and the climate. I think it has been obvious to you and to everyone else that it is pretty hard to have a series of meetings, particularly during this stretch—

Representative CURTIS. No. Wait, Mr. Secretary. Let me interrupt just a minute.

Secretary FOWLER. Just let me finish my statement, please, sir, and I will.

Representative CURTIS. I only have 10 minutes and I am trying to do something that should have been done in December if you had appeared; we could have had plenty of time. Let me go back—

Secretary FOWLER. I would like to complete my statement.

Representative CURTIS. I will let you as soon as I make this remark.

Secretary FOWLER. Mr. Chairman, may I complete my statement?

Chairman PATMAN. Let the witness complete his statement and then you can make any statement you want to, of course.

Representative CURTIS. Mr. Chairman, I only have 10 minutes—

Senator DOUGLAS. Mr. Chairman, I will move that this gentleman from Missouri be given 2 additional minutes.

Chairman PATMAN. It is so ordered.

Representative CURTIS. Thank you. I appreciate this.

But may I say this, Mr. Secretary, you and I are good friends and we have had many colloquies. But please do not take all the time in rambling answers that are not responsive to my questions. I am trying to get to a specific point, so go ahead.

Secretary FOWLER. I am trying to give you a specific answer.

Chairman PATMAN. Go ahead, Mr. Witness.

Secretary FOWLER. If you please, Mr. Chairman.

Representative REUSS. Mr. Chairman, will the gentleman yield—

Representative CURTIS. Please, I would like to go ahead—

Senator DOUGLAS. Mr. Chairman, I ask unanimous consent that the gentleman from Missouri be given 2 more minutes.

Chairman PATMAN. He has already been given 2 minutes.

Representative CURTIS. Mr. Secretary, the reason I was examining this was that you were using the point that it takes time to get people together and so forth and the season of the year.

Now, what I would like to direct your attention to is page 20 of the Economic Report. This is the President's statement: "Perhaps our most serious economic challenge in 1966 will be to preserve the essential stability of costs and prices which has contributed so significantly to our balanced progress."

That is why I sought to interrupt, because I must say those are not, I do not believe, real reasons for your not meeting. It would go along with what I alleged, and if you have contradictions, I want to hear them. You have said these things, you agree that this is our most serious economic challenge, but the actions of the administration do not bear this out.

And what you are saying here is that because of the season of the year, and this and that, the Quadriad has not met. In my judgment, this is not responsive, or really is a revelation that you are not treating this problem with the seriousness that it seems to me that it needs.

Secretary FOWLER. Well, Mr. Curtis, I was only going to say I was testifying before the House Appropriations Committee all day Monday. A good part of Tuesday I was testifying before the House Ways and Means Committee, and all day today, presumably, I will be before the Joint Economic Committee. In addition, a considerable amount of labor has been involved in getting to the Congress the budget, and the Economic Report of the President, as well as all the necessary information you gentlemen are entitled to here in dealing with the legislative calendar ahead.

That was the only observation I wanted to make. I have seen and met with Bill Martin every week. In fact, I met with him the day before yesterday. We are constantly in touch. We are aware of developments. It is not quite fair to imply that I was attributing this to the holiday season. My calendar has been quite full.

Representative CURTIS. You know me well enough to know that I do not use that kind of reference.

Secretary FOWLER. I was afraid it might be misinterpreted.

Representative CURTIS. I will say this, if this is serious and facing our country, there are no holiday seasons.

Secretary FOWLER. There certainly have not been as far as I have been concerned.

Representative CURTIS. As far as I am concerned, when the Joint Economic Committee held its hearings, in December, was when we could have developed this issue and also developed material on the wage-price guidelines. We could then have gone from there in our interrogation and I think in a more fruitful fashion.

Now, I have directed attention to these increases in the Wholesale and the Consumer Price Indexes, which are considerable.

The answer given by other Government witnesses; namely, Mr. Schultze and the Council of Economic Advisers, was that these increases are largely in the agricultural sector and they point to the fact that industrial prices have not been going up.

But then in the interrogation on this, we find—and it is in your statement, too—that the Administration has moved heavily into the industrial price field in copper, aluminum, and steel to, in effect, impose controls through the guideline techniques.

Now, then, the Chairman of the Council of Economic Advisers, or was it Mr. Schultze, either one, said, “Well, you pay too much attention to the three that were so highly publicized.” For every one of those, he said, we have been moving in on holding these industrial prices in innumerable other areas.

First, are you aware that this has been going on?

Secretary FOWLER. I am aware that there has been substantial communication between the Secretary of Commerce and people in the business community. There has been considerable communication, I believe, between members of the business community and the Chairman of the Council of Economic Advisers; between the leaders of labor and the—

Representative CURTIS. That is not what I am asking you, Mr. Secretary.

Secretary FOWLER (continuing). And the Secretary of Labor, and that in this process these matters have been most seriously discussed.

Representative CURTIS. I did not ask that. I asked whether the statement that the imposition of the wage-price guidelines that existed in the steel, aluminum, and copper industries, had been accomplished in innumerable other areas in the industrial price areas.

Secretary FOWLER. I think you better address that question to those who have had those contacts. I cannot give you any information on that.

Representative CURTIS. I asked if you were aware of that.

Secretary FOWLER. I am not aware of the detail of it. I am aware there have been conversations in areas other than those mentioned.

Representative CURTIS. I was not talking about conversations; that is where we had disagreement on the language used. I was talking about actual results, because it bears on this point: If this is the way the industrial price list has been kept down, obviously what the administration has been doing is fighting inflationary forces that were existent there. They did not fight them apparently in other areas, or not as successfully; but the key to the thing is this clearly reveals that we have heavy inflationary forces in our society right now and the administration does not ask for, in your supplementary statement here, even legalizing what it has been doing in the area of steel, copper, and these other commodities that apparently were restricted in their price increases.

Secretary FOWLER. What is the question, Mr. Curtis?

Representative CURTIS. The question is whether or not you recognize that these reveal that you have an overall inflationary force in the society that is producing this.

Secretary FOWLER. No. My contacts, and those that I am aware of with others in the administration, have indicated much to the contrary.

Representative CURTIS. And in light of this economic data that I just gave you?

Secretary FOWLER. Yes, I have had a good many conversations with a number of leading members of the business community asking them their impressions of this matter. I am not aware from these conversations of any strongly held feeling that would answer your description of the current situation.

Representative CURTIS. Well, my 12 minutes are up.

Chairman PATMAN. Mr. Reuss?

Representative REUSS. Thank you, Mr. Chairman.

Mr. Secretary, I think you are doing a great job in your day-to-day activities and in your major and supplementary statements today. And I commend you also for your good humor in not letting badgering get you down.

I was particularly interested in your supplementary statement, which seems to me a historic and wholesome departure, if I read correctly what you are saying. You are suggesting that though the present economic program and budget do sufficiently contain what inflationary pressures are now apparent in the economy, no man can foretell the future; and if, let us say, next August—heaven forbid—the war situation requires further expenditures, then it might well be necessary to have a tax increase. You are saying also that the regular, normal congressional procedures are inevitably slow—particularly in the tax field—and that basic decisions as to the kind of tax increase, whether it is excise taxes or income tax or whether if in the income tax it operates on the capital investment side or on the consumer side, and if on the consumption side whether it does it by doing something with the exemptions or something with the brackets, or whether the problem of loophole plugging should be considered—all of these are, I believe you are saying, problems which cannot be decided in a couple of weeks by a Congress which addresses itself to those problems for the first time after the trouble appears.

Therefore, I believe what you are saying is that the appropriate tax-writing committee—as you mentioned, the Ways and Means Committee—might constructively now, in the months to come, address itself to the problem and be in a position to recommend measures.

I think it is in your mind, too, that Congress ought to consider means of putting itself into the position where it can act more promptly than in the past. It could thus negate the claim, for instance, of the Federal Reserve System that it is the only body in the country capable of acting fast and, hence, is permitted to use its rather heavyhanded methods of affecting the economic system because it alone can act fast.

Would that be a fair statement of what is in your mind in coming up here today?

Secretary FOWLER. Yes; I think it would, Congressman Reuss, although I would like to make one or two comments. I think our experience last year with the excise tax bill, as well as our experience during the Korean situation, would indicate that in a situation where it is necessary and desirable for the Congress to move rapidly toward a single objective, Congress can and does move very promptly. Therefore, I do not lack confidence in the ability of the Congress to respond to new contingencies that might require actions in addition to those that have been recommended.

I also think, however, that it would be useful for the tax-writing committees, or for this committee or subcommittee thereof, to study, review, and elicit points of view on some of the very questions you raise.

What type of tax would have the best and most desirable counter-cyclical impact, assuming a substantial escalation over and above current plans? Or, putting it another way: What type of tax action might be desirable if and when, hopefully, there is an end to hostilities in southeast Asia?

These are questions that we are studying and have views on; but it would be very useful and desirable, not necessarily to air our views, but to have the views of others—particularly those in the private community and the organizations concerned with these matters.

Representative REUSS. Good. If the Ways and Means Committee should adopt this constructive course and should seek to elicit advice in a preliminary way, would you be prepared to have them elicit advice from you?

Secretary FOWLER. Yes. However, that is pretty simple. We are in communication frequently, as the members of that committee know. But I think it would be more valuable to have the views of others. The Treasury could also benefit from public discussion.

We have private discussions with our consultants and with those who come in and are interested in these problems. Sometimes, however, you get a more organized review of the various options and a better appraisal of what the judgment of the Congress would be as to the right course of action from a public hearing. This is helpful where speed is of the essence.

For example, in dealing with the current tax proposal, we quite consciously tried to select those proposals that we thought would be most acceptable for quick action—because we wanted action by March 15, to diminish the deficit in 1966 and to begin to pull the revenues in the direction of a balanced budget.

Representative REUSS. Let me elicit your advice right now on a couple of proposals which I think the Congress ought to be turning over in its mind. I think I will ask that you furnish this answer for the record, because I don't think you will want to comment offhand about them.

Secretary FOWLER. Fine.

Representative REUSS. First, the Swedes for a number of years have had a tax system which works very successfully, which is something like this. During times of an overheated economy, corporations are required to put funds, part of their income, into escrow. These receipts are frozen for a period; and then in times of less activity, those funds are then released to them.

I would like the Treasury's thoughts on that Swedish proposal.

Secretary FOWLER. I am generally familiar with it, having been informed about it when a visiting delegation from Sweden was here some years ago. My impression was that this is a voluntary, rather than a compulsory provision. Am I wrong about that?

In other words, taxpayers get a tax break if they follow this particular plan. Is that correct?

Representative REUSS. I do not know. I would appreciate a modest study of this and some sort of a reaction from your Department.



(The Treasury Department supplied the following for the record:)

#### SWEDISH INVESTMENT RESERVES FOR ECONOMIC STABILIZATION

For a number of years the Swedish tax law has contained provisions designed to encourage holding back business capital investment expenditures at certain times and releasing investment funds at other times when the economy needed stimulation. These tax incentive provisions are designed to encourage contracyclical timing of business investment and thus stabilize the economy by reducing variations in the level of business capital spending.

The Swedish plan permits Swedish companies to set aside and deduct from taxable income investment reserves intended for use in times of economic depression and unemployment. If withdrawn at approved times and for approved purposes, the funds are not taxed on withdrawal. However, the depreciation basis of assets acquired with tax-free reserve funds is correspondingly reduced. Non-approved withdrawals are subject to penalty taxation.

The main rules relating to the investment stabilization reserves are as follows:

(1) The amount set aside in any one year must not exceed 40 percent of net profit before taxes.

(2) An amount equalling 46 percent of the amount set aside must be deposited to a special blocked, non-interest-bearing account with the Swedish Central Bank (Sveriges Riksbank) not later than the last day for filing the income tax return for the year. The remaining 54 percent is retained by the firm and must be available for investment when the deposited 46 percent is released.

(3) After 5 years, 30 percent of the reserve may be used for investment purposes without special permission. Otherwise, the reserve may only be used with approval or on instructions from the labor market board (Arbetsmarknadsstyrelsen). As and when the reserve is used with the permission of the labor market board, an amount, equal to 10 percent of the amount used, is allowed as a special deduction from taxable income.

(4) In general, an investment reserve may be used for any type of approved investment in building, machinery, and equipment. Recently the labor market board has limited the types of investment that may be made or the area within Sweden where it may be used.

(5) If the reserve is used without the necessary permission having been obtained or if the instructions of the labor market board are not followed, then the investment reserve (or the related part thereof) plus a penalty of 10 percent will be treated as taxable income, and no amount set aside to investment reserves will be allowed as a deduction from taxable income of that income year.

(6) The labor market board may require the withdrawal and investment of all or a portion of deposited reserves if it determines additional investment is desirable.

The Swedish investment reserve plan is essentially voluntary. It operates primarily through tax inducements and penalties to achieve a more stable pattern of investment. Generally, plans of this type are considered more effective in combating deflationary tendencies than in restraining excess spending in boom periods. Up to 1958 Swedish business firms did not use the investment reserve system to any great extent, and it is still not being used to the maximum extent. At the end of 1963 the total investment reserves on deposit were less than SKr900 million (about \$175 million) or about 1 percent of the Swedish GNP. The extent of use of the investment reserve provisions has probably been reduced by the availability of other tax deferment features of the Swedish tax law, including liberal inventory tax writedowns and accelerated depreciation. Thus, the investment reserve plan cannot be fully evaluated out of the context of the overall tax system or without consideration of the economic conditions prevailing in Sweden. In addition it is dependent upon the existence of a national economic agency which, among its other functions, has power to control the release of investment reserve funds.

Representative REUSS. Another proposal is that the 7-percent investment tax credit Congress enacted in 1960 be made flexible, depending upon either the recommendation of the President or some kind of a joint resolution of Congress, so that in times of superheated economic activity the percentage could be lessened, and perhaps if the economy went the other way it could be increased.

Would you give us your thoughts on that?

Secretary FOWLER. I can give you some thoughts on it right now. Our initial reaction is that repeal or modification of the investment credit is not suitable or desirable as a short-term restraining factor. There is a considerable leadtime in carrying out investment projects.

The credit becomes available when the assets are put in service and, hence, contracts are undertaken in reliance on the availability of the credit when the project is completed. Any repeal or modification of the credit would have to provide an exemption for projects under commitment, but which will be completed in the future.

Thus, repeal or modification of the credit would generally not alter investment expenditures or tax revenues except for a long time in the future. This would tend to restrain those projects that might be in process of construction and operation a year and a half or two years from now when we might not want that restraint.

It seems to me that the encouragement of additional capacity, and the encouragement of the modernization of that capacity, is the permanent type of encouragement that the credit was designed to achieve. Moving the credit up and down, or eliminating it for a period, would, therefore, change its basic structural intent.

Representative REUSS. My time is almost up, so I would like to ask two questions which perhaps you can enlarge on in the record.

First, you propose to reduce the present \$1.3 billion balance-of-payments deficit to a target of zero in the current 1966 calendar year.

Secretary FOWLER. To a band of equilibrium.

Representative REUSS. Equal to \$250 million on either side of zero?

Secretary FOWLER. Yes.

Representative REUSS. Will you give your target figures on how you are going to do that?

Secretary FOWLER. You mean a breakdown?

Representative REUSS. Yes. How much do you expect our trade surplus to gain; how much do you expect to recoup by way of clamping down on private investment abroad; how much do you expect to obtain, if any, by expanded tourism in this country? What is your target for reduction of governmental expenditures abroad with a balance-of-payments impact?

You must, in having arrived at your target zero—give or take \$250 million figure—have had a pad of yellow paper and a sharp pencil, and we would like to see what your targets are.

If there is anything embarrassing about it, or if it has any international impact of which I am not aware, we would be pleased to see it on a private, executive basis.

Secretary FOWLER. Let me just say that I have already indicated, in response to one area of questioning, that we would hope that the figure on direct investment, taking into account retained earnings, would be substantially reduced as compared to 1965 figures—by \$900 million.

There are many imponderables in this business, as past experience has shown. I am not too sure how useful it is to give a complete breakdown of the individual targets for every segment of the balance of payments, but we will supply you with more information than you currently have on what our expectations and our hopes are.

(Material subsequently supplied follows:)

In aiming at a target of a narrow range around zero for our balance-of-payments position this year, we count on marked improvements in several major balance-of-payments items. In the field of direct investment, we plan on an improvement of around \$900 million, part of which we expect to be achieved by a marked increase in U.S. corporate borrowing abroad to finance overseas investment. We also expect part of the improvement this year to be achieved by an increase of U.S. exports. Our trade balance last year was unfavorably affected by a number of special factors that we do not expect to see repeated. This gives us hope for a strong increase in our trade surplus position, although not to the record level of 1964. On direct investment income, we also look for a substantial increase reflecting, in part, the accelerated flow of direct investment abroad in recent years.

These are among the major factors which we think will be working in our favor. We would hope they will far exceed the changes that will be working against us, but there can be no firm assurance that this will happen with all the uncertainties that now face us. I am referring particularly to the higher level of spending in Vietnam for both military and economic assistance—and the clear possibility that these may rise even further in quite substantial amount. What happens on this front will be the key factor shaping the final balance-of-payments outcome, but increased tourist spending abroad and some resumption of bank lending to foreigners may also be unfavorable factors.

Representative REUSS. Thank you, and the last question——

Secretary FOWLER. Please, keep in mind that as things develop during the course of the year, we have to constantly restudy and adjust these targets. Indeed, we take a quarterly look at our expectations and, where they are falling short, try to determine what if any compensatory measures can be taken in that and other sectors.

Representative REUSS. Thank you. My final question has to do with your response to my bill, which I have sent you, to require congressional cooperative action on price-wage behavior—that is, review of the guidelines and hearings on breaches of those guidelines which threaten the national economy and national security.

Secretary FOWLER. Unfortunately, I have had all too limited opportunity to review the current hearings of this committee. However, I read the responses that Chairman Ackley gave to your questions on that subject and I would like generally to associate myself with his position. But I will, of course, respond to your letter in a more particular way.

Representative REUSS. Thank you, Secretary Fowler. Mr. Chairman, I see my time is up.

Chairman PATMAN. Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Secretary, I have written the President suggesting that the Quadriad be enlarged to a pentad, which would include the Chairman of the Federal Home Loan Bank Board.

Now, the reason for this is that the current figures show that of the total liquid assets held by the public of \$568.6 billion, \$109 billion are in the savings and loan business, and I think it is a very important segment of the economy today and I think there would be real value in having them on a consulting basis with the present Quadriad.

Can you give your own views as to the value of such an inclusion?

Secretary FOWLER. Yes, Mr. Widnall. I think you have a real point that the Federal Home Loan Bank Board, the members and its Chairman, ought to have the benefit of a cross-exchange with others in the financial field. Indeed, that was one of the primary objectives

that motivated me when I asked that the Chairman of the Federal Home Loan Bank Board, the Chairman of the Federal Reserve Board, the Comptroller of the Currency, and the Chairman of the FDIC to set up a coordinating committee to meet frequently so that there could be an exchange of information and points of view between them.

I think a very good case could be made out that the Chairman of the Federal Home Loan Bank Board should be added to the Quadriad. But it immediately raises the question, Where does one stop? There is a good case for the Secretary of Commerce, for the Secretary of Labor, for the Secretary of Agriculture, and for a number of other officials who are interested and concerned with general developments of economic and financial policy. But enlarging the group does, I think, tend to diminish its effectiveness as an informal consultative body.

I think you could also find there is a case for holding it down to the four people whose concern is most general in the economic and financial picture, rather than also having representation of particularized segments.

Representative WIDNALL. It does seem to me that it is now such an important part of the economy and dealing with—

Secretary FOWLER. I couldn't agree with you more about the importance of the Federal Home Loan Bank Board. Because of its importance, it is very desirable that Chairman Horne of the Federal Home Loan Bank Board, have the advantage of information that comes to the other financial bodies.

Representative WIDNALL. I noted in the President's Economic Report that there was concern with the fact that the output per man-hour had only been 2.8 percent during the past year, and not up to what had been hoped for.

Now, what was not emphasized was how the 2.8 percent was arrived at. There was an increase in the agricultural sector of 7.3 percent and in the nonagricultural sector of only 2.4 percent.

Now, the nonagricultural sector probably is the area where the greatest amount of employment by far takes place in the United States.

Now, does not the fact that that section of the economy has only a 2.4-percent increase give great concern to the economic advisers and to you as Secretary of the Treasury?

Secretary FOWLER. Those computations and their application in terms of the guidelines is in the area of expertise of the Council of Economic Advisers. I would prefer to have any comment on your query come from the members of the Council.

Representative WIDNALL. I was pleased that the President in his Economic Report really for the first time, I believe, evidenced concern with inflation, as many of us have been talking about this for some time and have been sort of laughed at, as if this was something that really was not anything to worry about.

I know in some recent trips to Europe on the part of members of our own committee and of other committees, that the greatest concern expressed there by people with the central banks in Europe, was as to whether the United States was going to be able to keep inflation in check. And this seemed to be the first thing that they questioned the members about.

Secretary FOWLER. This is characteristic of central banks, both at home and abroad. [Laughter.]

It would have been unprecedented if this had not been their concern.

Representative WIDNALL. I have also been at meetings here in Washington of American businessmen who have indicated that the greatest concern that they have, they thought the greatest issue before us during this coming year, outside of Vietnam, of course, was going to be whether or not we can hold inflation in check. I am worried, like Congressman Curtis is, as to whether or not we are going ahead as fast as we should toward checking many of the areas that seem to be almost at the bursting point right now.

Secretary FOWLER. Well, Congressman Widnall, it was with the awareness of your concern and Congressman Curtis', as well as some of the other members of the committee, that I developed a comment on this in my supplementary statement. The administration shares your concern, but we are not in agreement, as I have indicated, that we ought to move beyond the dimensions of what has already been done and the proposals that have already been made.

We should see how the economy digests this new mix of measures before moving further, unless, as the President's message indicated, unforeseen inflationary pressures which are not now observable emerge.

Representative WIDNALL. Well, Mr. Secretary, the Federal Reserve Board was criticized quite severely in many sectors as acting prematurely in raising the rate, the discount rate, last year.

Now, aside from the possible serious consequences of waiting, is it not true that raising the discount rate in January, rather than when they did, would have adversely affected the Treasury's traditional January and February borrowings?

Secretary FOWLER. No; that is not true. We had careful discussions of the timing of those measures and it was clear to me, and I believe to Secretary Deming, that there would have been an appropriate period between the President's State of the Union Message and the time when the final budget figures were known in which a decision could have been taken that would not have interfered with the debt management operation in the Treasury.

Representative WIDNALL. I read an article during the past week that attributed to the administration the view that it was time to raise the FHA interest rate on mortgages by a quarter of 1 percent.

Do you know anything about that?

Secretary FOWLER. I know a good deal about it, but I prefer, since it is a matter under active and current consideration, not to comment further on it here.

Representative WIDNALL. If that action were taken, would that be taken as an inflationary restraint?

Secretary FOWLER. Well, I think it would probably be much more likely interpreted as a response to given market conditions.

Representative WIDNALL. The Department of Commerce recently reported that exports from the United States to foreign affiliates of U.S. firms comprised one-third of the total U.S. exports in 1964.

What effect is the voluntary program of controls on direct investment having on this vital segment of U.S. exports?

Secretary FOWLER. I have no opinion on that. I think the best informed opinion would probably come from the Department of Commerce, since it is handling this program. It is my impression, however, as the figures I have given the committee indicate, that

direct investment has continued at a very healthy rate. The figures speak for themselves; therefore, I doubt in my own mind that anything that has as yet been done under the voluntary program has had any substantial impact on exports from the United States:

Representative WIDNALL. Thank you, Mr. Secretary; my time is up.

Chairman PATMAN. Yes, sir; Mrs. Griffiths.

If it is all right when we finish with Mrs. Griffiths and Senator Proxmire, we will then take a recess until 2 o'clock. Go right ahead.

Representative GRIFFITHS. Mr. Secretary, in place of increasing the interest rates on FHA mortgages, why do you not shorten the terms?

Secretary FOWLER. I have not discussed this in any detail with those concerned, but I would certainly assume that the option that you mention is one that is being given careful consideration.

Representative GRIFFITHS. Is it not really a much more desirable option? So long as you can extend the length of time during which people can pay, what difference does it make what the interest rate is? What you need to do is to take a bigger hunk out of that monthly income at one time in place of extending the terms or increasing the interest rates. Why not shorten the years to pay?

Secretary FOWLER. I will ask Secretary Deming to comment.

Secretary DEMING. This is, of course, an alternative. The FHA increase under consideration at the present time, however, as the Secretary has indicated, is not really designed to be a restraining measure. It is designed to meet the market situation as it is. Viewed in that context with the present FHA mortgages having to be written at discounts which require higher down payments in cash, you see, or lowering of the price of the house, some give and take between buyer and seller on this, you tend to dry up the FHA market unless you come closer to the rates charged on conventional mortgages.

If it were viewed as a restrictive measure, I think one would perhaps consider your option here as a—

Representative GRIFFITHS. If inflation moves along and you have to do something, is restricting credit not just as successful a measure, if not more so, than any other measure you can use?

Secretary DEMING. Yes; I think this is correct, but I think this has to be balanced against the general picture here. I do not believe one wants—the housing market in the first place is not a market that is terribly exuberant, as you know.

Representative GRIFFITHS. It is in Detroit; you can sell anything with a roof on it.

Secretary DEMING. I have been trying to sell a house in Minneapolis for the last year and a half. But housing in general, the housing market is not an exuberant part of the economy at the present time and the need here, I think, is to maintain the FHA program rather than to use it as a restrictive measure.

Representative GRIFFITHS. Now I would like to ask you, Mr. Fowler, on this tax situation, if you assume that things do get too booming and the economy gets overheated, in place of considering a tax increase, may I ask you to consider the effect if the President said about the first of June that as of the 1st day of January 1967 the remaining 7 percent was going off autos, what would the effect be?

Secretary FOWLER. I imagine a lot of people would wait to hear what the reactions in Congress would be. Perhaps some people would defer purchase of a car until January. It would depend entirely on how the man with the money in his pocket, or the credit available, would respond. The prospective car buyer might direct his money into other channels.

Representative GRIFFITHS. May I ask you what, in your opinion, would be the effect of an excess profits tax on prices? Perhaps the businessman might reason: if you cannot keep it, why charge it?

Secretary FOWLER. I would prefer to give you a more studied answer to that question based on experiences with previous excess profits taxes. My reaction is that it might conceivably diminish the incentive to increase prices somewhat, but I doubt that it would change habit patterns and processes that have always attached to corporate pricing practices.

Representative GRIFFITHS. What would a 1-percent excess profits tax yield at the present time?

Secretary FOWLER. I would like to give you that for the record, if I can.

Representative GRIFFITHS. I think that would be quite interesting. (The following information was subsequently supplied for the record:)

#### REVENUE EFFECT OF A 1-PERCENT EXCESS PROFITS TAX

The following estimate of the effect of a 1-percent excess profits tax assumes that the tax is similar to that imposed by the Revenue Act of 1950:

At estimated 1966 levels of corporate profits, a 1-percent excess profits tax would yield \$100 to \$125 million on a full year basis.

Representative GRIFFITHS. In your judgment, would the most restrictive tax be an increase in the income tax?

Secretary FOWLER. Yes, that would be the one that would dampen the entire range of the economy, assuming your question applies to both individual and corporate income taxes.

Representative GRIFFITHS. In my opinion, as long as you have absolute assurance that people are going to have an income, unless you couple it with a restriction on credit it will not have that effect. The net effect will be to raise interest rates again and the wrong people are going to be making the money.

Secretary FOWLER. I think the next question is what actions should be combined with a tax proposal in order to achieve the overall result. Will the tax action in and of itself suffice? These are the kinds of questions I hope could be explored on a contingency planning basis by the Congress at this time.

Representative GRIFFITHS. Now may I ask you, also, have you ever considered this negative tax?

Secretary FOWLER. I have heard of it and have heard it discussed. But I have not seriously come to a point of deciding whether to recommend it or not.

Representative GRIFFITHS. I have wondered: if such a thing were to be enacted, would it contemplate that social security taxes and unemployment compensation taxes and such other taxes be done away with?

Secretary FOWLER. No, I do not think so.

Representative GRIFFITHS. Why not, if you are going to pay everybody anyhow?

Secretary FOWLER. I have always felt that the concept that when new tax benefits are added other tax advantages will be taken away is not one that often works out in practice.

Senator DOUGLAS. Senator Proxmire?

Senator PROXMIRE. Mr. Secretary, I concur in what Congressman Reuss said about the high quality of your fine statement this morning and the supplementary statement and the superlative job you and other economic policymakers have done in the administration.

I think too little attention at these hearings particularly has been paid to the positive results. This has been a marvelous showing of our economy with some recent rise in prices, but it is relatively modest and altogether I think we should be mighty happy about it.

I am very disturbed about the fact that you talk about the balance of payments and you are obviously referring to the liquidity measure which you call the overall measure.

No reference whatsoever to the official settlements measure.

Now, this disturbs me. The Bureau of the Budget in 1963 appointed what they consider to be the outstanding financial economists available anywhere to make a study of this, and they were, indeed, outstanding people.

The chairman was Edward M. Bernstein. Also on the committee was Prof. Richard E. Caves, of Harvard; George Garvy, Economic Adviser of the Federal Reserve Bank; Harry Johnson, of the University of Chicago; Walter E. Hoadley, vice president and treasurer, Armstrong Cork Co.; Peter B. Kenen, Columbia University; Roy L. Reiersen, senior vice president, Bankers Trust Co.; and Charles Schwartz, Assistant Director of the Western Hemisphere Department, International Monetary Fund.

These gentlemen unanimously, and I emphasize that, indicted the present system we have of measuring the so-called balance of payments on the so-called liquidity basis.

They pointed out it includes all forms of foreign private holdings of dollar claims, and excludes all U.S. private holdings of foreign liquid assets. Consequently, it is completely unsymmetrical and to use it is like talking about our trade situation by considering only our imports, not our exports.

A subcommittee of this committee held extensive hearings and brought in every critic we could find to discuss it. We had Mr. Lederer before us, and we made a unanimous recommendation that both measures be used.

I was chairman of that subcommittee; we had the impression that the administration felt this would be a wise position and would welcome a recommendation of this kind.

Now I find to my great distress that when President Johnson addressed the country in the state of the Union message, he only referred to the old liquidity basis. You come before us this morning as the outstanding financial spokesman of the administration; you only refer to the old discredited liquidity basis.

When Senator Douglas asked you a question about this, you only referred to this liquidity basis which the experts I have just cited regard as wholly inadequate. If you will look at the January 1966

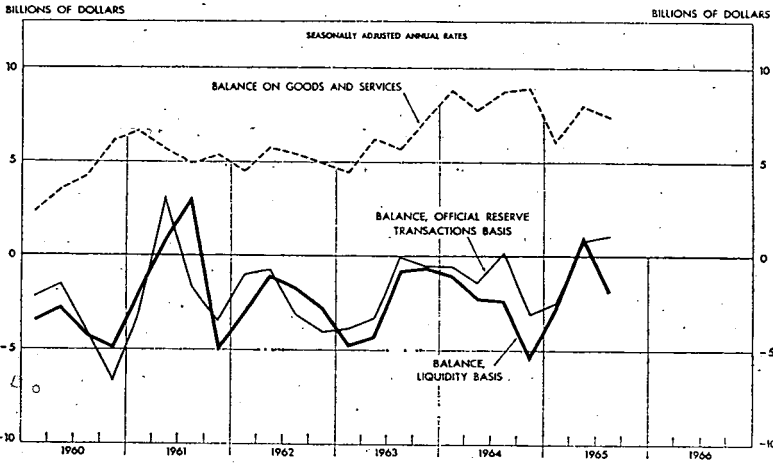


Economic Indicators, which we have here, on page 25, "U.S. Balance of Payments," observe the column headed "Balance," subheadings, "Liquidity Basis," and "Official Reserves Transactions Basis." You notice the perfectly enormous difference.

The conclusion is that 1965 projected the balance of payments as in deficit, \$1.269 billion, or \$1.3 billion roughly, while the official reserve transactions basis is only \$236 million.

**U.S. BALANCE OF INTERNATIONAL PAYMENTS**

The United States recorded a deficit on liquidity balance of \$1.9 billion (seasonally adjusted annual rate) in the third quarter, but had a surplus of \$1.0 billion on the official reserve settlements basis. The shift to deficit on the liquidity balance is primarily attributable to the fact that certain favorable capital inflows of the second quarter could not be repeated. The official settlements balance showed another surplus in the third quarter as foreign central banks again supplied dollars to meet the demands of the private sector.



SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

(Millions of dollars)

Period	U.S. Government grants and capital, net <sup>1</sup>	U.S. private capital, net			Foreign capital, net <sup>1</sup>	Errors and unrecorded transactions	Balance		Changes in selected liabilities (decrease -)		Changes in gold, convertible currencies and IMF gold tranche position (increase -)	
		Direct investment	Other long-term	Short-term			Liquidity basis <sup>2</sup>	Official reserve transactions basis <sup>3</sup>	To foreign official holders <sup>4</sup>			To other foreign holders <sup>7</sup>
									Liquid	Non-liquid <sup>6</sup>		
1958	-2,587	-1,181	-1,444	-311	22	458	-3,529	-3,027	735	-----	502	2,292
1959	-1,986	-1,372	-926	-77	863	412	-3,743	-2,283	1,248	-----	1,400	1,035
1960	-2,769	-1,674	-863	-1,348	366	-958	-3,881	-3,592	1,449	-----	289	2,143
1961	-2,760	-1,599	-1,025	-1,556	707	-1,045	-2,370	-1,287	681	-----	1,083	606
1962	-3,013	-1,654	-1,227	-544	1,021	-1,197	-2,203	-2,241	457	251	213	1,533
1963	-3,581	-1,976	-1,695	-785	888	-401	-2,670	-1,977	1,673	-74	619	378
1964	-3,563	-2,376	-1,975	-2,111	667	-1,161	-2,798	-1,224	1,073	-20	1,554	171
1965 <sup>8</sup>	-3,327	-3,420	-1,247	1,027	44	-455	-1,269	-236	(*)	(*)	(*)	(*)
Seasonally adjusted annual rates											Quarterly, totals unadjusted	
1964:												
I	-3,012	-1,856	-1,096	-2,356	456	-1,152	-1,028	-544	-409	-----	227	-51
II	-3,560	-2,160	-1,024	-2,192	308	-608	-2,328	-1,404	215	-50	114	303
III	-3,580	-2,204	-2,448	-1,624	680	-1,164	-2,372	184	389	-----	562	70
IV	-4,100	-3,284	-3,332	-2,272	1,224	-1,720	-5,464	-3,132	869	30	651	-151
1965:												
I	-3,188	-4,036	-2,716	1,165	1,392	-12	-2,836	-2,565	-861	-----	199	842
II	-3,836	-3,564	400	1,696	-240	-308	968	820	-107	-----	-181	68
III	-2,956	-2,060	-1,424	196	-1,020	-1,136	-1,940	1,404	252	-----	683	10

<sup>1</sup> Excludes certain special Government transactions.

<sup>2</sup> Equals changes in liquid liabilities to foreign official holders, other foreign holders, and changes in official reserve assets consisting of gold, convertible currencies, and the U.S. gold tranche position in the IMF.

<sup>3</sup> Equals changes in liquid and nonliquid liabilities to foreign official holders and changes in official reserve assets consisting of gold, convertible currencies, and the U.S. gold tranche position in the IMF.

<sup>4</sup> Includes short-term official and banking liabilities and foreign holdings of U.S. Government bonds and notes.

<sup>5</sup> Central banks, governments, and U.S. liabilities to the IMF arising from reversible gold sales to, and gold deposits with, the U.S.

<sup>6</sup> Provisional.

<sup>7</sup> Private holders; includes banks and international and regional organizations; excludes IMF.

<sup>8</sup> Average of the seasonally adjusted annual rates for the first 3 quarters.

<sup>9</sup> Not available.

<sup>10</sup> On Sept. 30, U.S. reserve assets consisted of gold stock, \$13,925 million (down \$124 million from June 30); IMF position including gold portion of increased U.S. subscription, \$887 million; convertible currencies, \$959 million.

NOTE.—Data exclude military grant-aid and U.S. subscriptions to IMF.

SOURCE: Department of Commerce.

I understand there may have been a change in the last quarter that would change that situation considerably. What I am mainly concerned about is the fact the administration now seems to be ignoring the recommendation of the people that their own Budget Bureau recommended, ignoring a recommendation of Congress to at least consider equally these two measures.

Secretary FOWLER. Senator Proxmire, I certainly stand corrected for not having supplied the official settlements basis information in my statement. I will be glad to submit it for the record.

(The following table was subsequently supplied:)

*U.S. balance-of-payments deficit on liquidity basis and on basis of official reserve transactions*

[In billions of dollars]

	1963	1964	1965
Deficit on liquidity basis.....	2.7	2.8	1.3
Deficit on basis of official reserve transactions.....	2.0	1.2	1.4

Source: Survey of Current Business, December 1965, U.S. Department of Commerce for 1963 and 1964 and U.S. Treasury Department for 1965.

Secretary FOWLER. The failure to mention it is in no way intended to diminish the importance of the official settlements basis as a measure. We fully accept the recommendation made by the Bernstein Committee and the desirability of having that computation. When the third-quarter figures were announced, we announced them on both the overall basis and the official settlements basis.

We will continue that procedure in February when the final figures are available. In dealing with the preliminary figures, and in order to save time, we did not develop it here. However, your emphasis is very well taken.

Senator PROXMIRE. I appreciate that. I think it is very important, I think it is easy for outstanding officials to forget the impact of their own statements, their own expressions, their own decisions on what statistics to use.

And these statistics are just so infinitely important in the determination of policy in the Senate. I have seen Senators time and time again determine their vote on foreign aid programs and on many other very vital programs, because of their position on the balance of payments, and I think if we get the most accurate, the most honest expression of this possible it will be a great help, so it would be helpful if in the future you could use both where possible, or I would hope we would shift into this more symmetrical, and I think more accurate, method eventually.

Secretary FOWLER. The meaningful improvement that occurred in 1965 was actually in the overall basis. However, the figures for both methods of computation will and should be constantly used.

Senator PROXMIRE. Over the years there seems to be about a billion dollar difference, maybe \$900 million difference with the official settlements showing a somewhat better record.

I would like to follow up what Congressman Curtis asked, because I do think it is very vital for the future coordination of economic policies in our Government.

What opportunities are there of a formal kind for full, frank exchange of information and understanding between you and Secretary Deming, on the one hand, and Governors Shepardson, Mitchell, Robertson, Maisel, and Balderson, on the other. Not Martin—he has one vote—he is not in the same position as the Secretary of the Treasury, he has no power except as executive officer for administrative purposes, but he has one vote and these other fellows have six votes, and it was brought out very clearly at our hearings that at least one or two of them are deeply distressed by a lack of coordination and being kept in the dark and not knowing what you are thinking and what your policies are.

It would be helpful for us to know if there is any basis that you or Mr. Deming, because he is your monetary expert, have for frank and blunt exchange of information with these other agencies.

Secretary FOWLER. My door would be open any time and all times to any of those gentlemen who wanted to come in. Let me say, however, that one should consider the pressures of time—conversations, updating, and exchange of information with seven separate Governors would leave very little time for anything else.

Senator PROXMIRE. Of course, we cannot expect you to sit down with each of these men individually. I am not asking that.

Secretary FOWLER. The question of transmitting information or the points of view expressed, for example, at the quadripart meeting, to the other members of the Federal Reserve Board is a matter of the internal working of the Federal Reserve Board—something that can really only be developed between the Chairman and his colleagues on the Board.

Senator PROXMIRE. One of the suggestions that I have made to Mr. Martin in this connection is that a transcript be kept of quadripart discussions and then made available to the other six Governors.

Now, is there any transcript kept of the discussions?

Secretary FOWLER. No transcript is kept—no notes of any consequence as far as I know. It is a very informal give and take—an uninhibited type of exchange, Senator Proxmire. I think before imposing upon that process the requirement of a transcript and public distribution of it, you ought to consider whether or not the result would be to inhibit free and frank exchange rather than to add to the sum total of information for the Board members.

I would not want to venture into the internal processes of the Board, but I would think that debriefings which are characteristic of many occasions where one hears a relatively uninhibited exchange of views would be preferable to a transcript—although I have no objection to a transcript if that is the most useful method of effecting coordination.

I do not know what the President would have to say about it. It would tend to make it more of a public meeting than it is.

Senator PROXMIRE. It would be confined to the Federal Reserve officers rather than a public distribution.

Secretary FOWLER. I think a more practical way would be to look to the Chairman of the Federal Reserve Board to communicate with his colleagues.

Senator PROXMIRE. Of course, the Chairman of the Federal Reserve Board, just like any other member, has his own viewpoint, he

may be more or less conservative. He may give his own slant in interpreting the very, very important judgments, attitudes, understanding of the other members of the quadripart to the members of the Board.

Governor Maisell pointed out that there was a paper by administration financial experts that he had heard about and he said in his judgment might have been of great consequence, discussing the right degree of fiscal and monetary mix that we should have in the coming year.

He said he could never get hold of it, and this kind of expression by experts in the Treasury Department, it would seem to me, should be made available to the members of the Federal Reserve Board. I say each one of them has the same vote Mr. Martin has.

Secretary FOWLER. I think comments of that nature have to go to the members of the Federal Reserve Board. There is very little I can do about it.

Senator PROXMIRE. It has been charged in the newspaper this morning, the Wall Street Journal had it, that the administration was privately pleased with the Fed's increase in the discount rate last December, but simply did not like the timing; that it would have been welcomed in late January.

Is it true that President Johnson wanted an interest rate hike and is satisfied that that was a desirable accompaniment with the suggested fiscal restraint?

Secretary FOWLER. I think, Senator Proxmire, President Johnson would have to speak for himself on that.

Senator PROXMIRE. You have no knowledge of such an opinion by the President?

Secretary FOWLER. No.

Senator PROXMIRE. Certainly he expressed displeasure at the time.

Secretary FOWLER. I think I had better make my point of view clear for the record. Let me quote from comments I made in New Orleans on November 28 at a public gathering:

There are those who have advocated without any detailed knowledge of the budget for fiscal 1966 and the new budget for fiscal 1967 a sharp change in monetary policy to restrict further the expansion of money and credit. It seems to me that monetary policy so far has played a vital and constructive role in the coordinated mix of fiscal and monetary policies that has brought us to our present posture of economic strength. Credit has been ample, but not excessive. It is premature and unwise to call for further restrictive monetary action now in order to curtail the expansion of money and credit, and raise interest rates more than the market has already raised them.

There may be room for honest differences of opinion among well-informed and unprejudiced persons on this issue. However, it is my strong belief that any orderly adjustment of a properly coordinated mix of fiscal and monetary policies to deal with the period ahead calls for that policy mix to be determined only with full knowledge of the President's new budget. Of course, I recognize, as all realists must, that new facts and new developments may at any time call for a reexamination of the policy mix that has served us so well and that there may well be circumstances when the use of monetary policy to combat inflation would be wholly appropriate.

However, today circumstances call for a policy of watchful waiting until the 1967 fiscal year outlook is clarified in mid-January with the presentation of the President's new budget.

That is what I publicly said, and that is what I was privately saying. That represents my point of view, and so far as I know, it was not any different from that of the President.

Senator PROXMIRE. My time is just about up. Chairman Ackley of the Council of Economic Advisers indicated, as I understood him, that if the Federal Reserve Board had not recommended this increase in discount rate, we might have had a different fiscal policy. We might have adjusted on the basis perhaps of not increasing interest rates, but having a somewhat more restrained fiscal policy.

Would you have any comment on that or not?

Secretary FOWLER. I have no comment except to say that I think it is obvious that if you sit down in January and you have the entire range of measures to call upon, you review one as against the other—you use one to some degree as against using the other to another degree. I have no idea how we would have come out in a hypothetical exercise at that time. But certainly this is one of the questions that would have been asked and to which we would have tried to get answers.

If action needs to be taken, what is the best means of doing it? That follows to the maximum the general policy expressed in the Employment Act of 1946.

Senator PROXMIRE. Your answer and also Chairman Ackley's answer indicate that this recent newspaper statement about the President wishing for a higher interest rate just has no real basis. Everything I know about the President, his philosophy when he was a Senator, and I think excellent understanding of economic principles, and so forth, suggest this is not his attitude.

Secretary FOWLER. I will not add to the President's own statement at the time the announcement was made and the statement he made at the ranch after our meeting on December 9. I do not think it would be appropriate for me to comment further.

Senator DOUGLAS. Thank you very much, Mr. Secretary.

The hearing is recessed until 2 o'clock this afternoon.

(Whereupon, at 12:25 p.m. the hearing recessed, to reconvene at 2 p.m. on the same day.)

#### AFTERNOON SESSION

Chairman PATMAN. The committee will please come to order.

Mr. Ellsworth?

Mr. ELLSWORTH. Thank you very much, Mr. Chairman.

Mr. Secretary and Mr. Deming, I apologize for not having been here this morning. I was over in the Committee on Veterans' Affairs helping hammer out this cold war GI bill in executive session and I have not figured out how to be in two places at once, but I have had a full report on this morning's session.

Secretary FOWLER. We share your difficulties, sometimes.

Mr. ELLSWORTH. I have two or three questions. First of all, I am very concerned about the problem that we have had over the last 4 or 5 years with respect to our Nation's commitment in Vietnam and its effect on our economy here at home because over the last several years we have had underestimate after underestimate, by those charged with the responsibility for estimating the future of the situation in Vietnam, and I am wondering what might happen to the budget, to the economic prognostications contained in the Economic Report, and so forth, if once again the estimates of our Vietnam involvement upon which those

prognostications and the budget are based should turn out to be too small by a substantial margin.

Have you given a lot of thought to that? I would like to have you comment on that.

Secretary FOWLER. I have, Congressman Ellsworth. In World War II we had estimating problems and there were periods during which military requirements were underestimated, as well as periods during which they were overestimated.

Again in the Korean conflict, in 1952, as I recall it, we had a case of overestimating military expenditures—they did not prove out to be nearly as much as was anticipated. As I said to Senator Javits this morning, it is difficult to foresee the unforeseeable and, so far as I know, there has never been a war in history that has been fought completely on schedule with the tables of organization and supply requirements not subject to modification from time to time.

I think the uncertainties involved in the current situation do not in any sense make it unique. The computer and various other mechanical devices have not insulated us from the uncertainties the President referred to on page 10 of his budget message. I think we can only assume a posture of flexibility—if more funds are required we must look to the President's commitment that he will not hesitate to request additional sums and, should that contingency arise, propose fiscal actions that are appropriate to meet the situation.

Mr. ELLSWORTH. Thank you very much—

Secretary FOWLER. Cold comfort, but—

Mr. ELLSWORTH. No, that is a good answer, but to bring it down home, I am really tremendously concerned on account of this background of consistent underestimates over the last 4 or 5 years, with the problem of inflation which everybody has been talking about and which everybody is concerned about.

Out in my home community we have adjacent to us a large ammunition production facility left over from Korea which has been reactivated recently as a result of the Vietnam war, and every now and then they call me up and say, "We have another contract modification, another \$2.8 million." They are really pumping money into that facility and hiring people and the result of it in the surrounding community already has been an inflationary effect on wages.

Now, I assume this sort of thing is happening all over. I am sure it is, otherwise people would not be worried about inflation. But that brings me to one of my big concerns and that is these wage-price guidelines and their effectiveness against an overall, general buildup of inflationary pressure due to increased aggregate demand stemming in large part from the increased Federal spending on account of Vietnam. I hope that you and the other officers of the Government in every area will not hesitate for a minute to use the broadest fiscal and monetary weapons to combat inflation and not rely on these guidelines and guideposts because I am afraid that, against the tremendous pressures that are building up, the guidelines themselves are not going to be sufficient.

Do you have any comments on that?

Secretary FOWLER. I think it is clear from all past experience, and I am sure it will be the case this time, that to the extent pressures develop in the future the combination of fiscal and monetary restraints

on the one hand, and good decisionmaking on the part of those responsible for decisionmaking in the private sector in the price and wage field on the other hand are the tools on which we have to depend in order to avoid undesirable and unwelcome direct wage and price controls.

It will not be enough to rely upon fiscal and monetary measures. I think you also have to rely upon voluntary restraint on the part of management and labor in this field.

By the same token, a moderate measure of fiscal and monetary restraint is also in the picture.

It is going to be a combination of these two things. If the situation becomes more threatening, we will, of course, consider what additional measures would be desirable. But I am sure they would include both of these fields.

Yoy cannot rely upon one to the exclusion of the other.

Mr. ELLSWORTH. Thank you very much. Turning to a different subject, that is the balance-of-payments situation, I want to say that I think the improvement that has been wrought in the balance-of-payments situation over the last few years has been remarkable and I think it has really been outstanding.

I know that, from the year before last to last year, the balance-of-payments deficit has been cut about in half, or maybe even a little better than that.

I know that bankers and businessmen in this country on a voluntary basis have cut down on their investments overseas and I know that hurts them and I know that creates problems for them with their shareholders.

I know that the Defense Department has instituted over the last several years these programs of offshore procurement to help with the balance of payments and I know one of the reasons the Fed gave in December for the interest rate increase was that it would help the balance-of-payments situation, so that I think the United States has really done an outstanding job so far on controlling the balance-of-payments problem that we had and that we still have. I am hopeful that improvement will continue to be registered because I know how important it is to register improvement on account of our situation in the negotiations that Mr. Deming is engaged in and that you are engaged in in Paris and elsewhere on reform of the international monetary system.

Now, on the balance-of-trade aspect of it, I wonder if you do not agree with me that there is more room for improvement in our balance-of-trade situation, and, of course, my special interest is in the opportunities we have in the world to export agricultural products, food and fibers, all over the world, on a commercial basis, not on a giveaway basis. Do you agree with me that there is a tremendous opportunity there to make a major contribution to our whole balance-of-payments situation?

Secretary FOWLER. I very much agree with you on that point, Congressman Ellsworth. I think that both the administration and the Congress have a fine opportunity this year to hammer out a more definite and concrete policy along those lines.

As our food aid program stretches out over the period ahead, it can include a very substantial component of emphasis on moving from

direct aid into commercial sales. The attitude of the Treasury Department is to encourage movement in that direction.

Mr. ELLSWORTH. I am delighted to hear it; thank you very much. My time is up.

Thank you, Mr. Chairman.

Chairman PATMAN. Mr. Secretary, I have before me here the list of the Treasury bonds and also Fannie Mae bonds.

~~Now Fannie Mae bonds should be considered just as good as any Treasury bond; should they not? They are an obligation of the Government.~~

Secretary FOWLER. I will let Mr. Deming deal with that, he deals with Fannie Mae on a regular basis.

Mr. DEMING. Mr. Chairman, almost as good; not quite as good.

Chairman PATMAN. Is there enough difference to justify the yield differential of 4.78—that is Treasury—and 4.97 on Fannie Mae bonds? That is quite a difference; is it not?

Mr. DEMING. About 20 basis points. That is about what it works out to most of the time, Mr. Chairman.

Chairman PATMAN. In all, the Government yield is 4.28, and Fannie Mae 4.87. That is about 60 points. Is that not pretty wide?

Mr. DEMING. That is a fairly wide one. These are market appraisals, Mr. Chairman, of the value of a particular security. Generally speaking, they rate direct obligations of the Treasury better.

Chairman PATMAN. And you consider that a free market rate; is that it?

Mr. DEMING. Well, the regular market rates; yes, sir.

Chairman PATMAN. You consider the market a free market in Government bonds?

Mr. DEMING. I consider it a free market in respect to the relative differentials in rates.

Chairman PATMAN. That is right, but in regard to Government bonds, we always hear the phrases, "let the market work its will", and, "it is a free market."

Do you agree it is a free market in Government bonds?

Mr. DEMING. I would say it is more a free than controlled, although central bank intervention obviously—

Chairman PATMAN. You have not answered my question.

Mr. DEMING. No market, Mr. Chairman, in which a central bank is operating—

Chairman PATMAN. That is the answer I have heard from Mr. Eccles in his time, and from Mr. Martin; they all hedge as you do. When you get down to it everyone admits that there is not a free in market Government bonds when our national debt is as big as it is.

Witnesses always qualified their statements by asserting that it is nearly free; but it is not. I think it is a fixed market, because there are 20 dealers within a stone's throw of the Federal Reserve Bank of New York, which is running the show, and they get their cut on purchases and sales.

They have a tollgate—they get a percentage when the Open Market Committee buys bonds, they get a toll when it sells them.

They get a pretty good toll, and they are all on the same telephone lines fixing the rates. I don't consider that to be a very free market.

Mr. Secretary, you will furnish me the information about the rates on the social security trust funds?



Secretary FOWLER. I am sorry I do not have that figure at the moment, Mr. Chairman. We have almost every other figure we could think of that you might want. I will supply it for the record (See p. 184.)

Chairman PATMAN. Reference has been made here to about \$4.7 billion of assets that have been sold. I guess they are mixed and sold on a participation basis.

Secretary FOWLER. Scheduled to be sold on a participation basis.

Chairman PATMAN. What will the effective interest rate be on those securities?

Secretary FOWLER. It will vary somewhat depending upon the particular security in question. Of course, the scope of the program is delineated in the President's budget message.

Chairman PATMAN. I would not like to take up too much time on it, Mr. Secretary, if you please, but will it go to a 4½- or 5-percent average rate, do you think?

Mr. DEMING. I don't know that that is answerable, Mr. Chairman, at the present time. Presently these assets that are being sold are closer to 5 percent than they are to 4½ percent, of course.

Chairman PATMAN. They are closer to 5 than 4½ percent?

Secretary FOWLER. Yes, sir; the Fannie Mae bonds that you just quoted.

Chairman PATMAN. Yes, sir.

You have long since had a rate much higher than the 4¼ percent, which is the rate that is fixed by law, the top rate on U.S. Government bonds since Woodrow Wilson's time in 1918.

I have been disappointed in the Federal Reserve for not maintaining that rate. They could have kept it down if they had wanted to, and since they are fiscal agents of the United States they owe an obligation to treat their principals right, at least not treat the principals wrong. This commitment was there in law, and I was hoping that they would maintain the rate but they have not. Since they have not maintained the rate, and it is way above the 4¼ percent, do you have any plans for the future on that score?

Obviously, you cannot do business on a long-term basis at a 4¼-percent rate when the going rate is maintained at much more than that. What are your plans for the future, Mr. Secretary?

Secretary FOWLER. We do not have any definite plan at this time. We believe it would be appropriate, and convenient, to consider the interest rate limitation question at the same time extension of the debt ceiling is considered. At that time we will have some suggestions to make about the rate limitation, but we have not firmed up on any position with regard to that at this time.

Chairman PATMAN. Do you not think in getting out these participations and charging, say, around 4¾ or 5 percent—selling them in a way that the effective rate of interest will be around 5 percent—do you not think that is bordering on a violation of the spirit of the 4¼-percent interest rate on long-term bonds?

Secretary FOWLER. I have examined the history of the provision, but at the time it was enacted in World War I as you stated, I do not know that the Congress contemplated application of the limitation to the disposition of direct loans the Government had made.

It is an interesting question and certainly raises an interesting legislative question.

Chairman PATMAN. Is it not a sufficient answer, though, that it has held for 48 years—48 years? It has never been necessary to raise it, and any rate that will hold 48 years, it occurs to me, should command great respect. There should be every presumption in favor of it being high enough. During those 48 years we have gone through some pretty rough times—depression, inflation, wars, and so forth, and to the credit of that 4½-percent rate it has never been necessary to raise it. Now it looks as if an effort will be made, to raise it, which I deplore, of course.

We can work within that rate if the Federal Reserve will cooperate. The Federal Reserve cooperated in World War II and we saved tremendous amounts of interest. If they will cooperate now we can hold that rate at 4½ percent, and I hope that is done.

In reference to the certificates of deposit, do you look with favor on the banks selling these certificates of deposit?

Secretary FOWLER. As the chairman knows, since I am not in the bank regulating business I have not formulated any view either as to the legal question you raised yesterday or the day before in these hearings, or as to the way in which CD's are being handled. I have however, in recent weeks, interested myself in that problem because of my general concern with the financial field. In that connection, I have had some preliminary discussions with the bank regulatory agencies in this area. However, I have not as yet arrived at any conclusions that would be worth submitting to this committee.

Chairman PATMAN. It is contended by the Comptroller of the Currency, who authorized them, that the banks have a right to acquire these deposits, since they have a right to have time deposits, but I do not believe it was ever contemplated that the banks would have a right to go out and buy deposits.

It occurs to me that availability of deposits is one of the ways to determine the necessity for a bank in a community. If there is enough money that voluntarily would go into the bank and be held in time deposits it would be an argument in favor of setting up the bank. But to say that a bank should have a right to get a charter as the only bank in town, or as an additional bank, on the theory that they would have a right to go out and hire their deposits from New York City, or San Francisco, or Dallas, or Detroit, it seems to me to be getting away from the banking business.

Do you not think there is something to that criticism, Mr. Fowler?

Secretary FOWLER. As in the case of a number of other instruments, it depends upon whether they are abused.

I can see that they could be useful and desirable under certain circumstances.

I can also see that some elements of abuse might creep in—brokering, so to speak. I do think it is desirable, and I have suggested that the regulatory agents examine the practices involved to see whether or not they are compatible with both the theory and practice of good commercial banking.

Chairman PATMAN. In 4 years time since the practice really started. These CD's have run up to \$16½ billion. They are so concentrated in a handful of banks that the great Federal Reserve System was

compelled, in order to bail out a half a dozen banks, to raise the interest rates on all the people by 37½ percent. I would consider that a pretty bad abuse. I think that is what happened, and I think you believe that, too.

My time has expired.

Senator JAVITS. Mr. Secretary, I did not quite finish asking a few questions this morning. I would like to go back to those now. I will not detain you very long.

Under the circumstances in which we now find ourselves has all consideration of what might be done with the States—that is, between the Federal Government and the States—in the way of tax sharing or some other plan, gone by the boards?

Secretary FOWLER. Senator Javits, it has for the time being—certainly for this year. As I stated before the Ways and Means Committee the other day, it seems to me that any proposal involving substantial or significant tax reduction, or any proposal that would divert substantial revenues from the Federal Government to the States, are matters that would have to wait until the Vietnam situation is behind us.

Senator JAVITS. There is some talk also of replacing some of the Federal grant programs, which cost the Federal Government substantial sums of money, with one which would strengthen State responsibility and giving them some money to carry this out. Do you think there is any likelihood of anything being done about that?

Secretary FOWLER. I think my previous answer would cover that—not at this time.

Senator JAVITS. You feel then that what has happened in Vietnam has pretty well deferred that?

Secretary FOWLER. Yes, sir.

Senator JAVITS. We are very interested in the Congress and we are very interested in the country in legislation to deal with so-called national paralysis strikes, either on a national or on a local basis, that is like the New York City transit strike.

Has the economic impact of such strikes figured in any way in the President's views on the economy or in the economic forecasts of the administration?

Secretary FOWLER. Not to my knowledge, sir, other than as was reflected in his comment in the State of the Union Message.

Senator JAVITS. The main thing I wanted to ask you about this afternoon was the balance-of-payments problem and the shortage of monetary reserves in the world.

According to press reports the voluntary balance-of-payments program, to which you attribute the main effect in cutting down on the deficit in our international payments, is slated to end in February of 1967.

Now, is there some effort being made to coordinate the phasing out of that voluntary restraint program with some agreement, some international agreement to give us an expanded basis for international reserves?

Secretary FOWLER. That's a complicated and involved question, Senator Javits, I will have to break it down into two or three parts.

Senator JAVITS. Please do.

Secretary FOWLER. No. 1. The international monetary arrangements under discussion are focused on providing a measured way for providing additional liquidity to meet the requirements of free world trade. These developments are not, by and large, focused on ways and means of relieving or readjusting the balance-of-payments deficit of any particular country.

No. 2. With regard to the voluntary programs. I know there was some reference in the press last month to Secretary Connor's remarks about terminating the programs next February. I am afraid the reporting of Secretary Connor's remarks at his January 17 news conference was not complete enough on this point. What he actually said has, unfortunately, not appeared in the press.

Secretary Connor was asked if he was making a commitment to terminate the program early next year. He answered, and I will quote from the transcript of his remarks:

"No definite commitment, but I think it is incumbent upon us in Government to have by then an effective program that does not have these long-term disadvantages."

There can be no disagreement with what the Secretary said. We are, of course, thinking about and concentrating on this year's program as his earlier remarks indicated. It is certainly incumbent upon all of us, Government and business alike, to work out a program with a long-term future—a program that has the least disadvantages, but a program by which we can achieve and maintain equilibrium.

I cannot foresee whether that is going to call for an extended voluntary program or not. We are getting the advantages of increased investment income; we hope to have a reversal of the dropoff in the trade surplus that occurred in 1965. We hope that will be reversed this year, and I believe it will be. I am very hopeful that the Foreign Investors Tax Act will become law this year and give our financial community an opportunity to increase the flow of portfolio investments into the United States from abroad. I also think that the capital markets abroad have shown some improvement, although they are still far from being adequate.

These favorable long-term factors are at work. On the other hand, we hope some of the disadvantages of last year will not be present to the same degree this year. For example, our balance was adversely affected last year by about \$500 million as a result of the British liquidation of their Government-held U.S. securities and their deferral of a debt repayment.

The situation in Vietnam may also be an adverse factor to be considered this year.

Senator JAVITS. So, as a practical matter, I notice you have considerable faith in our getting more than we invest abroad out of our investments.

Secretary FOWLER. Yes; that is a very important long-range factor.

Senator JAVITS. And also the possibility of very much increased investment in the United States by people abroad.

Secretary FOWLER. That is right.

Senator JAVITS. Now, one other question as my time is ebbing, too.

I would like to ask you about this work which is going on in the Group of Ten to which you refer in your statement in terms of expanding international reserves.

It is a fact that we are heading for a real problem, are we not, when the American imbalance of international payments diminishes and these dollars are really not available to finance international reserves.

Secretary FOWLER. Senator Javits, I do not think there is any question about it—some suitable mechanism for getting liquidity on an orderly basis will have to be arrived at if we continue to make progress toward maintaining balance-of-payments equilibrium.

Senator JAVITS. I note in your statement that the United States is tending toward the idea of greater drawing rights from the IMF plus some form of a new reserve currency as a solution to the liquidity problems.

Secretary FOWLER. Our thinking has been that a dual approach to this problem would be desirable.

Senator JAVITS. My main question is this: Would you state, in whatever time I have remaining, how that will help the underdeveloped areas of the world which are very short of capital?

Let me picture in a few words what I have in mind.

According to the President's Economic Report, developing countries are getting from all sources about \$9.7 billion of private and public long-term capital. Now, the best estimate of the World Bank staff is that this represents a shortfall of somewhere between \$4 and \$5 billion a year today. There are many estimates. The Advisory Committee on Private Enterprise in Foreign Aid, which I like the best, says the shortfall is somewhere between \$5 and \$20 billion a year.

Well, let us take the minimum figure of \$5 billion, although we know the gap is widening. Can we give the developing nations of the world the feeling that great consideration is being given and will be given to this problem in our efforts to broaden the base of the international monetary reserve?

Secretary FOWLER. Very affirmatively, Senator Javits. It has been the position of the United States in dealing with the Group of Ten and the International Monetary Fund that great emphasis should be given to the problem of adequate reserves of countries who are not in the Group of Ten. In other words, that this is a worldwide problem.

However, I think we would all have reservations as to whether changes in the international adjustment process is the only area that you could look to to meet the problem of shortfall in the less developed countries.

I think I would have to say that it could only make a contribution to meeting the problem. A very large measure of the adjustment of the position of the less developed countries will depend upon enlightened trade policies of the developed countries, lending policies such as those that characterize the World Bank, the International Development Bank, the Asian Development Bank, the things normally required in the general category of aid—

Senator JAVITS. And private enterprise investment.

Secretary FOWLER (continuing). And most important, the development and creation of a climate in these countries that will invite the multinational companies, whether they be United States-based companies, British-based companies, French-based companies, or truly

international corporations; to move in and invest large amounts of capital and know-how.

I think it is a combination of all of these things. But I would also like Secretary Deming, who has been actively negotiating with other representatives in the Group of Ten, to indicate that a fundamental point in the American program is our insistence on a dual approach—that part of any plan should include increased drawing rights through the IMF since that is the process of liquidity creation in which all countries can have an appropriate share.

Do you wish to add anything?

Secretary DEMING. The Secretary gave most of the answer to this, Senator Javits. I think it is important to point out that I detect no feeling in the Group of Ten at all that there should not be some liquidity additions to the rest of the world, and that adequate liquidity for both the developed and underdeveloped world is a necessity to keep from pursuing restrictive practices which could lead to smaller capital movements to the underdeveloped countries. So it is important to start with liquidity which will enable the world to pursue the policies that Secretary Fowler has mentioned here. If there is not enough in the way of reserves they will not be as eager to do this, but it does have to go far beyond pure liquidity situation to meet the capital problems of the rest of the world.

Senator JAVITS. I would like to say that I hope this attitude will be widely publicized, because I find an unfortunate feeling among many of the developing countries that while the rich people are talking this thing over and deciding what is best to be done, they are really not giving serious consideration to their problems. I know that is not so and I hope very much that by all the means that you have and the President has, this may be spread about.

Secretary FOWLER. We have tried in every public expression that we have made, including the annual meeting last fall of the International Monetary Fund, to impress upon the world at large, and the members of the Group of Ten, the fact that after the initial discussion in which Secretary Deming is participating, there must be a second stage of negotiation in which the points of view of all the other countries will be heard so as to be reflected in any final arrangements that may be concluded.

Senator JAVITS. And the United States will back and support that second round.

Secretary FOWLER. Definitely.

Senator JAVITS. Mr. Chairman, I ask unanimous consent to include in the record two brief lists of questions, one on the wage-price guidelines, the other on Federal Reserve Board administration coordination which I will ask each of the witnesses to answer for me.

Chairman PATMAN. Without objection it is so ordered.

(Senator Javits' questions and Treasury Department answers follow:)

#### SENATOR JAVITS' QUESTIONS AND TREASURY DEPARTMENT REPLIES

Question. 1. On January 28 I introduced a concurrent resolution expressing the sense of the Congress that there is a need to improve economic policy coordination between administration economic policymakers and the Federal Reserve Board. The resolution indicates several areas where coordination may be improved. Would you comment on the resolution and the problem of economic policy coordination in the Federal Government in general?

Answer. As a general matter, coordination between the Federal Reserve and the executive branch of Government has been very good in recent years. The country has gained enormously in the past 5 years from a well-balanced and well-coordinated blend of fiscal and monetary policy.

This coordination has been effected through a variety of channels. Best know, perhaps, are the informal meetings of the Chairman of the Federal Reserve Board, the Chairman of the Council of Economic Advisers, the Director of the Bureau of the Budget, and the Secretary of the Treasury, with the President, for frank and free interchange of views on general economic developments and policies. This "Quadriad" of agencies met seven times during 1965. There is no fixed schedule of meetings, and no fixed agenda; nor is any formal record of the proceedings kept.

This degree of informality is an element of considerable strength. It promotes a thorough airing of viewpoints and exchange of relevant information, where more regularly required and formalized meetings could tend to become quite sterile.

There are other avenues of continuous coordination with the Federal Reserve. Usually the Chairman of the Federal Reserve Board joins a group of senior Treasury officials for lunch on Mondays while several Treasury officials lunch with senior personnel at the Board of Governors each Wednesday. In addition there has developed, over a long period, the closest possible coordination at the technical level—for example, in the central bank's fiscal agency functions for the Treasury, in the Treasury's handling of its cash balances to minimize potentially disruptive reserve fluctuations and in the Federal Reserve's conduct of open-market operations to avoid disrupting the market at times of Treasury financing. New links of close coordination between the Federal Reserve and Treasury have been forged in recent years with the development of day-to-day foreign exchange operations and networks of short-term credit facilities arranged with other nations to protect international monetary stability.

As for the specific proposed resolution (S. Con. Res. 73) its general objective of working to improve coordination is certainly laudable but a question may be raised as to whether the introduction of greater formality into existing arrangements for coordination would serve a worthwhile purpose. The first item of the resolution—calling for meetings of the "quadriad group" at least six times a year—is essentially fulfilled already. As mentioned above, the quadriad met seven times during 1965.

The second point of the resolution—calling for the Secretary of the Treasury, the Chairman of the CEA, and the Budget Director to keep the Federal Reserve Chairman and other Federal Reserve officials fully apprised of information which they should know in order to discharge their responsibilities—is also fulfilled to the extent feasible. This kind of information already is communicated, quickly and informally, through channels of the type outlined above—including the more or less regular meetings of Treasury and Federal Reserve officials twice each week, supplemented whenever necessary by additional meetings or telephone communication. This second point of the resolution, as well as the third point, also refers to keeping other members of the Federal Reserve Board, and members of the Open Market Committee, informed about matters relevant to their responsibilities, but it would be the Treasury's view that this be more appropriately handled within the Federal Reserve System itself.

The fourth point of the proposed resolution—calling for the Federal Reserve Chairman to notify the President whenever a request to raise discount rates is received by the Board from a Federal Reserve bank—would raise a question about the authority of the Federal Reserve System without really adding much to effective coordination as it now exists. Again, this type of information is now communicated informally through the channels noted above.

In short, the channels for communication and exchange of information apparently sought for in this resolution exist already and the passage of a resolution to formalize the avenues of contact would seem to offer little prospect for adding to meaningful coordination.

Question 2. Would you tell the committee how, specifically, economic policy coordination was achieved between the administration and the Federal Reserve Board at the time the Fed raised the discount rate last December 3?

Answer. To be sure, the coordination procedures described above did not work perfectly last December, but the fault did not lie in any lack of communication. The Federal Reserve's inclination toward a higher discount rate was, through the various channels of contact mentioned above, well known to the adminis-

tration by late November. Indeed, as early as September or October, it was known that some sentiment within the Federal Reserve leaned in this direction and by late November it began to look as though a change might be more imminent.

The administration was counseling then, as was indicated in public statements, a delay until more could be known about the 1967 budget. For example, Secretary Fowler said in a speech in New Orleans on November 28, 1965; " \* \* \* There are those who have advocated without any detailed knowledge of the budget for fiscal 1966 and the new budget for fiscal 1967, a sharp change in monetary policy to restrict further the expansion in money and credit. It seems to me that monetary policy so far has played a vital and constructive role in the coordinated mix of fiscal and monetary policy that has brought us to our present posture of economic strength. Credit has been ample, but not excessive, and has fueled a balanced economic expansion. It is premature and unwise to call for further restrictive monetary action now, in order to curtail the expansion of money and credit and raise interest rates more than the market has already raised them.

"There may be room for honest differences of opinion among well-informed and unprejudiced persons on this issue. However, it is my strong belief that any orderly adjustment of a properly coordinated mix of fiscal and monetary policies to deal with the period ahead calls for that policy mix to be determined only with full knowledge of the President's new budget.

"Of course, I recognize, as all realists must, that new facts and new developments may at any time call for a reexamination of the policy mix that has served us so well—and that there may well be circumstances when the use of monetary policy to combat inflation would be wholly appropriate. However, today's circumstances call for a policy of watchful waiting until the 1967 fiscal year outlook is clarified in mid-January with the presentation of the President's new budget."

The administration was also urging that there be a review of the situation at a meeting of the Quadriad with the President at a meeting during the week beginning December 5 which had been publicly announced. As events unfolded, it developed that the directors of two Federal Reserve banks had acted on December 2 to initiate increases in the discount rate at those banks and such action by the directors required approval or disapproval of the Board of Governors of the Federal Reserve System. The Board of Governors decided to approve the increases on December 3, and to release the news on Sunday, December 5.

Question 3. Is it your practice and that of the other members of the "Quadriad" to circulate high-level policy papers with members of the Federal Reserve Board?

Answer. It is not a general practice to circulate policy papers in connection with Quadriad meetings as such, although papers are often exchanged among Quadriad members on matters of mutual interest. Circulation within the various agencies concerned would be arranged by those agencies.

Question 4. To what extent was the Federal Reserve Board informed of the administration's plans for the fiscal year 1967 budget and its estimate of the Nation's economic outlook on December 3, 1965?

Answer. The Federal Reserve Board was not informed of the administration's plans for the fiscal 1967 budget on December 3, 1965, as these plans had not yet been decided. Some work had already gone into major areas of budget expenditures. But many crucial decisions, which could spell the difference between a stimulative and restrictive overall budget posture—for example, the decisions leading to the requests for certain tax acceleration measures—had not yet been taken.

As to the administration's estimate of the economic outlook, the last full review prior to the discount rate increase was in early November, and the Federal Reserve Chairman was aware of this review. A new review was just in its beginning stages in late November, and in this highly preliminary stage it had not been communicated to the Federal Reserve. This preliminary review was lacking certain key items of information, including the Federal budget picture for the forthcoming fiscal year, on which decisions would be "firmed up" in early January.

Question 5. Would you say that when the Federal Reserve Board decided to raise the discount rate it acted without full knowledge of the administration's plans?



If so, what specifically was it unaware of? What then was the purpose of your regular consultations with Chairman Martin? (Chairman Martin states that he did not consider knowing the fiscal year 1967 budget a major factor in the Board's decision.)

Answer. Yes. The Federal Reserve did not, at the time it acted, have knowledge of the administration's budget plans for fiscal 1967. It did have some additional information about fiscal 1966, still in rough and preliminary form, which had been reported in late November, but without information on fiscal 1967 and knowledge of the current proposed tax changes which will begin to have an impact in fiscal 1966, the Federal Reserve did not have as much information as it might have had by waiting just a short period of time.

Question 6. In what way do you think economic policy coordination mechanism could be improved? How do you think, for example, the Fed's decision would have been affected by waiting another 4 to 6 weeks? What decisions did the administration make in that period which would have affected that decision?

Answer. In seeking to improve economic policy coordination, we should build upon the existing arrangements which have been, on the whole, quite successful. It is expected that useful interchanges among the quadripart members will continue in forthcoming months, and that they will be as fruitful as in the past in providing a full and frank exchange of information and thinking about current economic developments and problems. We would not suggest any change in the direction of greater formalization of these coordinative arrangements because their greatest strength lies in their existing informality and flexibility.

As to how the Federal Reserve's decision might have been affected by waiting another several weeks, it is not possible to say specifically what they might have done differently, nor can one say what the administration would have done differently had the Federal Reserve's decision been delayed. The important point is that a delay would have provided an opportunity to determine fiscal and monetary policy decisions on a coordinated basis with all of the relevant facts available instead of having one branch of policy decided in light of decisions already taken by another branch which had moved without knowledge of crucial budgetary decisions. Conceivably, we might have arrived at approximately the same policy mix that we have now. Even so, the decision to arrive at this particular mix on a coordinated basis, without the doubts and uncertainties that attended a less coordinated policy approach, could have provided a clearer overall policy position. And, of course, there is the likelihood that a different policy mix would have been found more suitable.

Question 7. How much staff support is made available in advance of the regular meetings of the Quadriad? Would you favor the establishment of a small secretariat for this purpose?

Answer. Staff support prior to meetings of the quadripart varies from time to time with the purpose of the meeting. Like the Quadriad meetings themselves, the staff work is informal, and geared to the particular needs of individual quadripart members. Staffs of the agencies are in touch with each other, then brief their principals. This would seem to be the most appropriate and useful sort of arrangement, and we would see little advantage in adding a small secretariat as an additional layer.

Senator JAVITS. Thank you. I appreciate very much the indulgence of the committee.

Chairman PATMAN. Senator Proxmire?

Senator PROXMIRE. Thank you, Mr. Chairman.

Following briefly the questioning of the impact or prospective impact of the war on the economy and possibly inflation, your testimony seems to be very similar to that of Chairman Ackley, and particularly Secretary McNamara, who emphasized very clearly that the Vietnam conflict has relatively, compared to the Korean war and World War II, a very modest impact on the economy and that, as a matter of fact, if you compare it with the situation that prevailed in this country between 1955 and 1964, the whole Defense Establishment in relationship to the gross national product costs a lot less.

I brought this point up before, but I want to emphasize it now because I have just gotten some recent figures which show, for example, that in 1964 the percentage of the gross national product devoted to defense was 8.2 percent; this year, fiscal 1966, it will be 7.6 percent; and next year with pessimistic and large Vietnam commitments included it will be only 7.7 percent.

Now, the part of that defense burden that is devoted to Vietnam is about 1.3 percent. And this includes all of the escalation, includes all of the plans, as I understand it, that the administration has for seeking more men, material, and so forth to Vietnam. If we double that you would still have less in the Defense Establishment in relationship to the gross national product than you have between 1956 and 1959.

What all this indicates to me is that the inflationary developments in the economy, by and large, are not connected with Vietnam and I think there is a great public misconception here, the feeling that we are in a war economy or moving into one and we have to keep our eye focused on Vietnam to see what is happening to the economy. I think these hearings have helped to dispel that illusion to some extent and I think your comments help.

Secretary FOWLER. I think it is important that we all keep a sense of proportion about this to keep it in perspective. The figures and comments you made are certainly helpful in that regard.

I would only add to them the point that during the Korean conflict, for example, the projections there went from approximately a \$12 billion annual outlay for the defense effort to one approaching \$50 billion. At that time that \$50 billion was a much larger proportion, of course, of the gross national product than \$50 billion would be today.

I would also like to note that in addition to the pure mathematical aspect of the problem of inflation there is also a psychological aspect. I think there is sometimes as much danger in overreacting to these situations as there is in underreacting. I, for one, would counsel, as I said this morning, an attitude of balance and moderation on the part of all concerned, so that the picture may be seen as it is and not have it exaggerated out of proportion.

Now, I understand the basis for concern is a case where a defense plant is reopened, such as the case Congressman Ellsworth referred to. If the plant is not in a very large urban area, there may be a lot of local strains that can have a very real impact in that area. But I just do not feel we are at a point where we should be concerned about the exhaustion of our available resources to deal with the problem at hand.

We need to accommodate to a pattern of additional growth which would be there whether Vietnam was present or not.

Senator PROXMIRE. I was delighted to see in your statement, and I quote:

We are exploring intensively the feasibility of several new types of special appeal to the 8 million participants in the industrial and governmental payroll savings bond programs.

I asked Secretary McNamara about this because, of course, he has so many people in his department and under his jurisdiction altogether. He said he has given no thoughts to this aspect. Of course,

he is a very alert and extremely competent person. I wonder, in view of the fact in the past when we have had inflationary prospects in the economy the Government has tried to encourage employees as well as the general public to save. I wonder if you could give us a little more detail on what you may plan here? We have had a lot of experience with this kind of program, it would seem to me we need a minimum study to put it into effect.

You do point out that you are going to try and increase the rates—

Secretary FOWLER. We have been very actively concerned with this matter over the last several months, and are at a point of decision as far as the rate on the existing bond program is concerned.

I have also felt that it was incumbent upon us, if I may use the term, to develop improvements in the product line itself—offer new products that might have special appeal at this particular time as well as new products that might have appeal over the long pull. This seems to me to be a very desirable and propitious time to be resourceful and inventive in this area.

We are trying to do so; I am sorry I cannot give you any concrete detail now, but I think we will have some announcements to make in this area shortly.

Senator PROXMIRE. This seems to be a good, constructive, simple way of dampening demand somewhat with less pain than tax increases or controls.

Secretary FOWLER. It very definitely has that advantage. Although it has a number of other advantages, I think it is particularly timely that this program be pushed now. Although Secretary McNamara may not have had a chance to give attention to the bond program in his area, I can assure you he has some very competent officers in the Army, the Navy, the Air Force, and the Marines, who have done excellent work in spreading the practice of payroll savings. The Defense Department has done a very good job on that.

Senator PROXMIRE. As you know this committee and also the Senate Banking Committee, and I imagine, the House Banking Committee, too, have held hearings on the balance-of-payments situation. Senator Muskie chaired the hearings in the Senate Banking Committee and more and more we came to the conclusion which you offer today, that we look forward to an increase in our trade surplus, as the longrun solution of our balance-of-payments difficulties.

Now, this has disturbed me because our trade surplus is already very large and our trade surplus means a trade deficit by other nations in the world who in most cases are working hard to correct their deficits. It seems to me that they must be as deeply concerned, perhaps more concerned, with their trade deficit as we are with our balance-of-payments deficit.

Trying to look at this as objectively as possible, I am just wondering if this is a realistic or a proper basis for our expecting to be able to improve and balance our total payments situation.

Secretary FOWLER. I think if that were our sole reliance your comments would be well taken. There are very definite limitations, I think, on the extent to which a trade surplus of a given country, particularly one like the United States, can go. But I do not at all believe, Senator, that we are at the end of the road on that.

It seems to me that even if we could get back up to the level of 1964, a \$6.7 billion surplus, that that would be a very healthy step—and not an unprecedented one.

Senator PROXMIRE. You are close to that, are you not? Last year we had some unfortunate temporary—

Secretary FOWLER. That is right. In 1965, I think the figures will show—I do not have the final figures—a trade surplus in the neighborhood of \$5 billion. There is plenty of room for improvement there. For example, there are a lot of specialty products that we just take for granted in the United States; special food products, and new products that emerge out of technology, that the other countries do not have in production. I draw a distinction between those types of commodities and the primary items, like steel, machinery, and so forth. There are great opportunities for expansion of trade, and a considerable market.

Senator PROXMIRE. I am delighted to see your recognition, and I know that it has not been easy and that there are other persons who oppose your position, but your clear and most helpful recognition for the need of unquestioned liquidity with the growth of the world trade, combined with Secretary Deming's, and your estimate that we are going to hopefully be able to balance our payments this year is welcome.

On page 156 of the Economic Report it suggests three sources of liquidity, gold is one, \$700 million; drawing rights are a second, \$150 million; and claims against the U.S. dollar is the third, a billion dollars. Now, if you knock out the third, that is about half of the source of liquidity, at the time the need for liquidity is increasing.

Secretary FOWLER. Precisely.

Senator PROXMIRE. It makes it dramatically clear we have to have a new source soon. This morning in the New York Times, Richard Mooney, in his, from Paris, said this in referring to the meeting of the 10 countries:

The object of the exercise provides there will be more adequate reserves. The United States maintains that it would be more appropriate to present the world with a proposal in general terms rather than a fully detailed arrangement. This approach may also suit the U.S. Government's own dilemma where differing internal views remain such that it would be easier to accept a general plan than a detailed one.

This suggests that you may be moving in generalizations now and the tough, hard details, the specifics, are going to be postponed and it is going to take many months and perhaps years before you can come to working on the details. That is the impression I got from that.

Secretary FOWLER. I will let Secretary Deming comment on that. I do not know what the point of Dick Mooney's comment is. But I think it is fair to say that we have been pressing to get away from general discussions so as to make progress on concrete, positive negotiations that could lead to the submission this spring of a preliminary report from the deputies of the Group of Ten. Hopefully this report will contain a sufficient measure of general agreement that would justify going into the second round of negotiations that I referred to in the colloquy with Senator Javits, in which there could be participation by representatives of the other countries, perhaps through the

21 executive directors of the International Monetary Fund. We have been pressing for concrete actions and concrete results.

I have nothing further to say about Mr. Mooney's comments.

Senator Deming, do you have anything to add?

Mr. DEMING. Senator, I think perhaps that is more a matter of the way it is expressed—a matter of words than of substance.

The negotiations that are going on started out on particular and specific points without having a complete and rounded plan. You tried to get the general feel as to how various countries felt about a given aspect of international liquidity.

For example, as to whether it should be a drawing right or whether it should be a new reserve unit.

These discussions become narrower and more specific as the negotiations go on. The timetable is to have a report by the deputies of the Group of Ten to the ministers, as the Secretary has said, showing the areas of agreement by the spring of this year.

Now, I do not think one would want to try to come out with an absolutely full-blown plan right at that stage, because as was mentioned to Senator Javits, there is a second area in which one goes into negotiations to be sure that the requirements of the rest of the world are fully recognized.

I have said that I think the Group of Ten recognizes those needs must be met but it is in the second stage of the discussions when these come down to very hard points. Then one would go into an international monetary conference where you nail down the final details of this action. I do not mean to imply at all that this is going to take years, but the process of the negotiation comes down to where you get more and more specific and I would think that it would be possible to reach an agreement among the countries of the world as to the specifics of this matter within a relatively short period of time and I define that as, let us say, a year.

Then, of course, you have parliamentary actions that have to be taken on this just as you would with a fund quota increase and so on. Even if you were working as hard and productively as you could work I do not think that you could get a brandnew form of international liquidity in being in the space of less than say, a year and a half to two years, and that this makes it all the more incumbent to get on with the job and that is why we are pressing hard on this.

Senator PROXMIRE. My time is up. I certainly commend you on this. I am delighted to see you have the sense of urgency. Your own prediction seems to be optimistic compared to some others. If we do balance our payments this year then it makes it all the more important that we press toward international monetary reform.

Thank you.

Chairman PATMAN. Mr. Curtis?

Representative CURTIS. Thank you, Mr. Chairman.

Before proceeding I want to see if we can get our ground rules straightened out a little bit.

Mr. Secretary, when I interrupt a question it is because I feel that you are not being responsive to the question I asked. Maybe I asked the question in a confused way, but there is no intent to close you off because I think we understand that you have the right to

extend your remarks throughout. But there is much material to go over and we are limited in time, and I am trying to put it together. Many of the questions and the points I make are controversial. This is the first opportunity in one sense that the loyal opposition has had a chance to question some of these actions and so forth.

With that understanding, if I do interrupt you please understand it is because I happen to think you are unresponsive or something of that nature and I am trying to rephrase the question or redirect your attention to the points that I am trying to bring out. I do not intend to close you out and I want you to have full opportunity to answer in the record.

Secretary FOWLER. I appreciate that, Congressman Curtis. If I could just state my ground rule, I think we will be square. My ground rule would be that silence on my part on various points you make in developing your question is not to be interpreted as assent.

Representative CURTIS. That is understandable, because you do have an opportunity of going over the transcript and making your point there.

Chairman PATMAN. And extending his remarks if he desires.

Secretary FOWLER. With that privilege, I will try to keep my comments very short.

Representative CURTIS. That has also been understood in this committee and, of course, I do make a statement in a rhetorical way for your response, in the event you agree, disagree, or think that it needs explanation.

First, just one little item that Senator Javits mentioned. You were referring to the foreign investors tax law which we have before the Ways and Means Committee and there being a possibility of getting a net flow of investment into this country.

I had thought that this was more of a reciprocity matter, that we were trying to get our tax treaties in shape where we also were removing impediments that exist in other countries' tax laws. Am I correct in that basic understanding?

Secretary FOWLER. I think the presidential task force that authored the report on which the legislative proposals are based emphasized that the tax proposals would encourage a far more substantial amount of portfolio investment from abroad in the United States—not on any instant basis, but over a period of time.

Representative CURTIS. I mentioned that because I was hoping we would get reciprocity because we have difficulty in the tax treatment that other countries afford our investments. I know you are aware of this and I did not want us to lose sight of the reciprocity aspects. You would agree with that?

Secretary FOWLER. Oh, yes, indeed.

Representative CURTIS. Now, just to pick up a couple of points that I did not quite get clear.

In discussing the Quadriad, the reason I brought it up, Mr. Secretary, was that in our committee hearings in December this became quite a focal point of discussion with Mr. Martin and others. The committee's observations in its questioning was that it hoped this technique of communications could be improved, and you heard one of the points Mr. Widnall made.

So, I wanted to read Mr. Martin's testimony to see whether this is in accord with your understanding and then secondly, if you care to, develop what your understanding of this situation is.

Here is what it says:

Mr. MARTIN. There has been a lot of discussion, as you know, Senator, about this and it may be that there could be some improvements in the informal procedures which have been developed through the years, for I usually have lunch with the Secretary of the Treasury on Monday.

Treasury representatives come over to the Board frequently on Wednesdays almost as a routine matter. We have occasional meetings with the Council of Economic Advisers and since Secretary Anderson's time we have had small groups. Recently, the group has been called the Quadriad, that has met with the President periodically.

The Quadriad has met about once a month.

This is what I was directing attention to. I was surprised and concerned when interrogating the Director of the Budget, Mr. Schultze, yesterday to find that the Quadriad has not met since that date in December when the issue was brought up on the Federal Reserve.

Now, would you care to comment on that?

Secretary FOWLER. Yes. Mr. Deming, whom I asked to check this point, informs me that there have been approximately seven meetings of the Quadriad during the calendar year 1965. This includes the time before I was Secretary of the Treasury. The meetings are not held on regular monthly schedule. They also tend to be more regular during the period of the year when Congress is in session than in the fall period.

Of course, the President's illness this fall, and his convalescence, meant a reduced schedule of meetings. I think we had one meeting in October. We had hoped to have one in November, which we could not arrange due to other calls upon his time. A public announcement had been made that there was to be a meeting of the Quadriad the week before, or the week of, the Federal Reserve announcement.

There is no particular situation that affects the absence of a meeting in January—except the pressure on the President's time for preparing various submissions to the Congress. I would expect that we probably would have had a meeting this week, except for the heavy schedule of congressional hearings all of us were required to attend this week. I would think we would meet next week at the latest.

Representative CURTIS. To get this in the context of why I thought this was a serious matter, I think, although the committee has not filed a report, it was the sentiment of the committee after these hearings that if there was lack of coordination which might be due to communication, and the Quadriad seemed directly to be that instrument of Government that would be related to the problems of inflation, and certainly monetary policy and debt management, that at a time when inflation is, quoting the President in his economic report, the major concern, that this had not been improved and developed further after the hearings in December. On the contrary, it seemed that it has loosened up, if anything.

That is what is concerning me.

Secretary FOWLER. I think that is a misapprehension. I think the same degree of communication and coordination that occurred before the Federal Reserve action will continue. As you know, the President indicated publicly, both in his statement and following the

announcement, and at the meeting at his ranch on the following Monday, that it would be his firm intent, as it is the firm intent on all of our parts—and I am sure it is on the part of Chairman Martin—to continue to effect coordination.

This morning my use of the word “coordination” was in a completely different context. I have no fault to find with the practice and exchanges that have characterized the situation—both before and after I took over as Secretary of the Treasury.

Representative CURTIS. Well, at least we filled out the record. I, of course, have drawn—and I do still draw—some strong conclusions along the line I expressed.

I cannot help but feel that lip service is being given to this problem of inflation without the real action and the results that must occur. Of course, you differ on that.

The other things I wanted to try to clarify are the effects of the guidelines. Representatives on this committee have written and urged the chairman of this committee to hold hearings on the guidelines, just as we thought the committee was going to hold hearings with the Quadriad present, not just the Chairman of the Federal Reserve Board, on this other matter.

Now, the effect of the guidelines in this present situation is quite important because it has been used, as near as I can see, as a means to control prices in the industrial area.

The question immediately comes to my mind with the Consumer Price Index going up the way it did in December and the Wholesale Price Index, as well. The fact that industrial prices did not go up indicates that undoubtedly the administration was successful in applying controls through the guidelines in this area.

And this to me is a clear indication that you are dealing with strong inflationary forces—the strength that you had to use in order to apply the steel price guidelines, as well as in copper and aluminum. I hope we will get into this area, but I want to pose these questions and perhaps leave the record open for your response to them. I would like to raise the question of whether or not the use of stockpiles was improper, illegal, and whether or not there was an illegal use of procurement practices by the Department of Defense, whether or not the antitrust laws have been violated, and what has happened to small business in the process of dealing with the big units and other objections to the methods used in bringing about this kind of selective control.

I am just raising the questions that come to my mind that we need to get into in order so understand this.

This leads, of course, to the point that I think you have made that the administration does not agree with those who propose that the administration come forward now with a program of enforcement which contains “harsher restraints” on the economy than those now in effect or proposed in the budget message.

And I assume that these harsher restraints referred to are possible wage and price controls.

Am I correct in that assumption?

Secretary FOWLER. Harsher restraints, I think, as particularized in the last paragraph of my statement. I assume that those who are dissatisfied with the current arrangements are presumably calling for



increased tax rates, direct price and wage controls, and much tighter monetary restraint.

Representative CURTIS. That is why this becomes pertinent because in order to understand whether they are harsher measures we have to examine what is being done now, which up to now we have not.

I, myself, would much prefer, if we are going to have price controls, to have them by law and not by selection on the part of the administration at whatever place the administration seeks to apply them, so I would perhaps quarrel with your term "harsh."

Whether or not we need price and wage controls, is the basic question. It is a surprise to me to find that the administration, having exercised them in the area of industrial prices, has not requested any legislation to do this by law.

Secretary FOWLER. Obviously, I disagree 100 percent with your characterization of what has been done as the exercise of Government price controls.

These are guidelines; they are not law. The Government does not have direct wage or price control authority. I think it is clear that observance across the country, to the degree there has been observance, is a voluntary matter on the part of business and labor leadership.

Representative CURTIS. My time is up at this time. My only comment would be that this is the area we need to investigate because certainly by the press reports and elsewhere it looked like some other powers of Government were being used than sweet reason, in the steel, copper, and aluminum situations.

Secretary FOWLER. Congressman Curtis, I can speak for myself. I have employed sweet reason. You can explore that as long as you want and will find that to be the case.

Chairman PATMAN. I think it is my time now.

Mr. Secretary, I want to commend you for doing everything in your power to stop inflationary price raises. I don't care how you do it so long as it is a legitimate method and I know you would not use any other method. I think it is all to your credit to try to stop them as they spring up, although price controls and wage controls are difficult to enforce; and we know that.

Therefore, we must postpone controls as long as we can until there is such a need for them there will be universal opinion in favor of them. I hope we don't reach that stage.

I am really surprised at our Republican friends—the "loyal minority" they now call themselves, I believe.

Representative CURTIS. Loyal opposition. [Laughter.]

Chairman PATMAN. Oh yes, loyal opposition. I believe in two strong political parties in this country. But anyway, the loyal opposition in 1946, who had not been in office in a long time, finally were elected because they were fighting against any kind of controls and regulations.

You know, the war was over and people had plenty of money in their bank accounts. They had been waiting for years to buy durable goods—automobiles, radios, televisions, and everything else in the durable field—and they were really anxious to have all price controls off. The 80th Congress was elected solely on that issue—to get rid of all controls. We got rid of them too fast, as we found out later. Now we find the same loyal opposition coming in fighting for controls—

Representative CURTIS. Oh, no—you misconstrue, Mr. Chairman—  
Chairman PATMAN. They are advocating controls.

Representative CURTIS. Mr. Chairman, would you yield on that?  
Chairman PATMAN. And the loyal opposition had better watch its

step—

Representative CURTIS. Will the chairman yield?

Chairman PATMAN (continuing). Because they will continue to be  
the minority party.

Representative CURTIS. Will the chairman yield for a correction?

Chairman PATMAN. I do not think we should have a permanent—

Representative CURTIS. Will the gentleman yield?

CHAIRMAN PATMAN. I yield to the gentleman.

Representative CURTIS. Obviously, I have been misunderstood—

Chairman PATMAN. Yes; I am referring to you. [Laughter.]

Representative CURTIS (continuing). In my questioning. If you  
assume I was urging controls, you are mistaken. I simply said if  
there are to be controls—

Chairman PATMAN. Now, wait just a minute.

Representative CURTIS. I happen to be very strongly opposed to  
them because I think there are better remedies.

Chairman PATMAN. But you were criticizing the administration  
for stopping these inflationary price increases and you said they  
ought to do it by law. Is that not advocating controls?

Representative CURTIS. I said if they are going to do it. I am  
not saying they should have done it at all, but we can debate this  
later.

Chairman PATMAN. You are advocating controls. Now, this loyal  
opposition party was elected for the first time in many decades,  
you might say, in 1946, and went into office fighting all controls.  
They got into office that way temporarily. Now, here they are in  
1966, in a campaign year, criticizing an administration for doing  
everything that is honorable and legitimate to stop these price in-  
creases.

Representative CURTIS. How do we stop them?

Chairman PATMAN. We saw the aluminum price increase stopped;  
we saw the copper price increase stopped. There are many cases  
you don't know about where the use of the power of persuasion stopped  
price increases. [Laughter.]

I do not object to it. I am all for it and I commend the adminis-  
tration for it and I hope they keep it up. It is the best thing in the  
world for the country because we do not want inflation.

If we have a bad inflation in this country, it will have started Decem-  
ber 6. That is when the inflationary plugs were pulled out. Now  
we have to stop inflation, which was caused by the Federal Reserve,  
the other pressures were the result of ordinary expansion, but the  
interest rate increases were inflationary. If we have really ruinous  
inflation it will be because of the Federal Reserve's action of Decem-  
ber 1, 1965, which came at the request of the Federal Reserve Bank of  
New York. They sent a telegram to the Federal Reserve Board at  
4:01 p.m. on December 2 and in effect said, the big banks are hurting,  
they have to have something done; they have to have higher rates.

They have \$16½ billion in certificates of deposit and cannot renew them, cannot roll them over at the present rate and we have to have a good rate. Make it high; make it way up there. And the Federal Reserve accommodated them, 5½ percent; a raise of 37½ percent. That is 10 times the guidelines; 10 times the guidelines. [Laughter.]

Representative CURTIS. Why do you not ask the Secretary if he agrees with what the Federal Reserve did on the economic base?

Chairman PATMAN. I am firmly of the opinion that they did the wrong thing. I am really disappointed in the Fed. They have doubled the rates in the last 15 or 20 years on long-term bonds, absolutely doubled them. We fought a war with short-term rates of three-eighths of 1 percent, down as low as one-eighth of 1 percent, and now we are paying 4½ percent, and 4.60, and 4.75.

It is absolutely disgraceful, and the Federal Reserve is charged with the obligation as our fiscal agent to treat the country and the taxpayer right.

They have taken advantage of their position; they are not protecting this country. They are going in the opposite direction; they are protecting the big banks as they did in December; but they are not protecting the taxpayers, otherwise they would have to keep these interest rates down.

Senator JAVITS?

Senator JAVITS. I think I have had my turn.

Chairman PATMAN. Senator Proxmire?

Senator PROXMIRE. I have just a few brief questions.

Mr. Secretary, could you clarify a technical problem here? I do not know if this is within your jurisdiction, but as I understand it, the administration has asked for \$10½ billion for Vietnam. That has not been translated to my knowledge into the various levels that have been projected to the troop commitment to Vietnam, 300,000, 400,000; these have been mostly congressional statements, as a matter of fact, that we plan to have 300,000 to 400,000 troops over there.

Do you have any idea of what the administration assumes in their 1967 budget, could you tell us?

Secretary FOWLER. No, I do not. That information has not come to me; perhaps the Director of the Budget would be in a position to answer that question—although I do not know that he would be. In any event, it is completely beyond my realm of knowledge.

Senator PROXMIRE. It may be helpful to the Congress if we could have some kind of firm knowledge on that. There has been one excellent article I saw just 2 days ago indicating that the full expectation now of the administration was 300,000 troops in Vietnam, that under all the circumstances considering the fact that the construction forces would be withdrawn, having established bases and built what we had to have over there and be replaced by combat troops, that because of the technical kind of fighting expected to be done over there 300,000 would be enough, but able spokesmen in Congress, as I say, have given all kinds of other figures.

Secretary FOWLER. To the extent that this matter is going to get into the public domain, it probably would come up in connection with the hearings on the supplemental appropriations and the hearings on new obligational authority. As you undoubtedly know, these requests cover fiscal 1966, fiscal 1967, and on some long leadtime items fiscal 1968.

Senator JAVITS. Would the Senator yield on that point?

Senator PROXMIRE. Yes.

Senator JAVITS. I wanted to be sure we got the precise answer this morning. I asked the Secretary whether he could assure us that whatever the dimensions of the administration's program for Vietnam were that they were incorporated in the budget, and that the estimates which we were being given with respect to deficit, expenditure, et cetera, were based upon whatever the administration had in mind for this coming fiscal year in respect to Vietnam following the end of the bombing pause and I understood he said, yes.

Secretary FOWLER. That is correct.

Senator PROXMIRE. I understood that, too.

It is also made, as I understand, on the more pessimistic assumption that we will not have peace by 1967.

You very generously suggested that Congress might consider the type of tax increase that we would need in the coming year if we find that inflationary forces do increase.

I wondered if you could confirm what I have gotten from a competent staff member here on the effect of taxes that—the taxes which are the most deflationary—that is the most helpful in combating inflation are the more regressive taxes.

In other words, the social security tax is very deflationary. Also very deflationary would be an income tax that hits the low-income groups an excise tax on necessities; whereas, on the other hand, the less effective anti-inflation taxes are the increases in income tax for the high-income groups, excise tax on luxuries, taxes of that kind which would affect income which is not spent for consumption items and would more likely be saved?

Secretary FOWLER. I think that is a pretty black-and-white statement. I believe if you assembled a group of competent fiscal or tax economists to discuss the matter you would find considerable area of debate. It is not a simple problem.

Senator PROXMIRE. In general, though, does not that principle apply?

Secretary FOWLER. I think a good deal would depend on the diagnosis of what it is you are trying to do. Whether you are trying to dampen, for example, longer term investment or whether you are trying to just dampen immediate consumption.

This depends on where the shortages are—what the problem you are trying to deal with is.

Senator PROXMIRE. If you are trying to dampen demand then certainly a tax that would hit the income that is spent would be a more effective tax and a tax that would hit the income that is saved.

Does that not follow?

Secretary FOWLER. Yes, but I doubt that you could as a practical matter achieve the effect you wanted by limiting it to, let us say, a given income category.

Senator PROXMIRE. Senator Gore, who as you know was an opponent of the investment credit, has introduced a bill to repeal the investment credit which he calls a specially inflationary tax cut.

At the time the investment credit was sold and since then the economists and critics have said this is one of the most dynamic forces in our economy, this has persuaded business to invest as per-

haps no other tax reduction of a comparable magnitude has in recent years, and certainly one of the dynamic elements in our economy is the excellent increase in business investment.

Now, on the assumption that we might move into a very inflationary period does it seem logical that this is a tax that might be considered for at least modification.

Secretary FOWLER. It seemed to us from our analysis, and we studied this matter very carefully during December, that repeal of the investment credit is not suitable as a short-term restraining factor. I developed that point briefly this morning.

The other side of the coin is that we feel the investment credit is a sound long-range measure for the kind of economic problems we had 3 or 4 years ago when it was introduced, as well as the problems that stretch out ahead of us.

Senator PROXMIRE. May I just interrupt to say I agree with that, but it also lends itself rather neatly to modification; in other words, the 7-percent investment credit could be cut to 5 percent, 4 percent, whatever seemed to be appropriate. If the feeling on the part of the administration is that we ought to discourage investment at a certain time why would it not be logical to do that maybe on a temporary basis, maybe for a year?

Secretary FOWLER. As I tried to explain this morning, the tax credit is only claimed at the time a project is completed. Therefore, if you played fair with people who already had projects underway, you would not have much effect on the volume of investment currently underway or just short of being underway. The impact would be on investment projected to be placed in service beginning sometime in 1967 or 1968.

The long leadtime, and the long delayed impact of a change in the credit, would give us very real concern if the purpose of the change was to dampen investment. The question raised is whether or not there is not a more desirable and immediate way of accomplishing the result.

For example, an obvious alternative is the corporate tax rate itself.

Senator PROXMIRE. May I just ask, the corporate tax rate itself would be primarily anti-inflationary to the extent that it is shifted to the consumer rather than—if it is not shifted, if the stockholder pays it, then it would be much less.

Secretary FOWLER. Then you get into the endless argument that we always have between economists—what is the real effect of the corporate income tax. This is not a simple black and white question. That is why I suggested that public examination of the various options and alternatives by various groups and individuals with informed opinion would be useful and informative to the Congress, as well as the Treasury.

Senator PROXMIRE. This week the national foreign trades council balance of payments group consisting of 40 financial specialists of leading U.S.-international companies made a highly optimistic report on our foreign trade situation.

They estimated it would improve by 10 percent; they estimated that exports would increase substantially more rapidly than imports, although both would go up quite a bit, but their estimates of our balance of payments deficits ranged from half a billion dollars, to \$1.2 billion.

When Chairman Ackley of the Council of Economic Advisers appeared before us he only stated that the administration had the objective of a balance of payments balance, that was their goal, but settled for what he called, "Expecting further improvement."

Now, you give us by far the most optimistic report we have had, it is mighty encouraging but I wonder on what basis yours is more optimistic than the private experts and more optimistic than the rest of the administration may be.

Secretary FOWLER. I would have to study the National Foreign Trade Council analysis and determine where their prognosis is less optimistic than ours, if you want to put it that way.

Senator PROXMIRE, I would like to say, however, that in all of this I hope the words "optimistic" and "pessimistic" do not get too much play.

This is the kind of business, as I indicated to Congressman Reuss this morning, where you frequently have to adjust during the course of a year. You just cannot see the pattern ahead. All I can say is that, given the circumstances summarized on page 14 of the Council's report, we felt that it was reasonable to expect equilibrium from the program we designed. However, I would be the first to say that there have been expectations in other years, and our results could fall short of our expectations.

Senator PROXMIRE. Have you broken it down into detail as to precise areas of where the improvement would be?

Secretary FOWLER. Oh, yes.

Senator PROXMIRE. Where is that available?

Secretary FOWLER. Congressman Reuss asked me for information about it this morning. It is not public and we have not made a practice of making it public. It gets you into endless controversy—you predicted that such and such would happen and now it has not happened.

It is not a prediction. It is just trying to use judgment.

For example, I will give you one instance—

Senator PROXMIRE. You have been specific. Very few witnesses would be willing to do what you have done; that is, to give us a range of only half a billion right around the balance.

Secretary FOWLER. On the trade surplus, for example, we assumed that the trade surplus would be around \$6 billion.

The underlying logic was that in 1964 the surplus had been \$6,700 million, and in 1965 it should be in the neighborhood of \$5 billion. At the time we were making our decisions we felt there were a number of special factors that worked against the trade surplus in 1965 that we did not think would be repeated in 1966. Evaluating the absence of those particular factors, and laying some stress on the outcome in the third quarter which was nearest the time of decisionmaking, we felt that \$6 billion was a reasonable estimate.

That could prove to be wrong. It could be too low or too high. In each of these areas we tried to analyze the outlook.

Senator PROXMIRE. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman PATMAN. I believe Mr. Curtis wants to ask a few more questions.

Mr Curtis, you may proceed, sir.

Representative CURTIS. I have three general areas in which I wanted to ask some specific questions.

First, the CED in their recent report recommends various reforms, among other things that the President have power to change expenditure levels, particularly in the area of freezing expenditures.

I sat in on a colloquy with several previous Directors of the Bureau of the Budget and others and it seemed to be the consensus that the President already had that power. I certainly think he does and think he should have, as well as the power to accelerate expenditures. But this leads to the point that a \$99.7 billion expenditure level for fiscal 1966 was the figure you gave to the Ways and Means Committee toward the end of May when we were discussing two items, excise tax cuts and the debt limit.

Now, in the budget message in January 1966, this figure is raised to \$106.4 billion, which I point to simply to demonstrate that the President not only has this power, he exercises it. I happen to think that the President should have this power. But it creates some serious problems on the other side of the ledger, and this is what I want to direct attention to.

The deficit that was given to us for fiscal 1966 in the January 1965 budget was \$3.9 billion.

Secretary FOWLER. I think that figure was \$5.3 billion for fiscal 1966.

Representative CURTIS. Fiscal 1966. I think I am right, Mr. Secretary, I just checked it, but—

Secretary FOWLER. Last January, as I recall it, the initial figure was \$5.3 billion for fiscal 1966. Then in the hearings you refer to because of an increased rate in revenue projected, I revised that estimate to \$4.2 billion around June 30.

Representative CURTIS. I will refer to it, page 7, the budget in brief, fiscal year 1966, page 7, a chart shows Federal receipts \$94.4 billion. It goes on to give the total receipts from public, 123.5; budget expenditures, 99.7; working it on down, you have a \$3.9 billion deficit which is the figure I was referring to.

Secretary FOWLER. I cannot—

Representative CURTIS. This is fiscal 1966 budget, Mr. Secretary; I have it right here because I want to be sure we agree.

Secretary FOWLER. Are we talking about the cash budget?

Representative CURTIS. In this instance I was.

Secretary FOWLER. My figures, Congressman Curtis, had reference to the administrative budget.

Representative CURTIS. Take the administrative, I think it is about the same, and you can compute it right from the—

Secretary FOWLER. Well, the 1966 estimate was \$94.4 billion for administrative budget receipts and \$99.7 billion for administrative budget expenditures—which is the \$5.3 billion that I had reference to as the original estimate of the deficit.

Representative CURTIS. Then we have reconciled that. I was using the receipts deposit.

Now the point is, because I am getting over into the field of debt management, in the budget message of 1967 this figure is now \$6.9 billion.

Secretary FOWLER. Yes.

Representative CURTIS. An increase of \$3 billion.

Now, directing attention solely to the——

Secretary FOWLER. An increase of——

Representative CURTIS. \$3 billion—\$3.9 to \$6.9 billion.

Secretary FOWLER. You are going to talk about the cash budget.

Representative CURTIS. Yes; as I say, I am getting into the problems in the field of debt management. The primary question which I directed to Budget Director Schultze is, in these months we are presently in, this will cause heavily inflationary developments, in fiscal 1966. He did not like the choice of words or he did not agree; I do not know which. I would like to ask you if you do not feel that in the present economic climate of a low employment rate and high use of plant capacity that this increased deficit is a real inflationary force that has been interjected here?

Secretary FOWLER. I would not characterize it as an inflationary force, but the additional expenditures for Vietnam undoubtedly began to be felt in the fall of this year. We were simply not in a position to estimate that by June 30 of this year the additional Vietnam expenditures would have amounted to \$4.7 billion. Now, that is a substantial additional stimulant to the economy, which happened to come at about the same time there were substantial cash outlays to the public as a result of the social security-medicare bill. It also coincided with the impact of the excise tax reduction effective July 1.

Representative CURTIS. You are stating the reasons all right, but the net result is that this was, I would argue, inflationary. I would even say highly inflationary under the circumstances. But the point I am getting to, and the one area where in your supplemental statement here or your basic statement you, I think, do not direct attention to, is the possible ways of coping with this increased demand through expenditure cutbacks.

In other words, the Executive could have frozen the equivalent amount by which you increased the expenditures for the Vietnam war if he chose, but he did not choose to do it.

Secretary FOWLER. If the Director of the Budget were here, and I should be very careful about stepping into his province, I think he would probably tell you that the way in which our financial system operates there are a large number of expenditure items—I have heard the figure 80 percent—in which there is literally no flexibility as far as reducing them is concerned. To concentrate a compensatory reduction of \$4.7 billion in the thin slice where there is some flexibility would wreak the type of havoc wreaked in times past. I believe one particular instance, which I do not need to go into in detail because it is a fairly sore recollection——

Representative CURTIS. It is not to me.

So, I think you are referring to the time when we enacted the debt ceiling legislation which squeezed the Treasury a little tight, but it——

Secretary Fowler. It was 1957——

Representative CURTIS. 1957, but, Mr. Secretary, in the 1967 budget the President did not hesitate to cut back—I was trying to get the exact figures but it is something like this, about a \$4.6 billion cutback, and increased \$5.2 billion in nondefense areas to give a net increase in the 1967 budget of \$600 million. So there was a \$4.6 billion cutback



in the 1967 budget expenditures, but I do not find anything of this nature in the 1966 budget.

All the attention has been directed, maybe not all, but a great deal to the 1967 budget when our problems right now concern the 1966 budget.

Secretary FOWLER. It is my understanding, Congressman Curtis, that economies were effected in the program for fiscal year 1966. This is an area in which the Director of the Budget is far more competent than I, but economies in the neighborhood of \$1 billion were effected in the 1966 budget. However, those economies were canceled out because Congress, in its wisdom, chose to enact civilian pay increases and military pay increases which far exceeded the recommendations of the administration.

Representative CURTIS. The military pay, Mr. Secretary, but not the civilian.

Secretary FOWLER. Yes, the civilian pay as well.

Representative CURTIS. I think in the statement there you will find that he says that this stayed within his guidelines.

I did not think it did. I think the record will show that he did say that the civilian aspect was within it.

Secretary FOWLER. My information is that—

Representative CURTIS. I voted against it—

Secretary FOWLER. You were one of the six heroes on that issue, as far as I am concerned.

Representative CURTIS. On the other hand, I think the net result was that the President did state the civilian was within the guidelines. I agree with you on the military, but this is a detail.

Secretary FOWLER. Could I insert in the record a number of items I call legislated expenditures that could not be avoided which more than cancel out the savings effected in the 1966 budget?

Representative CURTIS. What I was getting to—I will have to come back to it because I see Senator Miller is here.

What is going to be the impact on marketing of an additional \$3 billion of Federal debt, that is over and above the \$3.9 billion, now up to \$6.9 billion?

And when I have time I will come back to that.

Secretary FOWLER. I will supply that information for the record.

(The following material was subsequently filed by Secretary Fowler for the record:)

The cash budget for fiscal year 1966 was originally projected as a deficit of \$3.9 billion. This compares with the revised projected deficit of \$6.9 billion contained in the January 24, 1966, budget message of the President to the Congress. As indicated below, because of the seasonal pattern of Treasury receipts and expenditures, this \$3 billion change makes little difference in the market impact of Treasury operations in the current fiscal year. It does make a difference in fiscal 1967, but by then we expect to have the benefit of tax measures recently recommended, and again Treasury financing is not expected to cause any unusual market problems.

A year ago it was estimated that there would be a \$5.3 billion administrative budget deficit for fiscal year 1966. It was also estimated at that time that there would be a net addition to the marketable debt of \$5.5 billion. The current estimate of the administrative budget deficit is \$6.4 billion, \$1.1 billion more than the earlier estimate. Actually, a higher than anticipated beginning cash balance along with greater than anticipated trust fund receipts, subsequently invested in special issues, served to reduce the marketable debt change to only \$1.6 billion instead of the \$5.5 billion originally estimated.

In the first half of the current fiscal year the Federal Reserve System has increased its holdings of Government securities by \$1.9 billion, more than the expected marketable debt increase. During this same period Government investment accounts added over \$1.1 billion to their holdings of marketable Government securities. Consequently it is quite likely that there will be a significant reduction in the amount of publicly held marketable securities outstanding by the end of this fiscal year.

The additional cash needs referred to in this question center primarily in the second half of fiscal 1966, at which time seasonally high tax receipts will offset the extra-cash-need-and-hence-result-in-little-or-no-additional-borrowing-in-this-fiscal-year. While there will be a heavier borrowing requirement in the earlier portions of fiscal 1967, as a result of the larger deficit in this current fiscal year, we would expect that for fiscal 1967 as a whole there will be an actual decrease in total marketable debt outstanding—provided of course that the current tax recommendations are put in effect.

While the Treasury's cash requirements might exert pressure on the money markets during short-term, seasonal financings, it seems clear that the overall debt management operation has not been a dominant market factor and it is not likely to become one in the foreseeable future.

The expenditure target for fiscal 1966 was fixed last January at \$99.7 billion. Additional expenditures of \$4.7 billion result from the accelerated military activity in Vietnam. In addition there are unavoidable expenditures which could not have been anticipated in the original estimate. These include \$740 million of military and civilian pay increases in excess of Presidential recommendations, an additional \$288 million in veterans benefits, primarily the effect of new laws, increased compensation, pensions and death benefits, a \$500 million increase in interest charges on the debt, \$500 million of increased space expenditures, \$392 million of increased expenditures related to agricultural commodity programs, and \$164 million of Post Office expenditures resulting from heavier than anticipated mail volume. These alone will more than wipe out reductions of about a billion dollars in contingency allowances and other programs' anticipated expenditures.

Representative CURTIS. I do not like to do this. But could I pose the questions and let him answer them for the record?

Chairman PATMAN. Yes.

Representative CURTIS. May I state the questions for the record?

One is that point. Another point is, What is the impact in the private capital market of \$3.3 billion of other Federal assets that are to be sold in the private sector.

(Department's response was later submitted and follows:)

Asset sales, like direct Treasury borrowings, tend to draw funds out of the credit markets, and as such they have the broad and general effect of augmenting market demands for credit. The degree of market impact depends on a variety of factors, including the type of asset being sold (the nature of the underlying credit, the maturity, and the negotiability of the asset), the means employed in selling the asset (whether "on tap" as the market demands it, or through underwriting groups, for example), and the market conditions at the time the asset is put up for sale.

Some asset sales proceed without discernible market impact—notably those that are relatively small in size and involve placements of securities away from the central money market (where competition tends to be more keen). The sales likely to have greater market impact are those of large magnitude, closely competitive with a variety of other investment possibilities appealing to large and relatively sophisticated investors.

The particular impact of asset sales thus far in fiscal 1966 cannot be disentangled from all the other factors affecting the credit markets. If these sales had not been made, and if as a result direct Treasury borrowing had been greater, it is not obvious that credit markets would be significantly different from what they are today. The degree of private participation in the Federal credit programs would be less if those sales had not been made, however, and that is their principal justification.

Representative CURTIS. Getting over to the question of your supplemental statement of the various points that you raised as to how the administration might meet the problems of the inflationary forces, I notice controls are ruled out, an opinion which I happen to share with Mr. Patman. I do not want to see them. I simply said if we are going to have controls I would rather see them by law rather than, as I regard it now, by men.

You do recommend the use of fiscal policy in the area of taxes and then come along and say you will use it if it is necessary. I would rather see tax raises than more in the debt management area, but I would like to have whatever comments you would make as to the choice between putting more in the area of debt management and less in increased taxes if this were to come about.

(Material which follows was subsequently received from Treasury Department:)

We would expect, as events unfold, that if further measures are needed to deal with what the President referred to in his budget message as "unforeseen inflationary pressures," a coordinated set of Government financial policies would be employed. The principal concern of the Treasury in such an effort would be with fiscal policy. Tax policy would be high on the list of areas to be scrutinized. We expect that, in the context hypothesized here, the monetary authorities would also have their policies under careful review.

Treasury debt management would also be expected to make a contribution, although past experience would suggest that relatively greater reliance would be placed on the fiscal policy side. The U.S. savings bond program, of course, is a part of Treasury debt management, and an intensified sales effort in this area should be part of any stepped up anti-inflationary program that may be required.

Broadly defined, "debt management" would also include management of Federal financial assets, including programs to sell those assets or sell participations in them. We would not consider this to be an area that is readily adaptable to possible counterinflationary programs, however. Plans for asset sales have been developed in the context of the desirability of enlarging the role of private financing of the various Federal credit programs—with an eye, at the same time, to the capacity of the market for absorbing such asset sales in an orderly manner. Rather than use the asset sales program as a means of affecting general credit market conditions it would seem preferable to achieve general credit market objectives through the coordinated use of overall monetary policy.

Representative CURTIS. I think you seem to rule out further monetary policy, but I am not sure how you feel.

Secretary FOWLER. No; that is just not in my province.

Representative CURTIS. You do not comment on that?

Secretary FOWLER. Yes, sir.

Representative CURTIS. But the other area is selling off capital assets and this has been recommended and I am pleased to see it for those reasons. But the real, the fifth area, is expenditure reduction which to me is the way to go ahead. I wanted to pose this as the alternative which I feel that the administration has not really dealt with. But this is really not, I know in the province of the Secretary of the Treasury, but you have to deal with this the same way Ways and Means does because if they go on the assumption they are going to spend this way then your Department has to figure out how we can finance it.

And, now the final area that I am most anxious to get some remarks on. I wanted to first quote to you—and I will not read this entirely—

on page 151 of the President's Economic Report is—well, I can read it quickly.

"Nevertheless, if a deficit"—we are talking about international balance of payments—"continues too long or becomes too large, the strength of the country's currency can be impaired. There is, in fact, an absolute limit of any country's ability to continue in deficit; eventually it must run out of reserves as well as borrowing capacity."

I think you would agree with the statement, I want to be sure of that, however.

Secretary FOWLER. Yes.

Representative CURTIS. Now, what I wanted you to direct attention to, in light of the gold outflow of \$1.7 billion, I think it is this amount for 1965, is why in your judgment have we not reached this point?

It seems to me this describes just about where we are.

Secretary FOWLER. In my opinion, my statement answers that, but I will supply additional answers.

It is briefly, that a dominant part of this gold flow came in the first and second quarters when there was an apprehension around the world about our balance of payments—the effect of the voluntary program became clear by the end of the second quarter and allayed this concern.

(The following material was later supplied:)

The attached table shows that, of the total decrease in our gold stock in 1965, \$259 million was accounted for by our subscription payment to the IMF and \$118 million was accounted for by sales of gold to domestic users. Net sales to foreign countries amounted to \$1,288 million, of which \$811 million took place in the first quarter and \$299 million took place in the second quarter.

These large gold outflows in the first half of last year were attributable in great part to the redeeming of dollars acquired by foreigners in 1964 and in the first quarter of 1965, before our voluntary cooperation program became effective. You will note that net gold sales to foreign countries in 1964 amounted to only \$36 million, even though in that year our balance-of-payments deficit on the liquidity basis was more than twice the size of the deficit in 1965. Thus, there was obviously a lag factor which affected our gold sales figure in 1965.

You will note that, in the third and fourth quarters of 1965, net gold sales to foreign countries fell to \$95 million and \$82 million respectively. I might also add that gold sales to France alone in the third and fourth quarters amounted to more than the net total for all countries. Thus, our net transactions with foreign countries, excluding France, actually showed a small inflow in the third and fourth quarters of 1965.

*Changes in U.S. gold stock: 1963-65*

[In millions of dollars; decrease (-)]

	1963	1964	1965				
			Total	1st quarter	2d quarter	3d quarter	4th quarter
Net sales to foreign countries	-392	-36	-1,288	-811	-299	-95	-82
Payment to IMF			-259		-259		
Net sales to domestic users	-69	-89	-118	-21	-31	-29	-37
Total	-461	-125	-1,664	-832	-589	-124	-119

NOTE.—Detail may not add to totals because of rounding.

Source: U.S. Treasury Department.

Representative CURTIS. You might mention the amount of demands there are on our holdings.

(Material which follows was submitted by Department in response to Representative Curtis' suggestion:)

It is the policy of the Treasury Department to sell gold to and buy gold from foreign official monetary institutions. The dollar holdings of official institutions of foreign countries in the form of short-term dollars and marketable U.S. Government bonds and notes as of November 30, 1965, amounted to \$13.680 million. Final data are not yet available for December, but our preliminary estimate is that this figure rose to over \$14 billion during December. In addition, there were potential claims by the IMF on our gold stock of \$834 million.

Representative CURTIS. The final question.

Our trade surplus declined by \$1.9 billion last year; how much of this in your judgment, if any, was caused by the voluntary restraints on bank lending and other forms of investment abroad?

Is not the trade linked to investment abroad?

Thank you, Mr. Chairman.

(The following material was subsequently received for the record:)

The Federal Reserve guidelines on bank lending provide that priority is to be given U.S. export financing. We have had no good evidence that exports have been lost by virtue of banks' refusal to provide the financing; but we are investigating this problem further. We are currently tabulating the results of a survey of U.S. exporters which seeks to determine, among other things, the extent to which bank credit requested specifically to finance U.S. exports has been denied by banks. With regard to export financing by nonbank lenders, the Commerce guidelines do not penalize U.S. business firms since in computing progress toward established goals a business firm may use export sales to offset related export credits.

Chairman PATMAN. Any questions you desire to submit the Secretary will answer for the record when he looks over the transcript.

Senator MILLER, do you want to ask some questions?

Senator MILLER. Thank you, Mr. Chairman.

Mr. Secretary, according to the Economic Indicators for January I calculate that we had inflation of \$15.5 billion last year; that that comprises one-third of our increased GNP—increased GNP amounting to \$46.9 billion.

Are you concerned about that amount of inflation?

Secretary FOWLER. I would not characterize that as inflation. The calculation you have reference to, I believe, is the price deflator.

Senator MILLER. That is correct.

Secretary FOWLER. I do not want to argue with you about what is inflation, Senator Miller, but I would—

Senator MILLER. You do not characterize it as inflation? What do you characterize it as?

Secretary FOWLER. I do not think I would characterize price changes upward of the character and scale that have marked recent years as inflation.

Senator MILLER. What would you characterize the adjustment that has to be made to reduce apparent increased GNP to what we call real GNP increase?

What would you call that adjustment if you do not call it inflation?

Secretary FOWLER. Adjustment to price and quality changes.

Senator MILLER. Are we not getting into semantics, Mr. Secretary?

Secretary FOWLER. We are getting into problems of definition. When you use a word like "inflation" to characterize a movement upward in prices, then we get into the kind of discussion economists often get into.

I think the general impression would be that where there is an upward price movement of long, continued duration, or a very sharp one for a short period of time, we would call that inflation.

I would not call an increase in the price level of a percent or a percent and one-half to be inflation.

Senator MILLER. What about 2 percent?

Secretary FOWLER. I would not call that inflation. I think it depends upon the duration and the extent of the price rise. You could have inflation in several forms. It could be a very sharp movement upward. For example, I do not think there would be any debate but that the movement of prices from June 1950 to January 1951 in conjunction with the Korean war was inflation.

But it was—

Senator MILLER. Mr. Secretary, where do you draw this line?

Secretary FOWLER. I do not draw the line. This is a line that economists all over the country draw, Senator Miller.

Senator MILLER. Within a 1-year period of time which I think would be a fair period, 2 percent a year—

Secretary FOWLER. I said I thought  $1\frac{1}{2}$  or 2 percent a year, such as the price movement that characterized 1965 was unwelcome, undesirable, but tolerable, in view of the fact that in 1965, the economy achieved great gains—the rate of unemployment was driven down and the very handsome rate of growth we enjoyed provided an increased quantity of goods and services for the population as well as a larger and more effective industrial and trading capacity.

Senator MILLER. The thing that bothers a number of people I talk to, and I do not talk to the average person as an economist—they are not sophisticated in economics, but they do look at the retail price index. I think they are impressed by the fact that when we see a figure of increased gross national product of \$46.9 billion for last year, that you have to make an adjustment to take a third of it out because of a price change, or inflation as some people call it, and I think they are concerned about the fact that this has been worsening.

I invite your attention to the fact that this adjustment which I personally term "inflation" was \$9 billion in 1963, it was \$11.9 billion in 1964, now it is up to \$15.5 billion for 1965, and while we could get into semantics over whether it is creeping inflation or galloping inflation, maybe creeping inflation would suit you better as a term, it is still meaningful to these people and it is meaningful with escalation clauses in wage agreements.

Secretary FOWLER. Could I also observe that what is also meaningful to these people, at least it has been my experience that it is, that in the period of time we are discussing, let's take the last 5 years, there has, for example, been a 32-percent rise in personal income; there have been jobs created and tremendous numbers of machines

and people have been put to work that otherwise would not be working; people have had a substantial increase in their overall wealth. You have to look at the total, Senator Miller, and perhaps take a little bit of the bitter in terms of a percent or a percent and one-half increase in prices, which by the way, do not take into account improvements in quality. If you had Mr. Donner here, or Mr. Ford, or any of the manufacturers of major items, they would tell you that the item that is today priced a percent and one-half more than it was in 1960 is a lot better quality product than it was then.

So we could go around and around on this subject a long time.

Senator MILLER. Mr. Secretary, I think this is one of the difficulties when you say we have to take a look at the whole picture because the whole picture avoids looking at the hardship that is caused to certain segments of our society.

This increase in the national net income is a nice thing but it is not spread equitably around in all segments of the economy and the President himself said in his message to Congress that inflation is very unjust because it hurts those who can least afford to bear it.

You are very much aware of the fact that last year with our 7-percent increase in social security it still does not give the people involved as much purchasing power as they had in 1958.

I will grant you that over that period of time if you look at the whole picture you are going to find an increase in national net income over and above that amount of adjustment in prices but that is not going to impress this large segment of our old and retired people, about 19 million of them who are the ones who feel the brunt of it because they are not sharing in that national net income.

That is the difficulty that I think we have to face. I am perfectly willing to give credit to increased employment, although I do not think you can necessarily say that you have to have inflation or have to have these price adjustments in order to have this employment increase but so long as we have had the employment increase I think that is fine.

Secretary FOWLER. Senator Miller, I think it might be of some comfort to you that in terms of performance in the price area, which is the subject of our concern, the United States has by far the best record of any industrialized country in the world. As I stated this morning, we fully accept and share your concern about price stability, and one of the clear economic objectives of this administration—or any administration pursuant to the Employment Act of 1946, although it

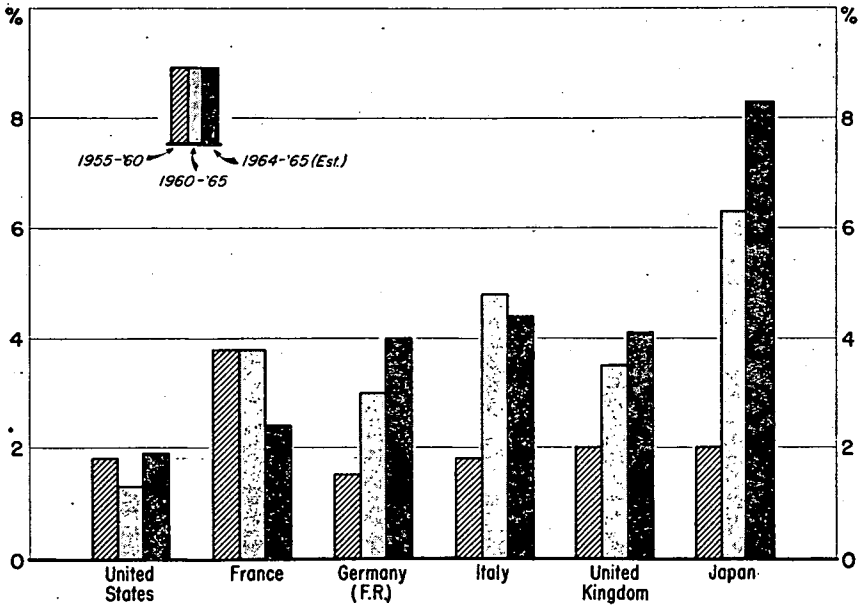
is not explicitly stated—is to get a maximum healthy rate of growth, high employment, and relative price stability. As is depicted on this chart, the annual cost-of-living increases in the United States in each of the periods, 1955 to 1960, 1960 to 1965, and 1964 to 1965, has been far lower than it has been in France, Germany, Italy, the United Kingdom, or Japan. I will also fill in the figures to show what has happened to the so-called diminishing value of our currency as compared to the other countries.

The United States has the best record over recent years of all the countries in the world, except maybe Guatemala, San Salvador, and Ceylon.

(The following material was subsequently supplied by the Secretary of the Treasury.)

Chart 6

**ANNUAL RATE OF COST OF LIVING INCREASE**



Office of the Secretary of the Treasury

Source: *International Financial Statistics*.

FO-408



*International comparison of changes in the value of money*

	Indexes of value of money—			Annual rates of depreciation—	
	1954	1963	1964	1954-64 <sup>1</sup>	1963-64
				<i>Percent</i>	<i>Percent</i>
Guatemala.....	100	97	97	0.3	-0.3
Venezuela.....	100	92	91	.9	1.0
El Salvador.....	100	91	90	1.1	1.8
Luxembourg.....	100	90	87	1.4	2.9
United States.....	100	88	87	1.4	1.3
Canada.....	100	87	86	1.5	1.8
Ecuador.....	100	88	85	1.7	3.9
Belgium.....	100	88	84	1.7	4.0
Switzerland.....	100	85	82	2.0	2.9
Pakistan.....	100	85	81	2.1	3.9
Germany.....	100	83	81	2.1	2.2
South Africa.....	100	83	81	2.2	2.3
Portugal.....	100	84	81	2.2	3.8
Greece.....	100	80	80	2.2	.9
Australia.....	100	81	79	2.3	2.1
Netherlands.....	100	82	78	2.4	5.3
New Zealand.....	100	79	77	2.6	3.3
Thailand.....	100	75	76	2.7	-1.0
Austria.....	100	79	76	2.7	3.7
Japan.....	100	77	75	2.9	3.7
Norway.....	100	78	74	2.9	5.3
United Kingdom.....	100	76	74	3.0	3.2
Philippines.....	100	80	74	3.0	7.6
Italy.....	100	78	73	3.1	5.6
Ireland.....	100	78	73	3.1	5.8
Sweden.....	100	74	72	3.3	3.2
Denmark.....	100	72	69	3.7	3.6
India.....	100	74	65	4.2	11.7
France.....	100	66	64	4.4	3.3
Iran.....	100	66	64	4.4	3.8
Mexico.....	100	62	61	4.9	2.2
Finland.....	100	67	61	4.9	9.3
Israel.....	100	63	60	4.9	4.3
Spain.....	100	57	53	6.2	7.1
Peru.....	100	53	48	7.1	9.9
China (Taiwan).....	100	47	47	7.1	-5
Turkey.....	100	42	42	8.4	1.3
Colombia.....	100	44	37	9.3	15.0
Uruguay.....	100	20	14	17.8	30.2
Argentina.....	100	10	8	22.4	18.1
Chile.....	100	8	6	24.8	31.5
Bolivia.....	100	6	5	25.4	9.4
Brazil.....	100	7	4	27.6	45.8

<sup>1</sup> Compounded annually.

NOTE.—Depreciation computed from unrounded data. Value of money is measured by reciprocals of official cost-of-living or consumer price indexes.

Source: Table prepared by First National City Bank of New York, Monthly Economic Letter, June 1965.

SENATOR MILLER. I think it would be well to have that in the record, but there is one additional thing I wish you would put in the record, Mr. Secretary, and that is our answer to the complaints by some of these countries that the United States has been able to maintain this record at their expense and inflation because of our balance-of-payments deficit.

I am sure you are familiar with the charges that have been leveled at the United States to the effect that we have been exporting inflation to these other countries. Now, what do we have to say about that?

SECRETARY FOWLER. Mr. Deming answers and deals with that question about 2 days a month when he travels in Western Europe, so I defer to him on this.

Mr. DEMING. Senator, I think that those statements have been made, but you have not found very many of them in recent years. Just at the last meeting that I was at on Friday and Saturday of last week, two or three of the representatives said that they thought that was a highly oversimplified presentation, that the inflationary forces in Europe were far stronger from the domestic side than they had been from anything that had affected them by virtue of the American balance-of-payments deficit.

Secretary FOWLER. Senator Miller, I would like to add, that if you examine the rate of annual wage increases in Western Europe countries, you will find that their problem has been, to a very considerable degree, right at home—wage increases have generally averaged, 4, 5, 6, 7, and 8 percent over a period of recent years.

Senator MILLER. I understand that, Mr. Secretary; but I also understand that they started from a lower base, so they are in a much better position to have a higher rate increase than we are with our higher base.

Secretary FOWLER. I have no question about that. I am saying when you go down to the root causes, however, of what they term their inflation problem, I do not accept for one moment that this has been the result of the activity of the United States.

Senator MILLER. Do I understand then that our position, Mr. Deming, is that we have not been exporting inflation to them? That our balance-of-payments deficits has not been a cause for any of the inflation in these countries?

Mr. DEMING. "Any," Senator, I suspect would be a bit too strong. I think—as the chairman of the committee put it—at worst, it was "marginal."

Senator MILLER. I would like to wind up by making this observation, Mr. Chairman.

I think it is all right for the administration to claim the credit for the unemployment situation, reduced unemployment situation; I think it is all right for the administration to claim this increased national net income; but at the same time you're claiming credit for that I think you ought to face the facts on the other side of the ledger and not be so reticent about calling a spade a spade, and not be backward about calling inflation inflation whether you call it creeping or galloping inflation.

It is inflation; this results in increased prices to the consumer; it results in diminishing purchasing power of our currency.

Now, if you are going to claim the credit on the one hand, accept the blame on the other and I think the American people will respond to that.

But, what I find is confusing is that we are not being told all of the facts on these things. All I want to do is get the facts on the table and let the people make up their own minds whether we are doing a good job, a medium job, or a poor job.

Secretary FOWLER. Senator Miller, the figures you have before you in the Economic Indicators, prepared for this committee by the Council of Economic Advisers, in my view indicate there is no paucity of facts or statistics bearing on this question in American life.

I think that our public is the best informed public in the world about the economic facts of life.

Chairman PATMAN. Senator Miller, may I suggest that the Secretary has agreed to answer any questions that we will submit to him, and in view of the fact that we have been going here over 6 hours, except for the lunch period, you may wish to do that.

Senator MILLER. I took an earlier flight because I hoped I might have a chance to greet the Secretary.

Chairman PATMAN. I think everybody has had a pretty good opportunity to interrogate.

Senator MILLER. Mr. Chairman, if I may, I do want to say this, Mr. Secretary:

I think you know I have great admiration for you and the job you are doing.

Secretary FOWLER. It is mutually shared.

Senator MILLER. I do feel this is a characteristic not of yourself but of the spokesmen for the administration generally to be a little bit too leery about accepting some of the bad sides of the picture and —

Secretary FOWLER. Senator Miller, in my own defense, if I may make it, let me say this, I went around the country a little—I am afraid too much—in October and November pointing to the changes in the prices indexes. I was a bit of a Paul Revere in this respect and I do not think there is a difference in our concern with this problem.

To the extent that differences exist, it is in the choice of means to deal with it, and the timing and the circumstances.

Senator MILLER. I think that is so. There is perhaps a difference in the way to attack a problem, but I do think that the problem ought to be stated.

I find too many times articles written by columnists and articles appearing in the press which speak of the threat of inflation; as far as I am concerned, we have inflation.

Now, we can argue whether it is creeping or galloping, but we have got it.

And the threat of more inflation. I know you are concerned about it—

Secretary FOWLER. We have a difference of definition and semantics there that appears to be unbridgeable.

Senator MILLER. Thank you, Mr. Chairman.

Representative CURTIS. Mr. Chairman, in one of the questions I was asking about the expenditure shifts in the 1966 budget. I wanted to make this remark that, looking at the expenditure shifts in the 1967 budget, I have come away with the impression that the reductions are in items over which Congress has developed guidelines of various sorts and controls and the increases are in items where Congress does not have control.

Now, to the extent that you could, in looking over this \$5 billion or so shift in the 1967 budget and the \$1 billion that you saw in the 1966 budget—if you could clarify that aspect, I would appreciate it.

Secretary FOWLER. As it relates to where Congress has fixed a definite program?

Representative CURTIS. That is right.

Secretary FOWLER. Mr. Curtis, I think I had better defer to the Budget Bureau on that question since I am not familiar with the

details in the budget as they affect departments other than the Treasury Department.

Chairman PATMAN. Thank you, gentlemen, very much, particularly Secretary Fowler, for your appearance, and for your testimony.

It will be very useful to us, and it will certainly receive careful consideration from every member of the committee.

Secretary FOWLER. Thank you, Mr. Chairman.

Chairman PATMAN. The committee will stand in recess until 10 o'clock tomorrow morning when we will have another meeting.

(Whereupon, at 4:10 p.m., the hearing was recessed to reconvene at 10 a.m., Friday, February 4, 1966.)

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(NOTE.—Additional materials, consisting of a request by Representative Curtis to Secretary Fowler (and the Secretary's response) to supply for the record the substance of proposals advanced by the United States at the negotiations on reform of the international monetary system, are to be found in the appendix to these hearings, contained in part 3.

(Also in the appendix will be found material relevant to developments in the balance of payments area, consisting of a paper "The U.S. Balance of Payments Deficit in 1965, by Edward M. Bernstein, and questions submitted to Under Secretary for Monetary Affairs Frederick L. Deming from Senator Proxmire and responses to same.)

# JANUARY 1966 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 4, 1966

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

The joint committee met at 10 a.m., pursuant to recess, in room S-407, the Capitol, Representative Henry S. Reuss presiding.

Present: Representatives Reuss and Widnall; and Senators Douglas and Proxmire.

Also present: James W. Knowles, executive director; John R. Stark, deputy director; Donald A. Webster, minority counsel; and Hamilton D. Gewehr, administrative clerk.

Representative Reuss. Good morning. The joint committee will be in order.

This morning we are going to hear from the National Farmers Union on the President's Annual Economic Report.

Mr. James Patton, the national president, is unfortunately unable to be with us because of illness, but he has asked our friend, Mr. Angus McDonald, assistant to the President, to testify in his place.

Mr. Patman, our chairman, is detained at the doctor's office this morning. I hope he will be in later.

Mr. McDonald, we are delighted to have you with us, and will you proceed in your own way?

I note that you have a formal statement which without objection will be received into the record and now we would like to hear from you.

## TESTIMONY OF ANGUS McDONALD, DIRECTOR OF RESEARCH, NATIONAL FARMERS UNION

Mr. McDONALD. Thank you very much, Mr. Chairman.

My name is Angus McDonald. I am director of research for the National Farmers Union. I have been with the organization 18 years and handled matters of this nature most of that period, so I do have some familiarity, I think, with the problems relating to full employment and full employment legislation.

If it please the Chair, I would like to read Mr. Patton's statement. It is not very long.

Representative REUSS. Please proceed.

### STATEMENT OF JAMES G. PATTON, NATIONAL PRESIDENT, NATIONAL FARMERS UNION

Mr. McDONALD. This is a very appropriate time to reflect on the operation of the Employment Act of 1946 and our experiences of the last 20 years relating to our efforts to bring about a full employment economy.

The goal of full employment is shared by all groups and all individuals in all walks of life except those who seek to exploit working

people and fatten on the misery of poverty-stricken individuals who through no fault of their own are unable to obtain jobs.

Although gains have been made in increasing the income of the middle income groups, a review of this law, its shortcomings, and knowledge of our economy gives us a new sense of urgency. From studies of unemployment and low-income groups we know that there is an awareness and an impatience of those in the slums of our big cities and of those below the poverty line in small towns and rural areas that did not exist before.

These millions of underprivileged citizens have heard the words of our President calling for the building of a Great Society. They have seen the light on the horizon symbolizing the possibility of a good life with jobs, education for their children, and an end to race discrimination.

Today the poor are on the march. Decisions reached by this committee and this Congress may well determine whether they will march toward prosperity and the elimination of poverty or toward race riots and a life of bitterness, despair and hopelessness.

I will not recite statistics; statistics which tell the story of our youth who have little hope of finding jobs, and of the middle-aged men and women who have been replaced by machines. Hundreds of thousands of the middle aged will never work again.

It is true that a dent has been made in the proportion of our citizens who are unemployed, but we still have a hard core of more than 3 million and we should not forget that more millions have jobs that do not enable them to enjoy a decent standard of living. Many others are living on social security which provides them with little more than a semistarvation diet.

It should be emphasized that we have come a long way in our thinking about responsibility of our government to supply jobs. The laissez faire, stone age thinking has largely changed. Successful attacks have been made on classical and neoclassical theory which looked on the intrusion of government into our economic life as evil and unnecessary. This theory was largely discredited in the 1930's when the economic machine broke down and the exponents of laissez faire came to Washington, begging their Government to bail them out.

Although progress was made and piecemeal legislation was passed, efforts to plan to avert another great depression were largely abortive. The National Planning Resources Committee was abolished by Congress and President Roosevelt's economic bill of rights was thrown into the ashcan.

During World War II some of us attempted to alert the Congress regarding the problems which would confront us during the postwar period. We believed that the Congress should apply preventative medicine to the unemployment disease. We also believed that full employment was a responsibility of the Government, and that a full employment bill should be passed. We said on April 14, 1944, in testimony before a congressional committee, "I propose \* \* \* the positive goal of the permanent planning of the economy for full employment."

Many others, of course, were thinking along the same line. Economists and Congressmen, many who are here in Washington now, had been studying the problem and had been staying up late nights working on full employment legislation.

Then on January 22, 1945, the eminent chairman of this committee introduced a full employment bill. On February 20, 1946, 13 months later an employment bill was enacted into law. I think this committee and this Congress should honor those legislators and their associates who labored to bring out of the welter of contradictory, inconsistent, and weasel-worded proposals a bill as good as the one finally enacted. This committee and this Congress should also honor Harry Truman without whom no bill would have been enacted.

In the summer of 1945 President Truman was keenly aware of the coming crisis and of his responsibility. On August 15 when the Japanese surrendered, the Nation faced the prospect of 5 million unemployed by November. Economists predicted that there would be 8 to 10 million unemployed by spring.

But the opposition to the passing of the Patman bill was tremendous. Senators Taft, Radcliffe, and Hickenlooper served notice that they would fight to the bitter end against including in the title or the text of the bill the words "full employment."

They disliked intensely any terms which included explicitly or implicitly a Government guarantee of a right to a job any provisions which said slack in the economy should be taken up by public investment and any words in the legislation which implied an "obligation or assurance" by the Federal Government of providing jobs.

Enemies of full employment legislation in the House of Representatives were even more opposed to the chairman's bill. The result was a debacle and the approval of a bill by a congressional committee which was a pale shadow of the original proposal. The result was that Harry Truman, who unlike some others, never lost faith in the American people, went on the air October 30, 1945, and castigated those who had sabotaged full employment legislation.

Out of Truman's efforts and the efforts of thousands of individuals and dozens of organizations, a bill was finally approved which, although not as good as the bill passed by the Senate and the one introduced by Congressman Patman, was much better than no bill at all.

Section II set forth congressional policy in regard to unemployment, the utilization of all resources in the reduction of unemployment, and the promotion of free enterprise.

Section III provided that the President make recommendations to Congress to carry out section II; and section IV set up a Council of Economic Advisers. The Council was also required to make recommendations to Congress.

Although the employment law fell short of what we had hoped for, we have been more disappointed in the lack of activity and recommendations of the Council.

In section II the administration is required to consult with agriculture. For the most part, this provision has been ignored. The Council at one time had quarterly meetings with representatives of all the general farm organizations. These were abandoned many years ago.

Section III has not been fully utilized. Few recommendations have been made which go to the heart of unemployment. The words "free enterprise" occur repeatedly in the legislation. Yet, little attention has been paid to recommendations which would protect

small business, farmers, and consumers from rapacious corporations which are conspiring to fix prices.

Several years ago information regarding collusion and conspiracy regarding secret bids was called to the attention of the Department of Justice and this committee. Yet, so far as we know, very little was done about it. State and Federal Governments at that time purchased by means of secret bids more than \$100 billion worth of manufactured products.

The President's Council must know about the system of price-rigging and suppression of competition. Yet it has taken little notice of it. Lipservice is given to the preservation of competition, but beyond vague and ambiguous statements, the President's Council has failed completely to carry out its function in regard to the fostering and promotion of free competitive enterprise.

The Council has been equally derelict in regard to recommendations it is supposed to give Congress every year. This committee has complained that the President's Council has failed to spell out a broad legislative program which could coordinate and utilize all resources in an effort to prevent unemployment and bring about full employment.

Most of the annual report of the Council has been taken up with self-serving statements which attempt to convince the Congress and all who may read that it is doing an excellent job.

We do not think the Council should accept a 4-percent unemployment figure as satisfactory. And we feel strongly that present policies do not even attempt to set a goal for the utilization of the full potential of the American economy. We do not accept as satisfactory a growth rate of 3.5 percent. To utilize our potential, we must achieve a growth rate of at least 7 to 8 percent.

In regard to agriculture, the President's Council is also remiss. Agriculture is looked on in the 1965 report as a sociological problem. Members of the Council do not seem to realize that agriculture has been subsidizing the rest of the economy for many years. We have spelled out in more specific terms our objections relating to agriculture in a letter to Dr. Gardner Ackley, Chairman of the Council of Economic Advisers, on March 4, 1965. A copy of this letter is attached to the statement.

We recommend that the President's Council be directed to utilize all provisions of the Employment Act, including consultation with industry, agriculture, and labor, as called for in the declaration of policy. We recommend that the committee consider a strengthening of the act as finally written, and that the words "full employment" be reinstated, that the right of all Americans to a job and the responsibility of the Federal Government to assure a job be enunciated.

Finally, we point out that none of the goals spelled out by the President's Council can be achieved unless we plan and work as rapidly as possible for a full employment economy. All agencies, all programs—and that includes, of course, the Federal Reserve Board—all agencies, all programs, as the policy declaration states, must be coordinated; all resources utilized if such an economy becomes a reality.

(The following letter was included in Mr. Patton's statement:)



MARCH 4, 1965.

Dr. GARDNER ACKLEY,  
*Chairman, Council of Economic Advisers,  
Executive Office Building, Washington, D.C.*

DEAR DR. ACKLEY: Our attention has been recently called to an address which you made before an economic group in Chicago, entitled "Economic Problems and Prospects of 1965." We would like to comment briefly on your address, since it appears that it represents a policy statement of the administration. We are in accord with the general views expressed in regard to gross national production and the importance of capital investment as it relates to unemployment. We do not feel, however, that the administration should be satisfied with reducing the percentage of unemployed to 4 percent. We do agree that substantial gains have been made, particularly during the administration of President Johnson.

However, it seems that there are two important weaknesses in the policies of the administration as expressed both in your address and in the report of the President's Council of Economic Advisers. We call your attention to the attached document, which spells out in some detail our principal objections.

The first one relates to agriculture. It appears that the Council has virtually ignored agriculture as an important economic segment of our society and has viewed it mainly as a sociological problem. Agriculture is looked on as a sick industry and not as an industry which has become so efficient that it has flooded the country with surplus commodities. The second objection we have to your policy address as well as to the economic report, is that the causes of declining farm income during the last 16 years have been virtually ignored. It is not necessary, of course, to cite statistics which you undoubtedly are very familiar with. However, I would like to point out that something is seriously wrong when agricultural income declines by one-third over a period of years when income of other segments of our economic society has increased by leaps and bounds. We feel that the cause of this imbalance in our economy is domination of the farm marketplace by great corporations.

During the last 20 years, 8 or 10 national grocery chains and corporations engaged in the processing and distribution of food have taken over the market. The situation has developed to a point where, in most instances, the price the farmer receives is dictated by these corporations. The farmer, in many large urban markets, is completely at the mercy of a few grocery chains and must take what is offered for his products, even if it is below the cost of production.

The remedy, it would appear, would be a rearrangement of our economic society by reducing the area in which these national corporations operate and by strengthening and enforcing the antitrust laws. A partial remedy would be the passage of legislation making it illegal for off-the-farm industries to go into the business of farming.

You are no doubt familiar with the packers consent decree of 1921, which prohibits Big Five packers from going into retail distribution of meat and other commodities. It seems unfair to us that the chainstores may go backward into food processing and production while packers are prohibited from going forward into retail distribution of their products.

For that reason, we favor the passage of a bill introduced by Representative Roosevelt, which prohibits those engaged in food processing from engaging in agricultural activities if their gross sales amount to \$30 million or more annually. There is other legislation which we feel might be helpful. S. 109, sponsored by two Republican and two Democratic Senators, might alleviate the situation somewhat in regard to the activity of corporations. At the present time, farm cooperatives find it impossible to operate in some areas because of black lists set up by so-called vertical integrators. We refer specifically to a situation in Arkansas where a broiler cooperative was completely destroyed.

We realize that it is not the function of your Council to look at the economy in such detail, but we give this as an example as to why farm income has been unduly depressed. We agree with Dr. Keyserling, who was formerly Chairman of the Council, that we cannot have a full employment economy as long as farm income lags way behind the income of those living in cities and towns. We would appreciate any comment you may have on the ideas expressed here.

Sincerely,

JAMES G. PATTON.

Representative REUSS. Thank you very much, Mr. McDonald. I have introduced a bill in this Congress which would permit the Joint Economic Committee to review the wage-price guideposts

suggested by the Council of Economic Advisers and the President, and permit the Joint Economic Committee to initiate congressional action to alter those guideposts if they were found imperfect; and second, permit the Joint Economic Committee to review wage or price behavior which the Council of Economic Advisers considered to be in violation of those guideposts and to threaten national economic stability.

Are you familiar with it?

Mr. McDONALD. I have a cursory knowledge, Mr. Chairman, of this legislation. I might say we are in favor of your bill. I testified on the Senate side in support of Senator Clark's bill, which is somewhat along the same lines. I think it's different in some respects, but we are for any legislation which will implement the Employment Act.

I have suggested here that there are some weaknesses in the act, that it is not as good as we wanted in the first place, but I think, a greater defect has been implementation, and the fact that the President's Council has not cooperated with this committee, has not cooperated with agriculture, has not, in other words, done the things which are explicitly set forth in the act itself in regard to recommendations to Congress and recommendations to this committee.

Representative REUSS. In the testimony of the executive branch it was pointed out that from 1960 to 1965 the real wages, after adjustment for cost-of-living changes, of manufacturing workers had gone up 13 percent, that the pay of professional workers had gone up 14 percent, and that the income of farmers per farm unit had gone up some 30 to 35 percent, and that corporate profits before taxation had gone up in excess of 50 percent.

Are those figures, so far as you know, approximately right? If so, I would invite your comment on the share that agriculture got.

Mr. McDONALD. I think the figures are somewhat misleading. You will recall that the Bureau of Labor Statistics and other agencies, I believe, have a base on which they base their percentages and increases or decreases in the income of various economic groups.

In the 1947-49 period, this was relatively a favorable period for farmers. Farmers were approaching during that period an income which was comparable to the income of those living in cities and towns.

Now a few year ago the base was changed to 1957-59, and that, I suppose, is a good statistical procedure, but the 1957-59 period in which agriculture is given 100 and the other groups 100, and then the increases or decreases, increases based on that, that was a very bad period for farmers. So was 1960, the year you mentioned.

So, that I would say that your 30-percent increase for farm units might give the impression that farmers are very well off now when actually their income was so low during that period that a 30-percent increase per farm unit still leaves them far below the economic position of other groups.

I do not know if I make myself clear on that or not.

Representative REUSS. You do.

Senator Proxmire?

Senator PROXMIRE. Mr. McDonald, I certainly welcome your appearance before this committee. I think it is most important that agriculture be vigorously represented before the Joint Economic Committee. I think low farm income is the No. 1 economic injustice

in America, the fact that our institutions somehow are so organized that farmers have been left out of the tremendous prosperity this country has enjoyed in recent years and I think it is good that you come and call attention to the failure of what I think is otherwise a very successful series of economic policies, but has been an unfortunate failure for years in the area of agriculture.

So, I certainly welcome your appearance.

Now, I would like to ask if you were not struck by the fact that in the 1965 Economic Report there was a section, I think a fairly strong section, on economic concentration?

It was a section that went into some detail to point out the fact that a few large manufacturing companies had a very large proportion of the total production, and they showed how rapidly rising it is.

That in 1947 the 50 largest companies in the country had about 15 percent and by 1962 it was 25 percent; that in 1947 the 200 largest had 30 percent, and by 1962 it was 40 percent.

Now, 1962 is not a very recent year. I would hope they would be able to get more recent statistics, and I am surprised and disappointed that they do not concentrate on this sector, because the farm economy is very, very competitive. It is an almost perfect example of pure competition.

Edward Chamberlin, in his myth-smashing book on the "Theory of Monopolistic Competition," has cited often the farm economy as the one example we have in America of pure competition and perfect competition.

Now, when you are buying in a market in which the goods you buy have come from oligopolistic or monopolistic industry and, therefore, are at an artificially high price, it is most difficult for you.

Do you not feel that the Council should give continuing attention every year, at least, to some comment on the progress that is being made to stem the increasing concentration outside of the agricultural sector?

Mr. McDONALD. Senator Proxmire, we feel very strongly that is the main defect in our economy, the fact that it is not an economy of free enterprise as far as the farmer is concerned in regard to the sale of his products and the purchase of his farm supplies and machinery, because when the farmer goes in, as this has been stated I suppose thousands of times, to buy a tractor or to buy fertilizer, he is dealing with a small group. The price is set some place or other—in Detroit or New York or Pittsburgh—of the tractor and other farm supplies, and he must pay, of course, what is demanded of him.

On the other hand, when he goes to sell his products, he is faced, and the situation now is much worse than it was some 10, 20 years ago, because we have gone into a new phase of monopoly.

The processors, the chainstores, have taken over the marketplace in regard to farm products and no doubt you are familiar with the hearings of the National Food Marketing Commission. They have been holding hearings all over the country. We testified at those hearings and pointed out that we never would have an equitable agriculture or an equitable society unless something was done to alleviate the monopolistic situation or oligopolistic situation—the control of prices of farm products and farm supplies, and in the letter attached to this document we are submitting today, we wrote a letter

to Dr. Ackley last March pointing out some of these things, and that letter, Senator, is attached to Patton's statement here—and pointing that he had ignored this very thing in his report and in a policy speech which he made.

I have not had time to study the 1966 report because of the snow, it has interfered with our work some, but in looking through it, I find that I do not notice much attention is paid to this problem this year.

The Council, I might say in fairness, possibly because of our criticism last year did devote a good deal more space to problems of agriculture.

Senator PROXMIER. Well now, what really troubles me is that looking at this as realistically and practically as possible, I just honestly do not think that there is much hope that we are going to get a great deal of improvement in the economic concentration situation. I hope so, and I think you are dead right to call attention to the situation and fight it, but I feel like a Don Quixote, and I am sure you do to some extent when you tilt your lance at this. Maybe we can arrest it; I doubt if we can reverse it.

It is awfully hard to show there are any economies of scale that would justify anything like the size of our companies, but we are going to have probable domination of the automotive industry by three or four firms or fewer, and we are probably going to have domination in aluminum and in steel and so forth.

There may be some slight modification, there may be some progress and help through the kind of wage-price guideline legislation that Congressman Reuss is introducing and leading, and I think that is a wonderful fight on his part and, of course, I enthusiastically support it. But I doubt if there is going to be the kind of breakup that Brandeis called for years ago and you seem to call for here.

Under these circumstances, you have all the rest of the economy organized pretty much—you have labor organized, you have business, as we have just been arguing, organized well, all in a position to get at least their productivity increase.

On the other hand, the farmers are the one group that are not organized. It seems to me that rather than try and change the other 94 percent of the population, assuming the farmers represent only 6 percent now, in a democracy in which 51 percent can do what they want to by legislation, it seems to me more logical for the people who produce all the food and all the fiber to strive to get legislation that would strengthen their bargaining position, strengthen the Capper-Volstead Act, for instance, and other acts, so they can negotiate and bargain for a fair price for what they produce.

Maybe it is a cruel, tough world and maybe we wish it was not this way, but that's the way it is. Why is it not logical to try to somehow, some way work probably outside and apart from Government; as I say, you are losing your political influence as you lose your numbers, to economically organize so you can negotiate for a more adequate and just price?

Mr. McDONALD. Well, I have several comments, Senator, in regard to what you said.

In the first place, the question arises, I have been asked this question many times, since the antitrust laws do not seem to be effective in

preserving a free enterprise system, why not repeal them? And our answer to that is that things would have been a lot worse.

Senator PROXMIRE. I am not saying why not repeal them. I feel very strongly we should not repeal them. We are having a discussion on bank mergers, as you know. Congressman Reuss is working hard in the House on that, as I am in the Senate, and we are both working hard to save the antitrust laws in that as well as other areas.

Mr. McDONALD. I have followed your thinking on that, but the question is in peoples' minds that, as I said, we think it is much better, even with the economic concentration going on, it is much better to have the antitrust laws and that is one factor.

The Department of Justice, Federal Trade Commission, Packers and Stockyards Administration in the Department of Agriculture do alleviate and prevent the monopolistic situation to some extent.

The other point I would like to make in regard to this problem of economic concentration in industry is that you have a factor of public opinion, you have the President of the United States exerting great influence in regard to prices. You have an instance in the last few years in which President Kennedy forced the steel industry to rescind the price increase.

You have activities or statements by President Johnson in regard to price increases and we think that that is a wholesome factor in our economy and does restrain big industry to some extent from going completely wild.

They have the economic power, they can increase steel prices, their automobile prices and other prices in hundreds of instances. They have the economic power because they are administered price industries and they have the control. Of course, they do not conspire; they have an understanding, where the leader goes we follow the leader.

But they fear that if they go too far, that this committee and the President and other committees in the Congress will act to enact measures which will really put teeth in the antitrust laws, restrain them in other ways.

Senator PROXMIRE. Let me interrupt for a minute to say, that the difficulty is this is a very weak reed for the farmer, the consent of the wage-price guideline at best, if it works perfectly, is that the worker will get the full advantage of his productivity increase, and in some cases, the calculation we got is he will get a little more, but he will get the full advantage of it. And that the way the price aspect of this is regulated, the producer, the man who owns the capital and invests the capital, will get at least the full amount of productivity increase and probably more.

He has gotten more in just about every year since this concept has been enunciated without very much criticism where he has been moderate about it. Whereas, the farmer does not begin to get anything like the full advantage of his productivity increase. He has had the greatest increase by far of any sector of the economy. It is three times greater than the rest of the economy, yet the farmer has gotten almost none of the benefit of his increased productivity.

Farm income—you can testify to this much better than I can—is less rather than more, as compared with what it was 12 or 15 years ago, and farm productivity is 100 percent greater, so that I think if

we rely on this alone rather than developing bargaining power for the farmer so he can somehow negotiate for a better price.

It took labor a long, long time to get in a position to do that. As you say so well, he is going to continue to subsidize the consumer, which is fine for the consumer, but it's rough on the farmer.

Mr. McDONALD. I was just coming, Senator, to a discussion of the problem of the farmer and what to do about him.

Point No. 1 is, we do not believe that farmers can pool their economic resources and demand a price for their products and get away with it. There is one farm organization which feels that they can withhold food from consumers, from the food industry, and get better prices.

Now, this may be true, but this is not a solution of the problem, in our opinion. We believe that due to the nature of agriculture and the intense competition which exists in agriculture that you must use the instrumentality of Government to assist the farmer in gaining what amounts to bargaining power by passage of farm legislation such as was passed last year.

Senator DOUGLAS. On this point the National Farmers Union differs from the National Farmers Organization?

Mr. McDONALD. Yes, sir. We are in sympathy with their efforts and we are glad when they occasionally succeed, but we do not think it is one to solve the problem, not with rapid transportation.

Senator PROXMIRE. The trouble is both of you fellows are relying on something that is hard to get. My time is up and I am just about through, but let me say you have to rely on a diminishing political power which the farmer has just because the numbers are diminishing. You have fewer farmers now and it is going down every year. It used to be many years ago that the majority of the people in the country were farmers.

Up until recently they were a big bloc. The NFO is in a position where the newspapers are against them; business, processor, retailer all opposed. They have an awfully rocky row to hoe. It is a very difficult dilemma, I agree.

I think your discussion of the problems of the NFO, is accurate and telling although I agree with you in your sympathy for their position.

Mr. McDONALD. You mentioned the Capper-Volstead Act, you mentioned it should be strengthened to protect cooperatives. Still another is the passage of legislation which would indirectly give the farmer bargaining power by setting up a fund whereby he could build processing facilities which would be administered somewhat as your electric cooperatives are; factories, canning factories, and even retail centers.

Our national president has recommended that Congress set aside a revolving fund, a substantial amount, so that farm cooperatives can pool their own facilities, process their own food and even sell the food to the consuming public and this, thereby, would provide a yardstick which would protect the farmer and the consumer.

Senator PROXMIRE. My time is up, Mr. Chairman.

Representative REUSS. Senator Douglas?

Senator DOUGLAS. I would like to follow that out. I had thought such loans could be made under the Area Redevelopment Act in

counties where farm income was low and that they could be made to farm cooperatives for the canning of fruit and other products.

Do you know whether the Department of Agriculture has done any of this in the last several years since the ARA has been in existence?

Mr. McDONALD. I do not know of any projects, Senator Douglas, where funds have been used for the building of food processing plants; no. They have used the Area Redevelopment and REA, incidentally, to some extent where electricity was involved and built various facilities.

Senator DOUGLAS. There are Area Redevelopment funds which apply to agricultural regions as well as to the industrial areas and apply where the farm income is relatively low and I had thought that with this power they would carry out some of this work. Now, you say you do not know of any?

Mr. McDONALD. I do not think any such plants have been built with Government funds.

Senator DOUGLAS. You mentioned early in your statement that 8 or 10 national grocery chains and corporations engaged in the processing and distribution of food have taken over the market.

I want to ask now, have they taken over the market as purchasers or do they control the processing plants or do they have contracts, as in chickens with producers under which they furnish the feed and in many cases the capital and the chicken farmer is simply a sort of domestic worker working for them.

How widespread is that? I hear complaints about it.

Mr. McDONALD. I would like to answer your question by giving the livestock industry as an example and the poultry industry as an example.

In livestock, in most metropolitan areas in the United States the leading chain, and there may be three chains in town and in an area, in Denver I think, four or five chains control 90 percent of the distribution of food. It varies from city to city, but in most metropolitan areas a handful of chains dominate the price of livestock, and they do it in this way:

The middleman goes around to the chain procurement man every week and says, "Well, what do you need?" National Tea says, as in Denver, Colo., it purchases 1,500 head a week. He says, "Well, I can give you 500 head, a thousand head. I know some cattle which will meet your specifications." The chains buy on a specification basis.

So the salesman says, "Well, what will you give?" I will give \$28, or I will give \$25, or what-have-you, for a hundred pounds on foot.

So, the man goes back to the livestock—the feeder still has the livestock—the middleman goes back and says, "Well, I can get \$25 for your cattle," or what-have-you and the man says, "Well, I cannot do that. It costs me \$25 and these are very fine cattle."

And the middleman then goes back to the chain a second time and says, "Well, we will have to have \$26. We cannot take \$25." The chairman shrugs his shoulders and says, "Take it or leave it." This happens every week in every metropolitan area in the United States.

The chain being such a large purchaser will dominate the price. He can name his price practically; then the other chains in the area in half an hour—telephones are working—so that becomes the price

for the week, because any feeder, any cattleman is so small relatively to National Tea, which is not the largest chain, of course, but anyone of the big chains can dominate in that way—that is our interpretation.

I do not know if all of this can be documented or not, but that is what we are told.

Now, in regard to poultry, which is entirely different: The farmer has the equipment under our present system of poultry production and processing and so forth—the farmer has—

Senator DOUGLAS. That requires quite a large amount of capital. You get your poultry no longer from chickens running around in the barnyard, but really assembly line production, is that not true?

Mr. McDONALD. That is correct, and one man can take care of, say, 15,000 or 20,000 chickens. I am thinking of broilers now; and it is automatic, you know, feeding, watering, and so forth.

The processor—this first started with the feed stores. Of course, they want to sell feed, and they came to the farmer who had some equipment and said, "Well, we will furnish you chickens. We will furnish you feed; you will have no worries. All you need to do is do the work, furnish the equipment, maybe the medicine (they call it) and a few little other things, but we will give you a contract. You do not own these chickens, you take care of them and your profit will be based on your efficiency."

Well, it looked very good to the farmer who had been losing money, of course, on everything nearly, and here he is guaranteed something.

Well, it went all right for a year or two. Then the next year the processor or the feed company came around and said, "Well, now, we cannot give you as much as we did last year. Instead of a penny, we will give you three-fourths of a penny per pound."

Senator DOUGLAS. Is that all he gets?

Mr. McDONALD. Something like that, Senator. It is only a penny—

Senator DOUGLAS. As low as that?

Mr. McDONALD. Only a penny a pound or so, something like that. And it is possible for the producer to lose money. In fact, there is an instance of a poultry farmer, I believe in Georgia, who was awarded a prize for being the most efficient farmer and in the year he made \$400. He was a big operator; he had 30,000 or 40,000 chickens probably, and he made \$400. I have seen records where they did not make anything, but this is the kind of a system that we have in 96 or maybe by now, 98 percent of the poultry industry under the contract system—

Senator DOUGLAS. You mean that the independent producer, raiser of chickens, has virtually passed out of the picture?

Mr. McDONALD. Yes, sir; that is correct.

Representative WIDNALL. Will the gentleman yield? I can certainly testify to that, coming from New Jersey where we had a very healthy poultry business over a period of years and we have been put out of business almost completely by this kind of an operation. We are talking now about the individual farm and the family farm, the other kind. And when we have tried to get a break on freight rates, we have tried to get a break on some feed in our particular area, we have had no help at all; and it has been rather tragic the way it has



been treated and part of it has been the Government treating it that way, and giving the advantage to these integrated poultry systems.

Senator DOUGLAS. Now, does this apply to eggs as well as poultry?

Mr. McDONALD. Eggs are on the way. I submitted testimony to the House Agricultural Committee and gave some statistics on egg factories, and we now have egg factories either built or in the building with 7 million hens.

There is one egg factory near Denver. I think it is in operation now, which supplies all of the eggs for the city of Denver, or the equivalent.

Senator DOUGLAS. You know, this is very interesting, because 50 or 60 years ago there was a famous biologist and geneticist by the name of Raymond Pearl, who made a series of studies on the fertility of hens, before he went into the fertility of humans.

He predicted, incidentally, of humans that when the population reached a maximum of 167 million, it would level off at that point, but on the fertility of hens he said that the more hens that were crowded together in a given space, the less space per hen, the less fertility. Students of poultry-raising were brought up on the work of Raymond Pearl for many years.

Now you are saying that that has all been disproved and that propinquity does not reduce fertility and crowding does not reduce fertility; is that not right?

Mr. McDONALD. In regard—

Senator DOUGLAS. I have been in some of these factories and, of course, the food goes by on a belt and the hen picks at the food as it goes by and it is a continuous process. The free and active life of the barnyard has disappeared; they never see sunlight.

Mr. McDONALD. I think the point should be made that fertility is not necessarily involved in the laying of eggs. It is involved, of course, in the production of chickens. They have the hatcheries which genetically are the base of the whole thing, but the poor hen sits there in this cage all her life and she doesn't have even any straw to sit on. It is just a wire. And the droppings go down underneath and the feed and water is there; she lays the egg. The egg rolls out down a chute, these eggs keep rolling down.

If you had an opportunity and you would be interested Senator, in looking at some of this progress we have made—

Senator DOUGLAS. Aldous Huxley wrote a novel called "Brave New World," in which he forecast the production of human beings on this model. It has now reached eggs?

Mr. McDONALD. Yes, sir.

Senator DOUGLAS. And has it reached—what about the production of chickens? Is that mechanized, too?

Mr. McDONALD. Well, I think the poultry industry is about as mechanized as a food production industry can get. One of the problems is whether or not this is going to go into livestock or not, and in the production of hogs—that is, the contract system—and cattle.

Senator DOUGLAS. You may remember Gray's "Elegy in a Country Churchyard," in which he referred to the cock's shrill clarion. You mean that the "cock's shrill clarion" is going to disappear from the American farm scene?

Mr. McDONALD. No; we still have to have some males in the chicken industry. [Laughter.]

Mr. McDONALD. I am not really—

Senator DOUGLAS. Are they being mechanized?

Mr. McDONALD. But the thing that the Farmers Union is concerned with is that the farmer is losing control, has lost control of the poultry industry and has lost control of the price in the marketplace, never had it really; and he may lose more control with the production of livestock and we feel that the price debacle of late 1962-63 was engineered by the chainstores and cost livestock producers several billion dollars because the prices were artificially depressed.

National Tea, to give that as an example, in Denver, Colo., has a feedlot with a capacity, as I recall, of 40,000 head, and when prices began to decline—National Tea normally buys 1,500 head of cattle a week—withdrew from the competitive market and did not buy, and this precipitated a drastic price decline.

Livestock went from December 1962 to February 1963 from 30 cents to 20 cents—one-third. And, of course, feeders and livestockmen were thrown into bankruptcy.

Senator DOUGLAS. I have used up my time, Mr. Chairman.

Representative REUSS. Mr. Widnall?

Representative WIDNALL. I would like to take a look at the testimony first before I ask a few questions. If you would call Senator Proxmire, please.

Representative REUSS. Senator Proxmire?

Senator PROXMIRE. Yes, I would like to pursue another point. I am delighted to see they at least had a chapter on agriculture in the report this year. I agree with you there are certainly some deficiencies in that chapter, but the Council of Economic Advisers did not have it in the past and I am happy this year they recognized this is a serious area and devoted some space to it. It appears on page 133 in the Report of the Council of Economic Advisers, 1966. I would like your comment on it after I read it and discuss a paragraph very briefly.

"The expanding sector, made up of farms"—this is just past the middle of the page under "Structural Changes," and this, incidentally, is the new concept which the administration and Kermit Gordon, who was the Budget Director, and is now with Brookings and others, seem to have about farmers.

The expanding sector, made up of farms with annual gross sales in excess of \$10,000, is growing rapidly. Many of the farmers in this sector are realizing returns nearly comparable with what their resources could earn in nonfarm occupations.

This is a fascinating statement to me. The Council seems to have taken this with a notion that after all the efficient farmers will survive and the inefficient will have to pass out as businessmen and others have passed out in the past.

Recognize this: No. 1, this is an industry which has had a terrific reduction of personnel for years. We now have half as many farmers as we had about 20 years ago. The farmers who are left are, by and large, the more efficient farmers, not in all cases, but in most cases. So you have had a terrific test of efficiency already.

Now what they do is they take a relatively modest sector, the most prosperous sector of that is left and they say of those that are left in the top sector, many of these farmers are realizing returns—they do not say how many. They do not say whether it is half or a quarter, but I suspect it is not more than half if it is that many, I think closer to a quarter, are realizing returns nearly comparable to what the resources could earn in nonfarm occupations. That is pretty pathetic, it seems to me.

You have a situation, and I do not think that even this statement is correct because the Secretary of Agriculture or rather the Department of Agriculture provided statistics for me a couple of years ago that I put in the record showing that in commodity after commodity, whether it was feed grain or cotton or beef or what it was, on big farms that grossed \$100,000 and more, the return for operators was in the area of about \$1 an hour, 40 percent of the average factory wage today, and a return on invested capital, in most cases, was negative to about 2 or 3 percent.

Mr. McDONALD. My comment on this, the part you refer to, it is complete nonsense. I don't believe a word of it.

Now, the Farmers Union made some surveys last year, some of our State people. In Montana, South Dakota, Minnesota, we wrote—that is the State presidents out there—wrote to their farmers and they sent them blank income tax forms and they said fill these in giving your 1964 income, all your expenses, everything you have to put down, it is pretty complete, your net and so forth, if any, Do not put your name on, just send them in.

Well, we have copies of those income tax reports in our office. They were summarized for Minnesota. They had so many forms they made summaries, and there are many instances, Senator, where this farmer, who filed this out, I am sure in good faith, who had an investment of \$100,000, who made only \$2,000 net—nothing for his labor. Some of them made \$4,000, some of them \$500. Well, I do not think that the situation in agriculture—even this year, prices, of course, are better this year, things are better, but I do not think, in comparison, I would be happy to supply the committee with some information in regard to this ridiculous statement here.

Senator PROXMIRE. We have a situation in Wisconsin where we think we have one of the most efficient dairy producers in the world, along with New York and Minnesota and a few other States—

Senator DOUGLAS. I also marvel at the modesty of you people from Wisconsin.

Senator PROXMIRE. Wisconsin is marvelous, indeed. It is "the dairy State." The Department of Agriculture shows, on the basis of their record, if you allow a 4-percent return on invested capital for our farmers that they earned last year an average of less than 40 cents per hour.

Now, these are enormously efficient producers that have greatly increased their efficiency, they have a \$50,000 investment on the average, per farm. They work, according to the Department of Agriculture, 80 hours a week, 7 days a week, 52 weeks a year. They make this big investment and this is the kind of disgraceful return they have. It just seems to me that although we have these startling facts—and again and again and again we have tried to call this to

national attention in every way we know how—we still cannot seem to get the kind of legislation which will give the farmer an opportunity, not a guarantee, but an opportunity, if he is efficient to earn a fair return for his labor and for his investments and his efficiency.

That is the reason why I questioned whether an approach that seeks to try to get more vigorous antitrust action is going to really give the farmers much of a return in anything but the long run, during which as Keynes says we are all dead.

Mr. McDONALD. I agree with you.

Representative WIDNALL. I do not question, in any way, the figures you just have spoken because I have read some of this myself. I would like to ask this question, though: Does that include income to a farmer for taking his land out of production?

Senator PROXMIRE. Yes, it includes the whole benefits of the farm program, it includes the value of food producing consumed on the farm; it includes all of that; it includes everything. This is a comprehensive statistic based on all of these elements. And, incidentally, it is not a matter of Orville Freeman being more liberal than Ezra Taft Benson, because Benson had the same statistics.

I would like to say that in your statement you criticize the Council for not consulting with agriculture. I have just had the staff call Dr. Ackley and ask about this. And it has been Dr. Ackley's interpretation that this does not require a formal consultation with various agricultural organizations, but simply an inquiry with whatever agricultural economists they think seem to be competent. And I would agree with you, this is a clear, specific provision in the act and especially in view of the terrific problem we have in agriculture, the Council should fulfill it, should consult with the Farmers Union, the Farm Bureau, the Grange and the other leading farm organizations.

Mr. McDONALD. We have been ignored since 1953.

Senator PROXMIRE. Before 1953, when Dr. Keyserling was chairman, were you consulted then?

Mr. McDONALD. We had quarterly meetings. I attended many of those meetings, although I was not the economist on the staff. John Baker was our economist and Mr. Smith, during that period, but I attended with these men quarterly meetings every 3 months. We had the Farm Bureau, the Grange, the National Council, the Farmers Union and I forget, but there were some others, too.

Senator PROXMIRE. When were these instituted; 1947, 1948, or 1949?

Mr. McDONALD. I started with the Farmers Union in 1948 and I know they were going on at that time. Then, they suddenly ceased. John Baker, who is an eminent economist, now Assistant Secretary of Agriculture, was with us for more than 10 years and during that period he and I attended only one meeting. This was along about 1958 we were called in. He was called in and I went along and we had a meeting on the problems in agriculture. No one else at the meeting but the Farmers Union. Now, that is the only meeting, Senator, that as far as I know, has gone on for 13 years.

Senator PROXMIRE. What were the results of these meetings? Were there any positive recommendations that were made? Was there any feeling on the part of agriculture that they were in a stronger position? Was any legislation, do you feel, influenced by these?

Mr. McDONALD. They got our opinion, the opinion of the other farm groups. I recall Russell Smith presenting legislation for the consideration of the group. There was cooperation between the President's Council and agriculture. I do not know—

Senator PROXMIRE. Were other economic groups consulted on this kind of a basis, too, or was business and labor consulted?

Mr. McDONALD. I do believe they were. Dr. Keyserling could answer your questions quickly on that. But, I believe they had meetings with chamber of commerce groups and others.

Senator PROXMIRE. Is it your understanding that they have meetings with these other economic groups, now?

Mr. McDONALD. We have no knowledge, we do not know if they meet anybody or not, pursuant to this part of the law, that is.

Senator PROXMIRE. There is one policy that the administration has adopted that puzzles me very much and maybe you can help me with it. They have decided to reduce the school milk program from a comprehensive program entitling any school district to qualify, and the District of Columbia, for example, all children get school milk, to a program which will only be available to what are called needy children, a means test, a discrimination of some kind.

When I have consulted with the Department of Agriculture, they said this is something the school administrators in each school will have to determine. This boy is from a needy family and this boy is not. Of course, that aspect, it seems to me, to be most unfortunate, if they pursue it.

At any rate, do you have any comment on this change in policy which is a dramatic and drastic change in a program which was not a farm program basically, but a program to benefit children and provide better nutrition?

Mr. McDONALD. We have always opposed the means test, of course, on any basis and under any authorization of any legislation. In fact, I think we have probably talked more about that than any other aspect of relief, social security, and the like.

Now, my reaction, we had a good laugh at the office the other day about getting a 6-year-old child to say, well, are you able to afford 6 cents for a glass of milk? Of course, seriously, it is utterly ridiculous. The parent is not going to come in and make a paupers oath in order to get his child a glass of milk. I think it is humiliating. I think it is ridiculous. I think administratively, it would cost more than it is worth.

Senator PROXMIRE. I am delighted to hear that.

I have no further questions.

Representative REUSS. In this connection, I note on page 200 of the Economic Report which is the section which tells what the Council has been doing in the last year. It says:

"The Council, also, consults from time to time with various groups from industry and labor." It does not say anything about various groups from agriculture; there, of their own words, it seems to me, is some verification of the charge you are making.

Mr. Widnall, have you had a chance now to prepare questions?

Mr. WIDNALL. Yes.

Mr. McDonald, first of all, I hope you will express our regrets to Mr. Patton that he is unable to be here today. I know for how long,

many, many years, he has fought very rigorously to help the farmer and we looked forward to his testimony today. We hope he has a speedy recovery.

Mr. McDONALD. Thank you.

Mr. WIDNALL. I am very much interested by your remarks that you feel the Council has ignored the advice to the farmers during the past years.

Do you have anything further to say about the agricultural part of the Economic Report? Any further recommendations to make that are not contained there or any criticisms or suggestions in connection with it? You have spoken about the Council activities; anything else?

Mr. McDONALD. As I said, Mr. Congressman, I believe before you came in, I had not had an opportunity because of the disruption of work in the office and I only got this document, had time to look at it yesterday, and I have not studied the part on agriculture. It appears that there is some attempt made to consider agricultural problems but it appears again from a cursory examination that the council is once more looking at the farmer as a sociological problem, which we do not think is the problem at all.

Of course, there is a sociological problem, particularly in the South. But what is the fact, we think is the fact, is that today and in past years, particularly in past years, the farmer with sufficient land, with managerial ability, with sufficient credit, with machinery, fertilizer, all things necessary to produce, was not able to make a living in any way comparable to other segments of the population.

Now, that is the problem in agriculture. We know, of course, about the sharecroppers and these other people, but the problem in agriculture has been that we have farmers in North Dakota, many of them, and in other areas up where our membership is up there, who have all these things I mentioned and I know some of these people and they are not able to send their children to college, they are not able to produce, they have maybe \$50,000, maybe \$100,000 invested, and they are producing, yet they cannot make the kind of living that they ought to make with all these factors which should produce a good living.

Mr. WIDNALL. What relationship does the cost of material or the cost of labor have to the farmers' failure to make a good living? Has there been a material increase to them of labor costs? Has there been a material increase in the cost of feed and other things through the years that has lowered their profit?

Mr. McDONALD. Well, their costs, of course, have gone up tremendously in the last few years—fertilizer and feed and, of course, many of the producers—agriculture is very specialized—now buy their feed. They buy their food. They buy everything. They specialize in one or two crops—all these things have increased and you know the figures, of course, the Bureau of Labor Statistics and the Department of Agriculture show the increase in farm costs going up, up, up all the time—income either going down or standing still or improving every little, naturally.

In regard to labor, that is not really a factor; an important factor is the family farmers' production. Our people are what most of the public think of as small farmers. They are not small farmers, but they are family farmers. That is, they do most of their own work

and consequently, their labor costs, except possibly in dairy, I think that is a substantial part of the cost and I do not have any figures, but wheat farmers and other farmers normally hired very little labor. So, it is not a factor.

I might mention parenthetically we are for living wages and we think it would be to the benefit of the farmer if wages were increased.

Mr. WIDNALL. Have you been materially affected by the increase in-land-taxes?

Mr. McDONALD. I think so. I think particularly in areas where the city has extended out into the country and, of course, generally, land values have gone up for various reasons. Industry has many billions of dollars laying around. Right now, they have, according to the January 1966 Economic Indicators, \$25 billion which was not even distributed last year. And, some of these people with money, these corporations, individuals, go out and buy land for speculation purposes or for tax purposes, and that is building the price of land up and I think it has been a real hardship on the working farmer.

Mr. WIDNALL. This is exactly what I was going to try to get into, saying I thought we had one element in America today that was very disheartening and that is the disappearance of farmland in so many areas and letting the encroachment of urban life spill over in some of the finest farmland in America, and at the same time, we are spending millions and millions of dollars to bring into production arid land that does not have the chemical content of the soil that you have in many of these production areas.

For instance, the finest celery producing and some of the finest small farms in the world, I think, were right around the metropolitan area of New York, out in Paramus, N.J. It is now an enormous shopping center. They are burying wonderful soil under gasoline stations. We are tending now to concentrate in areas of the U.S. production that I think could be spread over the country, so if you run into a drought in one area or floods in another, you still have many, many fine producing areas left.

This will do as you are talking about, protect the cities by a green-belt. This is very much up to the State and to the municipalities, too, to tax on a different basis and to just tax the farmer on the same kind of acreage basis that for industrial uses is just putting him out of business. The farmer takes refuge behind the fact, well, he can sell his land and he can make a fortune out of it. He can achieve a great capital gain in many instances, but he has lost his living. He wants to stay, as a farmer, where can he go and start farming again without a tremendous capital investment. And, we are just snow-balling something that is unhealthy as far as the country is concerned and I think this is an area we should look into.

Do you have any reaction to this at all?

Mr. McDONALD. I am in accord with your views. Certainly, we would support anything which would result in the farmer paying a fair share of taxes, as the gentleman here said. We think that would be wonderful, if you could get the cities and States to do it. Of course, I keep seeing these articles how they are in a very bad economic position and I do not know whether it would be economically possible or politically possible to put such a system into effect or not all over the country.

Mr. WIDNALL. In the past year the production per man-hour went up 7.3 percent in the farm sector and in the nonfarm sector, it went up 2.4 percent which meant the national average was 2.8 percent and some alarm was created and recognized by the Council of Economic Advisers that our output per man-hour was not going up as fast as it should in order to maintain the wage-price guidelines.

Now, to what do you attribute the vast increase in output per man-hour on the farm? Just power mechanization?

Mr. McDONALD. Well, it is more than that. I was in Illinois, Senator Douglas' State, a few years ago, Christian County, as I remember, and helping to get some people in the Farmers Union, it looked like the NFO was going to swipe some of our members. It turned out some of them belonged to both of the organizations. I looked at the corn out there, Senator, and they were planting the rows about this far apart [indicating]. When I was a boy we had rows  $3\frac{1}{2}$  or 4 feet apart.

Senator DOUGLAS. When the acreage was limited, they planted the rows closer together in order to avoid or evade the attempted limitation upon production.

Mr. McDONALD. Yes.

Mr. SCHEUER. What effect did that have on the quality of the land?

Senator DOUGLAS. Of course, it taxed it heavily. But, there has, also, been an increase in the amount of fertilizer used.

Mr. McDONALD. I was told in that area they were averaging over a hundred bushels every year, year after year after year.

Senator DOUGLAS. Let me imitate Wisconsin and say that we have, with Iowa, the most fertile cornland in the world.

Senator PROXMIRE. Yes, indeed.

Mr. SCHEUER. What would Mr. Khrushchev have to say about that?

Mr. McDONALD. There are other things, too, besides mechanization—fertilizer and superior methods of cultivation, hybrid seed, and so forth.

Mr. WIDNALL. My time is up. Thank you.

Representative REUSS. Senator Proxmire?

Senator PROXMIRE. I just have one more technical question, because it is, I think, the area in which there is likely to be an attack on reality in the farm program.

What, in your judgment, would be the net income—you have to give a range, of course, and you may not be able to give any estimate at all—of a typical farm; it could be a dairy farm or a corn-hog farm, which grossed \$25,000? What kind of net would you expect if you had to be pressed to give a net income?

Senator DOUGLAS. Should get, or do get?

Senator PROXMIRE. They do get, as a matter of reality.

Mr. McDONALD. It would vary so widely—

Senator PROXMIRE. Yes, I would not want to pin you down precisely. Maybe it would help you if I told you that, you see, their argument is that those farmers who gross more than \$10,000 are in pretty good shape. Most of those farmers who gross more than \$10,000 per year, and they are, as I say, in a minority, most of those who do are those who gross between \$10,000 and \$25,000. We all



know that a businessman who grosses \$25,000 might just as well forget it in most lines, certainly in manufacturing and retailing. He could gross \$25,000 a month and he may not be in very good shape.

Mr. McDONALD. I wonder if the Senator would allow me to have a little time on that figure.

Senator PROXMIRE. Fine, do that for the record.

Give me this, your estimate of roughly the range, what the net might be. You might specify two or three or four of the leading commodities we would like, for an annual gross of \$25,000, \$15,000, and \$10,000.

(Information subsequently received appears in appendix, p. 544.)

Representative REUSS. Senator Douglas?

Senator DOUGLAS. I only have one question. We are all baffled by this situation, particularly what we can do for the small farmer.

Now, to what degree can the system of production payments be of assistance, of a market price, but with production payments above the free market price, subject to a cutoff which I would make much lower than many of my colleagues?

Mr. McDONALD. As you know, Senator Douglas, the Farmers Union has been for the production payments. I have testified for that before the House Agriculture Committee; we have been trying to get Congress to institute a cutoff ever since I have been in the Farmers Union, and that is the big stumbling block to a successful program. It casts a shadow on the program in the public opinion, because if you pick up the newspaper and you see where one corporation of farmers has \$2 million, which maybe is not a \$2 million payment—maybe the Government has underwritten \$2 million worth of products and it does not mean the subsidy is \$2 million, but the public gets the idea.

I think we are going—I am not familiar with the farm bill, I did not work on it, but it is my understanding that the farm bill, particularly in cotton, has that principle of production payments which we think is wonderful, and I do not think you are really ever going to have a system, both for consumer and for everybody in farming until you have the production payment, the Brannan plan type of payment and the cutoff.

Senator DOUGLAS. At what point?

Mr. McDONALD. The cutoff, you just have to be arbitrary. I would imagine a gross—

Senator DOUGLAS. No, a net.

Mr. McDONALD. Well, I think it has to be—the cutoff, Senator, in my opinion at least, must be on the gross because sometimes there is no net. There is nothing left sometimes.

Senator PROXMIRE. Would the Senator yield?

Senator DOUGLAS. Yes.

Senator PROXMIRE. Is it not true that the gross would mean one thing in one commodity, wheat, and mean something entirely different in milk and mean something quite different in feed grain, so that unless you had a different gross in each commodity, you would have great injustice?

In other words, you need a big gross in some of these—the wheat crop, for example?

Mr. McDONALD. Possibly.

I would—and I am out of my depth here—but in order to enact an equitable law which would be constitutional, you have to treat everybody alike, I believe. So, I think you would have to say payments should be limited to \$50,000 worth of products or \$75,000 worth, and you could not get any payments or any subsidy beyond that figure.

Representative REUSS. Any further questions?

We are pleased to have Representative Scheuer of New York, a member of the House Committee on Education and Labor, with us.

Would you have any questions?

Representative SCHEUER. No questions.

Representative REUSS. Mr. Widnall, any further questions?

Representative WIDNALL. No, thank you.

Representative REUSS. Thank you, Mr. McDonald. We appreciate your being with us this morning.

The Joint Economic Committee will stand in recess until Tuesday morning at 10 o'clock in room 2128, Rayburn Building, the House Banking and Currency Committee hearing room, where we will hear Secretary of Labor Willard Wirtz.

(Whereupon, at 11:25 a.m., the hearing was recessed, to reconvene at 10 a.m., Tuesday, February 8, 1966.)

# JANUARY 1966 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 8, 1966

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

The joint committee met at 10 a.m., pursuant to recess, in room 2128, Rayburn House Office Building, Representative Wright Patman (chairman of the joint committee) presiding.

Present: Representatives Patman, Bolling, Reuss, Griffiths, Curtis, Widnall, and Scheuer; Senators Javits and Proxmire.

Also present: James W. Knowles, executive director; John R. Stark, deputy director; Donald A. Webster, minority counsel; and Hamilton D. Gewehr, administrative clerk.

Chairman PATMAN. The committee will please come to order.

Today we will hear from the Secretary of Labor, Mr. Willard Wirtz. The Labor Department is very much concerned not only with unemployment, wage rates, and the guideposts, but also with the very important question of manpower training.

As we move toward full employment, obviously there will be an increased need for skilled workers. By adding to the supply through training and retraining, the Federal Government can ease the pressures that would otherwise exist.

I trust that you will address your comments, in part at least, to what you are doing in the training field, Mr. Secretary. We are glad to have you with us and you may present and identify for the record the gentlemen accompanying you, and proceed in your own way.

**TESTIMONY OF HON. W. WILLARD WIRTZ, SECRETARY OF LABOR;  
ACCOMPANIED BY ARTHUR ROSS, COMMISSIONER, BUREAU OF  
LABOR STATISTICS; STANLEY RUTTENBERG, MANPOWER AD-  
MINISTRATOR; AND SEYMOUR WOLFBEIN, SPECIAL ASSISTANT  
TO THE SECRETARY FOR ECONOMIC AFFAIRS**

Secretary WIRTZ. Thank you, Mr. Chairman. And it is a very real privilege, first, to introduce to you and the committee the new Commissioner of the Bureau of Labor Statistics, Mr. Arthur Ross. His professional history is such that it is almost superfluous that I identify him as a man with whom I have had the privilege of working for some 15 or 20 years. I am delighted to introduce him at this time to the committee.

With me, too, are Mr. Seymour Wolfbein, Economic Adviser to the Secretary, and Mr. Stanley Ruttenberg, Manpower Administrator in the Department of Labor.

Chairman PATMAN. I will ask Senator Proxmire to preside, if he will, because Mr. Reuss and I are due at another committee meeting at this time.

Senator PROXMIRE (presiding). I might say, Secretary Wirtz that this is going to be somewhat of a hectic morning. The chairman is going to return promptly, I am sure. Those of us who in the Senate have a vote at 11 o'clock will have to run over there and come back. We hope we can have some interrogation worthy of your mettle—which is very worthy, indeed.

Secretary WIRTZ. I hardly need say we will be delighted to fit our availability to your convenience entirely and it doesn't matter a bit if there is interruption from our standpoint.

Mr. Chairman and members of the committee, I expect it is appropriate that I open my statement by announcing here what is being announced right now in the regularly scheduled release of the Department of Labor, that unemployment in this country is now 4 percent—those are the January figures. They are being released this morning.

That is a figure which has had considerable attention over the past 5 years. It is the figure which has been referred to as the interim goal, and, of course, it is a matter of very real satisfaction to note the reaching of that figure. Yet it will be very much the theme of my testimony here this morning that I point out that even as we stand now on what we have thought of as the interim goal for so long, 4 percent unemployment, we realize that it really isn't the goal at all. It is only the 10-yard line and that the problem left before us is to make that last 10 yards, which we propose to do.

Senator PROXMIRE. May I interrupt—though I hesitate to interrupt since our usual procedure is to ask questions after you finish. I would, however, like to ask what was the last month in which unemployment was at that 4-percent level?

Secretary WIRTZ. This carries us back; this becomes the lowest figure now since April 1957.

Senator PROXMIRE. Thank you.

Secretary WIRTZ. With your permission, Mr. Chairman, I would like to file my prepared statement with the committee and then simply summarize it, because I think we can save time.

Senator PROXMIRE. Without objection, the full statement will be filed. (See p. 282.)

Secretary WIRTZ. My statement proceeds from Chairman Ackley's statement last week, in which he outlines in a quite remarkable fashion all of the relevant facts in this area and in which he included what seemed to me a quite constrained understatement of the accomplishments of the last 5 years, reflecting, I am sure, a kind of personal and institutional modesty, because the work of the Council has contributed so greatly to the development of that record. But I will proceed from his statement of facts and will not go into some of that background information.

I should make it clear that the view which I am expressing here proceeds from a complete and unqualified commitment to the idea that "full employment" opportunity—and I mean to let that phrase have the full meaning—means everything it says. I think that full employment opportunity is a proper, practicable, and first-priority national objective.

It requires some definition of terms. I think it is exceedingly hard, if not impossible, to define full employment in terms of a statistical measure, but we have gotten so used to the statistical measure that when I am talking about it here, what I have in mind could be translated into unemployment in the usual measurement of between 2 and 3 percent, which would include only the transitional unemployment which is inevitable in a work force of this size and that very small number of people in the work force who at a particular time were not prepared to meet its demand.

I think that latter figure is about a half of 1 percent.

The position which I should like to express to the committee is one which recognizes employment and unemployment not only as economic, but perhaps even more essentially, human conditions.

We count underemployment as serious a matter as unemployment or almost as serious. To take this approach is to bring into question the definition of employment as the filling of whatever jobs the economic system wants filled and inquires as well into the extent of the use of individual human potentials.

To take this approach is to recognize that behind the reduction in unemployment from 7 percent in 1961—early 1961—to 4 percent now, there are at the same time some real shortcomings in the record. We are concerned about the fact and terribly concerned that there are still more than 650,000 people in this country who have been out of work for 15 weeks or longer; that there are still 17 areas, including 2 in Puerto Rico, in which unemployment is still over 5.5 percent.

We are concerned that there are a million and three-quarters whom we count employed and yet the truth of the matter is that they have only part-time work when they are looking for full-time work. We are terribly concerned that one out of every eight teenagers is looking for work and can't find it.

Also, the unemployment rate among nonwhites is 7 percent; in other words, twice the white rate.

At a time when we are concentrating on the elimination of poverty we have concern with the minimum wage. There are over 3 million families in the United States with earnings of less than \$3,000 a year.

It will be part of the basic approach which I will be taking up with the committee that we should recognize the coordinate importance in the record of the last 5 years of the fiscal, monetary, and budgetary policies, on the one hand, and the manpower programs or the Great Society programs or, more broadly, those programs which include antipoverty, training, and so forth, alongside the developments in the policy of the fiscal area.

Now, going into some of the specifics of this presentation, but leaving the details of it for Commissioner Ross' development, I would like to point out just these things:

Five years ago when we had unemployment of about 7 percent, it was entirely appropriate, necessary, and proper that we concentrate on those approaches which would dig deepest and make the broadest cuts into the wholesale unemployment picture. There were concentrations of unemployment then, but the situation was so broad, or so difficult, that we had to look rather to those approaches which met the entire problem.

Now, Chairman Ackley has suggested the decisions, the fiscal decisions, particularly the tax cut, which contributed so greatly to the decrease in unemployment over this period.

I mention just the fact—as one reflection of the accomplishment which has come from those policies that in the last year—that there has been an increase of 2.4 million jobs in this economy. And that's only reflection of the things that have been done.

I think it takes nothing at all from the magnificence of those decisions that the country decided at the same time that there were a lot of other things, some of which affected directly or indirectly unemployment, which warranted the Nation's attention. I call attention to the passage of the Manpower Development and Training Act in 1962, and its amendment on two subsequent occasions; the Vocational Education Act of 1963, the Educational Acts of 1964 and 1965; the action taken both by Executive order and in title 7 of the Civil Rights Act of 1964 to establish equal employment opportunity in this country, and then the Economic Opportunity Act of 1964.

It is a very hard figure to arrive at, but as nearly as we can measure, about half of the reduction in unemployment during 1965, which was from 5 percent down to 4.1 percent, came, I think, from the effect of these programs. I have set out in my fuller statement the particular applications of those programs.

About half of what was accomplished in reducing unemployment last year, I think, resulted from the fiscal and the monetary policy changes and about half of it from the changes in these programs.

There would probably be disagreement about those figures as far as the past is concerned. I think there would be very little disagreement about the fact that as far as future reduction of unemployment is concerned, there has to be attention on concentrations in particular areas and attention to the unpreparedness which is responsible for so much of what is left.

Indeed, I think there is little prospect of much further reduction in unemployment except as efforts are directed specifically at the concentrations of unemployment under the preparedness that remains. I mean by that, that it is essential, in my view, both that there be the continuation of the fiscal and the monetary policies and there be different applications as different situations develop, and a continuation of these Great Society or manpower programs.

I point out again that there is not today a single unemployment problem in this country; there are several different ones.

The overall average of 4 percent unemployment conceals success, on the one hand, and failure, on the other. Unemployment rates for adult men now are down to 2.6 percent—if you look just at the married men it is under 2 percent.

The situation as far as the women's rate is concerned is a little different. In December, 4 percent of the women workers were unemployed. It has dropped, in the January figures being released today, to 3.8 percent.

You inquired, Mrs. Griffiths, at the hearings last week, as to what the result—what the effect—would be on the gross national product if the women's unemployment rate were brought down to the men's unemployment rate.

Senator PROXMIRE. That was Mrs. Griffiths' inquiry?

Secretary WIRTZ. That is right; and our answer to that is suggested here. There would apparently be an increase in the gross national product of about \$3 billion if the unemployment rate could be brought down for women to what it is for men.

You also asked for a breakdown on that in terms of white and non-white women. That, however is a very hard figure to arrive at.

Representative GRIFFITHS. In terms of a woman's salary at the same thing that a man's salary is, for white women and colored women.

Secretary WIRTZ. I couldn't hear what you said.

Representative GRIFFITHS. In terms of a woman's salary at the same thing that a man's salary is, for white women and colored women; bring them up to the level of a white man's salary.

Secretary WIRTZ. And the answer there on the overall basis would be about \$3 billion in the gross national product.

Representative GRIFFITHS. I thought that you were saying that if women were employed at the same rate as men, it would increase the \$3 billion. They are not employed at the same rate that men are, but they are not paid at the same rate that men are, either.

Secretary WIRTZ. The \$3 billion figure is based on the present salary and wage payment rates and simply assumes the bringing of unemployment down to that level. If you were also to bring women's and men's rates to the same level, that would be a larger figure.

Representative GRIFFITHS. That is the figure I want.

Secretary WIRTZ. That will present a very, very difficult problem. In fact, I am not sure how much it can be refined beyond this. We are presently making a study, and reported the first results of it last week, on the extent to which there continues to be an unequal pay for equal work, and the results of that study so far are quite inconclusive, and leave some question about the amount of discrimination.

Now, on the distinction between the white and the nonwhite—

Representative GRIFFITHS. I do not really care about that. I just want to know if white and colored women are employed at the pay and rates that white men are paid.

Secretary WIRTZ. You will realize this is a pretty rough kind of figuring.

Representative GRIFFITHS. Because Mr. Ackley's figure was between colored people and white people.

Secretary WIRTZ. That is correct, a \$5 billion—

Representative GRIFFITHS. Of course, that would be far lower than the gross national product increase if you employed everybody and paid them at the same rate you pay white men, because if you employed colored men at the same rate—if you paid them at the same rate you paid white women, a lot of them would lose money.

Secretary WIRTZ. It should be brought to the committee's attention that now for the first time a majority of the unemployed in this country are among those who have been out of work for less than 5 weeks. This is the first time that has been true since—you have to go back to about 1957 before that is true. It is a significant development, there is a very sharp shift today toward shorter term unemployment.

Senator PROXMIRE. Has this always been true at times when unemployment has been lower?

Secretary WIRTZ. As unemployment has been reduced in the various periods of experience, we have had the percentage of short-term unemployment going up. The ratio of short-term—the percentage amount of short-term unemployment rises as employment increases and general unemployment decreases, so this has been true and is historically true. It is the first time it has been true since 1957, that over half of it is among the 5-weeks-or-less group.

Now, behind that record of success there is another record of—failure is the only word for it. There are two areas of particular concern. First, what is receiving a lot of attention now is reflected in the fact that teenage unemployment is still 12 percent. I have a real question in my mind as to whether we are proceeding correctly in lumping the unemployment and employment figures for adults, on the one hand, and for the teenagers on the other.

We have been doing that, but we have been increasingly emphasizing the difference between those two sets of problems, and they are very different.

There are in this country, as of January 1—in round figures—3.3 million unemployed people. About 800,000 of these people are teenagers. That is a fourth of the unemployed, although teenagers represent only about a tenth of the work force.

There is some misunderstanding about these figures. However, only about half of the teenage unemployed are looking for full-time work. The other half, or most of them, are in school and are looking for part-time work.

That presents a very different set of problems from the problems which are presented as far as the adult worker is concerned.

It is an interesting thing that in the almost 2½ million jobs which were added to the economy in 1965, about 1 million of them went to teenagers, which is a very disproportionate number. That has to be looked at carefully, too. To the extent that those increased jobs went to boys and girls who are now out of school, so that the alternative would be unemployment, I suppose it was a good thing; and yet, even that presents a very real question because I think that probably most of those children ought to be in school, training for something or other, instead of out of school in jobs which machines are probably very soon to take over.

Senator PROXMIRE. On the basis of your measure, how much, if any, of that is because of the Job Corps program and the various other Federal programs?

Secretary WIRTZ. A very substantial part of it.

Senator PROXMIRE. I mean directly, not training people and putting them in jobs. I mean the fact that instead of being unemployed and out of the Job Corps.

Secretary WIRTZ. Quite a significant number. There are today about 140,000 in the Neighborhood Youth Corps, which is the single largest group.

Now, those are, most of them, in-school children, working only part time, but there is every reason to think that a very substantial number of them would be out of school and probably out of work if it were not for that program.



Then as you go on to the college program with the work training program, which is administered by the Department of HEW, you have about the same pattern in numbers as far as the college students are concerned, so there is that group of beneficiaries.

The Job Corps number so far is small, with only about 17,000. They are not counted, incidentally, as employed, the Job Corps people, but there is every reason to think—well, they are figured now as being outside the work force entirely, most of them would probably be unemployed.

Senator PROXMIRE. As if they were in school?

Secretary WIRTZ. That is right.

Now, there is another, much harder figure to come at. I have pointed in my statement to what I think is one of the most encouraging figures which we have had this last year. There was very reason to expect, because of the increased size of the college-age population, that there would be an increase of about 200,000 more boys and girls in college this fall, a larger increase than in previous years because of the increase in population of about 200,000.

Instead of that, it turned out to be 495,000, which is pretty hard to translate directly into the kind of question that you are asking, but is very relevant to it because it probably means, it does mean that the effect of these antipoverty programs, the civil rights programs, the Great Society programs of one kind or another are paying out in this kind of measure.

I do not know what that extra 295,000 boys and girls would be doing if they were not in college, but a lot of them would be out of work, so that you have a very substantial effect in answering your question; you have a very substantial effect of those programs on the teenage employment and unemployment figures.

Let me note the problem as far as the nonwhite unemployment rate is concerned—it is 7 percent, that is down from 9 percent a year ago, but it is still twice the white rate, and it understates the problem because although they may be employed, the nonwhites will most frequently be in lower paid jobs. There is a much higher degree of underemployment. I do not know what the disadvantaged nonwhite rate is. It is considerably more than what is suggested here. We are developing the manpower training programs and the antipoverty programs just as much as we can toward these two problems—the teenage problem and the nonwhite unemployment problem.

I point out, too, that the nonwhite problem, particularly, is probably merging rapidly now with the broader problem of the unemployment of the disadvantaged, whether for one reason or another. Those figures are reflected most closely in our hard-core unemployment figures and a very interesting important thing has happened there, too.

When I say "hard-core unemployed," I mean those out of work 15 weeks or more. That number dropped very markedly during 1965. Again, I think in substantial part or a large part a sequence not only of the increased demand for jobs, but as a result of these programs which are now being directed so much at the disadvantaged person. That figure is down now to about 675,000, the number who have been out of work for 15 weeks or more.

Now, that is both good or bad in terms of comparisons, depending on what period you take. It is a million below what it was 5 years ago this time, yet it is half a million above what it was in 1953, so I fall back on the absolute figure that it is just too many, that any in this group unemployed for more than 15 weeks is a mistake and is wrong.

The statement calls attention to the development of what we are calling a human resources development program, supplementing, adding to the manpower development program. More and more the remaining unemployment problem is one which has got to be handled on a basis which includes reaching out to find the individual person who needs assistance, training of one kind or another, and in the human resources development program and in the youth opportunities center program you find reflections of some of the things we are trying to do there.

I have called attention in my statement next to the manpower shortage situation, Mr. Chairman and members of the committee. In the interest of time, let me summarize it here. We are increasingly concerned about the manpower shortage situation; we are watching it now carefully and closely. We are preparing monthly reports and we are supplementing those now with surveys conducted in particular cities and we have looked within the last 2 weeks at the situation in Milwaukee, and also with discussions with the representatives of particular industries.

I would summarize that situation today this way: I do not think there is presently a manpower shortage situation which is either impeding production schedules significantly or contributing significantly to wage and price pressures. There are shortages in particular areas and in particular occupations, with the areas being principally the Great Lakes areas and with the occupations which present the most serious problems, including the metalworking occupations, the machinists, that kind of thing, the professional occupations, the medical help occupations, teachers, social workers, and so forth.

I think we are just at the point where we have to be exceedingly careful about this situation, but it is so far not one of acute need.

We are reshaping and reorienting the Manpower Development and Training Act program to meet that kind of situation. Our plans for this year are that about 35 percent of the Manpower Development and Training Act programs will be directed specifically against skill shortages.

About 40 percent of them will involve the occupational reclamation of the hard-core adult unemployed and about 25 percent will be directed to disadvantaged youth.

As an approximation of the picture for 1966, I suggest to you that it will probably look about like this: There will be another 1.3 million people coming into the work force as the result of the increase in population. We also estimate that about 300,000 will be coming back into the work force, people who are presently outside it. We also estimate that there will be a decrease in the present unemployed figure of about half a million.

Senator PROXMIRE. These are all net figures?

Secretary WIRTZ. That is correct, and that the decrease in unemployment will be about half a million; our best suggestion to you is that

during the year this unemployment percentage, the overall percentage ought to move down to around 3.5 percent, compared with its present 4 percent.

Finally, about the matter of stabilization, which I know is very much on the committee's mind as it is on the country's. Briefly summarizing the situation as far as its wage aspects are concerned, my approach is one of concern but of confidence as far as this problem goes. It seems to me the important lesson of the last 5 years is that we have exploded three myths. One of those was that there had to be cycles of depression and prosperity. Another was that the price of technological advance had to be unemployment, and the other was that poverty was implacable. Those are gone now.

We have yielded to what I have called their purpose of good sense. I think the other assumption, that you have to have inflation when unemployment gets down below a certain figure is going the same course and that all this requires is the application of good sense.

We enter 1966 with a record already of extraordinary wage and price stability. The most important net figure or overall figure is that during the past 5 years real compensation per man-hour rose at an average rate of 3 percent a year, which was less than the increase in productivity.

Unit labor costs have stayed in this country during the past 5 years at remarkably stable levels. It is very substantially below the experience of the preceding 5, 10, 15 years, and significantly below the levels of unit labor cost increases in the other industrial countries with which we compete.

Unquestionably, 1965 saw some larger increase in wages and in prices than had the 4 preceding years. We have made a study of the major collective-bargaining agreements which were entered into in the first 9 months of 1965. A good many of those contracts cover 3-year periods. What they show, in general, is for each year of the contract an average increase in wage rates of about 3.3 percent. They were loaded fairly significantly in the first contract years. The first year average was 4.2 percent, but over the life of the contracts they appear to average about 3.3 percent.

We have made two recent studies of the building and construction industry. The most convenient measurement there, although not necessarily the most valid, is in terms of union wage scales.

In the settlements which were entered into in a 12-month period between July 1964 and July 1965, union wage scales went up about 4.1 percent.

Another study of a smaller number of trades, but one which brings this up to very recent figures, shows that the increase during 1965 in union wage scales in the building trades was about 3.9 percent. A comparison of average hourly earnings in this industry as a whole for the year as a whole shows a lower increase. On the other hand, the figures I have given you do not include fringe benefits, and if you include them, there will have been a higher increase during that year.

One of the interesting things that is developing is that the acceleration of wage increases during this particular period was greater in the unorganized establishments than in the unionized establishments, in percentage terms, not in cents per hour. We do not have complete

figures on those and we do not have the figures for the smaller collective bargaining agreements.

As nearly as I can pull all of these figures together, the presently available evidence indicates that average compensation per man-hour in the private economy averaged about 3.7 percent in 1965. In terms of average hourly earnings for factory production workers, including premium pay for overtime, the increase was about 3.1 percent, December to December.

I think that is a healthy record. It is right as well as understandable that the public notice is centered on wage increases which are excessive for one reason or another. I think that is all to the good. On the other hand, it tends to obscure the fact that the last 5 years have witnessed overall an unparalleled demonstration of responsible self-restraint.

As for the future, I am going to assume your questions about the wage stabilization and price stabilization policies will probably go into details which it is a mistake to try to anticipate. I note these central facts. It is a relevant practical fact that there will be a very small number of major collective bargaining agreements in 1966. It is also obvious that whatever happens as far as the manpower supply situation is concerned will affect the question of whether there will be strong wage measures or not.

It is quite clear that there is strong interaction between what happens on the wage side and what happens on the price side.

Secretary Fowler, Chairman Ackley, and Director Schultze have discussed with the committee the fiscal measures which were part of the proposal to meet this situation.

We also know there have been adjustments in the national monetary policy. You will know the degree to which the President and all of the members of his administration, including certainly the Secretary of Labor, are very clear in their commitment to the stabilization policies which are spelled out in the President's economic message and in more detail in the report of the Council of Economic Advisers.

So I say finally, Mr. Chairman and members of the committee, that the future remains in the hands of the private decisionmakers, which is right. The evidence is that the key decisions will be made responsibly and with sufficient realization of the historic gains of the last 5 years depend on the continued exercise of this responsibility.

#### PREPARED STATEMENT OF W. WILLARD WIRTZ, SECRETARY OF LABOR

Mr. Chairman, and members of the joint committee, you have requested a statement of my views regarding the manpower and stabilization aspects of the present and prospective national economic situation. I question how much, even whether, I can add to Chairman Ackley's illumination of these matters before the committee last week. I shall, in any event, start from and rely upon his comprehensive statement of the relevant facts and from his constrained understatement of the remarkable economic gains which have been made in the past 5 years.

My views proceed from unqualified commitment to the idea that full employment opportunity—letting that phrase mean all it says—is a proper, practicable, and first-priority national objective. This objective allows—in terms of the accepted measurement—for no more than the 2- to 3-percent unemployment which results (i) from “transitional” movement into the work force and from one job to another, and (ii) from the fact that a very few people in the work force (less than one-half of 1 percent) are not prepared to meet its demands. To stand

now on the "interim goal" of 4-percent unemployment is to realize that it is in fact only the 10-yard line.

This view recognizes employment and unemployment as not only economic but essentially human conditions. It counts underemployment as serious a matter—or almost as serious—as unemployment. It brings into question the definition of "employment" as the filling of whatever jobs the economic system wants filled, and inquires as well into the extent of use of individual human potentials.

In this view, the aggregate and overall average unemployment figures—which show a remarkable 5-year reduction from about 7 percent in early 1961 to about 4 percent now—are looked at coldly for their concealment of some less attractive facts:

There are still 17 major areas in which unemployment is 5.5 percent or more.

There are still more than 650,000 people—one-fifth of the unemployed—who have been out for work for 15 weeks or longer.

There are still 1¼ million "employed" who want to work full time but have only part-time work.

One out of every eight teenagers who are looking for work (half of them only for part-time work) can't find it.

Negroes still constitute one-fifth of the unemployed—double their share of the labor force. There are 200,000 unemployed Negro teenagers highly concentrated in poor neighborhoods.

Over 3 million household heads are working full time but still living in poverty.

Related considerations prompt my finding—substantial explanation of the employment successes of the past 5 years and much of the promise for the future not only in fiscal and monetary policies which affect employment by what they do to the economy but also in manpower development (or, better, human resources development) programs.

It will follow, in the development of this view, that stabilization and full employment opportunity are coordinate objectives; that neither should be or need be compromised to achieve the other; that stabilization policies will be most equitable, constructive, and effective as they take fullest account of the employment objectives, and vice versa. Just as full use of the human resources potential of the country depends upon a combination of different policies and programs, so the most effective defenses against inflation include a variety of safeguards.

Now in a little more detail—but with the anticipation of Commissioner Ross' developing the more persuasive Bureau of Labor Statistics data:

#### 1. *Employment, unemployment, and underemployment*

Five years ago (when the jobless rate was at almost 7 percent) or even two (when it was still at 5½ percent), the national purpose was necessarily and properly concentrated on strengthening and invigorating the economy so that it would produce the large number of additional jobs which were needed. If there were even then—and there were—particular concentrations of the unemployment problem, there was at the same time so general a job shortage that it had to be met on the broadest possible basis.

Chairman Ackley has hardly suggested the historic proportions of the decisions—made by an informed public through an enlightened Congress inspired by strong Presidents, advised by wise economic counselors—to make the economy a better servant of human purpose through the adoption of appropriate fiscal, monetary and budgetary policies. The increase in employment (most of it in full-time employment) by 2.4 million from December 1964 to December 1965, and the reduction in overall unemployment during that year from 5 to 4.1 percent, is only the latest index of the effectiveness of those decisions. They benefited in special measure, furthermore, those groups (unskilled workers, younger workers, and nonwhite workers) who had been bearing the brunt of the unemployment burden.

It takes nothing from the magnificence of those decisions that the country decided at the same time to do something more about some other things which bore either directly or indirectly on employment. This course of action included enactment of the Manpower Development and Training Act of 1962 and its subsequent amendments, the Vocational Education Act of 1963, the Education Acts of 1964 and 1965, the executive orders assuring equal employment opportunity and title VII of the Civil Rights Act of 1964, and the Economic Opportunity Act of 1964.

So, simultaneously with the tax cuts, a series of revolutionary manpower programs were undertaken to upgrade workers' skills and improve the matching of workers to jobs. These innovations reflected a recognition that large numbers of persons would benefit from enlightened fiscal policy only as they were freed from the effects of unenlightened racial prejudice, lack of education and training, and the larger mobility of industry than of people. The concept of an active manpower policy, geared to the individual and the locality, was recognized as a necessary component of overall national economic policy. It has become clearer that economic growth and stability require increasing the employability of workers and reducing to a minimum the human dislocations of a rapidly changing economy.

As nearly as can be measured, these programs resulted in approximately half of the reduction in unemployment in 1965. And those directly affected by these programs were almost exclusively men and women, and especially boys and girls, who would have been least affected, so far as employment was concerned, by the expansion of the economy.

At the end of 1965, over 100,000 men and women were being trained for future employment under the Manpower Development and Training Act, and 50,000 long-term adult unemployed who had previously been on public assistance were enrolled in the antipoverty work experience program. There were also between 10,000 and 40,000 otherwise unemployed individuals involved at some time during the year in implementing community action programs at the local level.

At the end of 1965, about 150,000 boys and girls 16 to 21 years of age were working in the Neighborhood Youth Corps, which provides work for students from poor families, including many in school who could not otherwise stay there. Another 17,000 boys and girls were participating in residential worker-training programs in the Job Corps. And 100,000 college students, many of whom might otherwise have been unable to continue their studies, were benefiting from the work-study program which provides part-time work.

The Great Society programs have especially aided young persons. The number of unemployed, age 16 to 21, was 175,000 less in December 1965 than a year earlier, even though their number in the labor force was actually greater by 650,000. Much of the drop in the number of unemployed among these young workers was the direct result of the antipoverty and MDTA programs.

If there should be disagreement about the extent to which the reduction of unemployment to its present level results from enlightened fiscal and monetary policies on the one hand, or from manpower, education, antipoverty, civil-rights programs on the other, there would be no disagreement—or at least very little—about the coordinate importance of these programs in meeting the unemployment problems which remain. Continued expansion of the economy will be essential if use is to be made of the expanding work force. But there is little prospect of much further reduction in unemployment except as efforts are directed specifically at the concentrations of unemployment and of unpreparedness which remain. And the manpower and related programs take on a new significance as the prospect of manpower shortages in certain areas and occupations develops.

There is not, today, an unemployment problem; there are several very different ones. That the language offers a single phrase to cover them all, and the statisticians supply a single figure, and people prefer to have as few problems as possible—all tends to result in an averaging here of success and failure.

The unemployment rate for adult men (20 years and over) is down now to 2.6 percent, and to below 2 percent for married men. Most of the 1.5 million in this group (1 million of them married) are seasonally unemployed, between jobs, or so lacking in qualifications that only extensive basic training will equip them to hold a job.

The adult women's rate is substantially higher (4 percent), but includes a larger number who are looking for part-time work. In answer to Committee Member Griffith's question at last week's hearings, our best estimate is that if the unemployment rate for women could be reduced to that for men this would be reflected in an increase of \$3 billion in the gross national product.

The unemployment rate for the 20- to 24-year-old group (male) has been running high (over 5 percent), but there is significance in recent reports indicating marked improvement in this situation.

Over half of the unemployed now have been out of work for less than 5 weeks—the first time this has been true since 1957. Less than 1 percent of those in the work force have been unemployed for 15 weeks or more. But this is over 600,000 people.

Five years ago today, there were 5,705,000 people in this country looking for work and unable to find it; over 1,600,000 had been out of work more than 14 weeks. New workers have been pouring into the work force ever since and at an increasing rate—so that every morning now there are (on the average) over 8,000 more than there were at the end of the preceding day. Yet we have cut unemployment so that there are today (making the most accurate possible estimate from last month's figures) 3,300,000 people unemployed (instead of 5,705,000) and only 600,000 of them (instead of 1,600,000) have been out of work for more than 14 weeks.

But it is the very magnificence of this broad accomplishment that makes two failures more acute, and emphasizes the necessity of looking behind the camouflage of averages that include too many different things.

The unemployment rate for teenagers is now 12 percent. This is four times the rate for adults. About 800,000 of the 3.3 million unemployed are in this group, just about a fourth; although they represent less than a tenth of the work force (about 7 million out of 75 million).

I question the validity of lumping teenagers and adults in our employment statistics. And these 14 to 19 figures both overstate and oversimplify the situation.

Half of the 800,000 teenage unemployed are in school and looking only for part-time work. Their getting it may be the difference between their being able to stay in school and their having to leave it. This problem is as serious in some ways as the problem of the unemployed father of seven children; but it is a different problem, warranting different analysis and different remedy.

Quite different situations are presented, too, by the 14- to 15-year-old group (which probably shouldn't be in the employment/unemployment statistics at all); the 16 to 17 year group (high school); and the 18 to 19 year group (college). I have asked the Bureau of Labor Statistics to separate these three groups out in future monthly reports.

One of the significant factors in the 1965 increase of 2.4 million jobs in the nonagricultural sector of the economy is that about 800,000 of this increase was in this teenage group. This is a mixed gain. To the extent that these jobs went to boys and girls who are out of school (especially those who dropped out of high school before finishing it) the satisfaction in seeing them employed instead of unemployed is mitigated by the realization that many of these jobs are unskilled jobs which will soon be replaced by machines, leaving the inadequately trained boys and girls who now have them unprepared for anything else. To the extent, on the other hand, that this job increase represents part-time jobs for boys and girls who are thereby enabled to stay in school, they obviously represent an unqualified gain.

There is increasing reason to believe that the first 20 years of most American boys' and girls' lives ought to go into one kind of training or another, perhaps in some cases into a mixture of education and work but with the emphasis on preparation. "Later starting" would make more sense today than "earlier retirement." A preemployment equivalent of social security would make eminent good sense. There is encouragement in last fall's college enrollment figures: a 200,000 increase in enrollment figures was anticipated on the basis of the population increase in this age group, but the actual increase was 495,000. Perhaps 50,000 of this reflects the decision of some boys to stay in school instead of going into military service. The rest of it is the antipoverty program at work, and civil rights maturing into civil results, and the Great Society coming true in people's lives.

The other "failure"—so far—involves nonwhite employment.

The current nonwhite unemployment rate is 7 percent—down from 9 percent a year ago, but still twice the white rate. Among teenagers, one of every four nonwhites looking for work is denied it.

This situation is improving. But as the instance of flagrant discrimination diminishes, the effects of undertraining and inferior education emerge more sharply. The MDTA and OEO programs are directed increasingly at compensating for decades of disadvantage, but the general education system moves ahead on this front more slowly.

A complex problem—to which the first, easy answers are wrong—is presented in the increasing evidence of the nonwhite worker's rejecting available unskilled, low-paid work because he knows he would have been equipped for something better if he had had a fair chance earlier, and because the work is itself a symbol of previous economic bondage.

The nonwhite unemployment problem is merging rapidly with the broader problem of the disadvantaged worker. The number of hard-core unemployed—those out of work 15 weeks or more—dropped markedly between the last quarter in 1963 and the last quarter in 1965, from over 1 million to 675,000. But this is still half a million more than the comparable figure for 1953. Any substantial further reduction in this total depends very largely on special training programs, usually including basic literacy training.

Continued expansion of the economy remains the central necessity. A decline in the rate of job creation in the economy would mean losing ground against the rapid labor force growth.

Yet the availability of jobs, even the availability of training programs, will not solve all the problems of unemployment.

An effective Employment Service is also important. A special task force on the Employment Service headed by Dean George Shultz, University of Chicago School of Business, submitted its report at the end of 1965. This expert group forcibly recommended that the Employment Service be established as a comprehensive manpower service agency providing support for government and private manpower programs.

Another dimension of program need is reflected in the pilot "human resources development program" which has been established in cooperation with civic, industry, labor, and government agencies in Chicago including the Chicago Association of Commerce and Industry, the Illinois Bureau of Employment Security, the Cook County Department of Public Assistance, the public school system, the Chicago Committee on Urban Opportunity, the Division of Rehabilitation, the Urban League, and the NAACP. The needs and capabilities of each individual are being assessed to develop a plan of action to assist him in the manner best designed to increase his employability. This includes aid and assistance to minority youngsters by providing preapprenticeship training to enable them to be indentured into apprenticeship programs. It also includes enlisting the cooperation of employers in developing jobs for the disadvantaged.

Representatives of the Department of Labor have met with officials of other cities including Los Angeles, St. Louis, East St. Louis, Houston, and Rochester, N.Y., to plan similar programs.

The setting up of Youth Opportunity Centers in over a hundred areas is another illustration of the program now underway to reach out for those who today need—to be plain about it—more than opportunity. They need a push or a pull. Quite a few of them gave up too soon. A full employment program today is not only an economic program, and not only a manpower program; it is also a human resources development program.

## *2. Manpower shortages*

Increasing concern is being expressed today about the problem not of unemployment but of prospective manpower shortages, particularly in certain areas and occupations.

At the instruction of the President, the Department of Labor has recently instituted, in cooperation with the Department of Commerce and other Government agencies, an active program of continuing surveys of possible developing manpower shortage situations. A recent report, based on a December survey and subsequent field advice, notes these illustrative items:

Continuing rapid increases in employment (up 570,000 in December, seasonally adjusted) indicate adequate general labor supply still available. Number of factory production workers passed 1956 peak for first time.

Average factory workweek (41.7 hours) highest for any December since 1945, but up only 0.2 hours over December 1964. Overtime hours at average 4 (up 0.4) since December 1964.

Employment turnover rates are inconclusive. Quit-rate in manufacturing (2.2 percent) up from December 1964 (1.6 percent), but well below Korean and World War II rates.

Few production schedules are being impeded significantly because of manpower shortages, but production backlogs and unfilled orders are increasing in a few industries, especially defense-related industries, and metalworking. In the construction industry, the short supply of certain skilled workers is resulting in bid rejections caused by too few bidders and sizable differences between the low bids and the engineers estimates.

Geographically, the number of areas with very low unemployment rates—2 percent or less—rose from 8 in November 1964 to 21 in November 1965.



The number with rates of 6 percent or more declined from 20 to 11.

The most severe labor stringencies appear to be in the most heavily industrialized Great Lakes States, particularly Michigan, Wisconsin, and Illinois. In Massachusetts and California, heavily defense-oriented States, unemployment rates in many labor areas remained at 6 percent or more in November 1965.

Occupations in shortest supply are engineers, technicians, draftsmen, metalworkers, electricians, plumbers and pipefitters, medical and health workers, and some types of mechanics and repairmen. Local employment service offices received more openings this December than in any other December since 1945.

With the possible exception of metalworking machinery, recent price rises for industrial products are not believed to be caused by shortages of labor. However, wage levels for entry level workers and in some low-paying industries are rising as a result of intense competition for available qualified workers.

Many employers are scheduling longer workweeks, raising the maximum age at which they will hire new workers, and lowering educational and experience requirements. Indications are that turnover among many of these newly hired workers is extremely high, with possible future implications for costs and prices.

These general surveys are being supplemented by special task force surveys of particular cities and industries in which there are reports of developing manpower shortages. The findings of a survey team that looked into the situation in Milwaukee, Wis., 2 weeks ago are illuminating:

"1. There is no general or critical shortage of manpower yet in Milwaukee.  
 "2. But the supply of skilled labor has been stretched near its limits; and there is a real shortage of experienced highly skilled workers, particularly machinists; also of professional workers.

"3. There is a major problem of finding acceptable workers for entry level jobs, and a considerable turnover in entry level jobs.

"4. There is little sign of production being impeded significantly by labor shortages.

"5. Delivery schedules in a number of plants are being lengthened by 1 to 2 months.

"6. There seem to have been no sharp increases in hourly wages.

"7. Hours of work are lengthening.

"8. The number of unemployed workers in Milwaukee is estimated at approximately 13,400; the quality of unemployed workers is considered very low by employers, but this reflects in part previous ability to hire experienced workers.

"9. The Negro labor force is being underutilized."

In general, it is clear that manpower shortages in certain areas and occupations are now imminently possible. The indications are that these will not be drastic shortages. But they warrant the immediate stepping up of the available training facilities.

It is likely, from the available evidence, that this development will mean that the 1.3 million increase in the work force expected for 1966 on the basis of population growth will be augmented by the return to employment of approximately 300,000 who are not now seeking work. Our estimates are that the number of presently unemployed will also be reduced by approximately 500,000 and that the unemployment rate will drop during the year—assuming fulfillment of present production prospects—to 3.5 percent or possibly a little less.

Manpower policy, it is now clear, is as important in periods of high employment as when jobs are hard to find. With rising employment and tightening job markets, the training programs have become increasingly important in easing and preventing production bottlenecks, with their consequent inflationary pressures.

The MDTA program is currently being reoriented to meet requirements for specific skills in current or prospective shortage. During the first 2 years of operation, its training programs were designed primarily to increase the skills of the hardcore unemployed so that they could qualify for the job vacancies which persisted even in the midst of widespread unemployment. The emergence of possible skill shortages, however, has required the broadening of the scope of training efforts under MDTA to include training persons who are working at less than their full potential, to enable them to meet requirements for jobs in critical demand.

Approximately 35 percent of MDTA training in 1966 will be directed specifically against skill shortages, 40 percent to the occupational reclamation of the hard-core adult unemployed, and 25 percent to disadvantaged youth.

### 3. Wages

The central point of the past 5 years' history in this country is that economic forces, like those of nature, can be shaped to human purpose without compromising the principles of the free society. Three myths have given way before the exercise of purposive good sense: That there had to be cycles of depression and prosperity; that the price of technological advance had to be unemployment; and that poverty was implacable.

Now the question is raised whether the price of prosperity in this country has to be, as it has so often been in the past, wage and price inflation; or more particularly, so far as the subject of today's discussion is concerned, whether there can be full employment without creating wage increase pressures which will lead to inflationary spiraling.

There is already, at the 5-year point in this period of unprecedented economic growth, considerable disproof of the theories of the inevitability of wage and price inflation in a period of advancing prosperity and decreasing unemployment.

Wage increases have stayed in line, in general, with increasing productivity. In fact, real compensation per man-hour rose at an average rate of 3 percent a year between 1960 and 1965, which was less than the increase in productivity.

Unit labor costs have remained remarkably level. In manufacturing industries, they rose only one-fifth of 1 percent a year during the 5-year period between 1959 and 1964. That compared with an average rise in manufacturing unit labor costs of 3.2 percent a year during the preceding 12-year period. And while these costs stayed virtually level in this country between 1959 and 1964, they went up by 11 percent in Japan, 12 percent in the United Kingdom, 15 percent in Sweden, 21 percent in West Germany, 27 percent in France, and 28 percent in the Netherlands.

In 1965, just ended, there were larger increases in both wages and prices, than had been true in the preceding 4 years.

A study of major collective-bargaining agreements negotiated during the first 9 months of 1965 shows annual average wage increases during the period of the contract of 3.3 percent. (The first year average increase was 4.2 percent, with substantially lower increases during subsequent years.) This study does not include fringe benefits in either the increases or the base upon which the increase percentages are computed.

Two recent surveys of union wage scale changes in the building and construction industry (not included in the study referred to in the preceding paragraph) show that union scales in seven key trades were 3.9 percent higher in January 1965 than in January 1964; and that the rise between July 1964 and July 1965 (using a broader coverage of trades) was 4.1 percent. A comparison of average hourly earnings in this industry for the year 1965 as a whole shows a substantially smaller increase over the 1964 average than is reflected in the scale changes. On the other hand, inclusion of fringes along with the scale changes indicates an even larger increase than in the wage rates taken alone.

There are no comprehensive surveys of smaller collective-bargaining agreement adjustments (i.e., in terms of number of employees involved) available for 1965. Previous experience indicates that they average less, in terms of wage and fringe increases, than the major agreements. Preliminary reports on wage movements in establishments which are not unionized indicate more acceleration, on the average, than in organized establishments.

The information which is presently available indicates that average compensation per man-hour in the private economy increased by 3.7 percent in 1965. Average hourly earnings for factory production workers, including premium pay for overtime, increased by 3.1 percent (on a December-to-December basis).

This is the wage record to date. It is, in general, a healthy record. The public notice which has understandably and properly been focused on those cases in which there have been excessive wage increases has tended to obscure the larger fact that the last 5 years have witnessed, overall, an unparalleled demonstration of responsible self-restraint.

The future is less clear.

It is a relevant practical fact that comparatively few major collective-bargaining agreements will be negotiated this year.

A good deal of significance attaches to the effectiveness with which the prospective, or potential, manpower shortage situation are met.

It is plain that there will be a strong interaction between what happens to prices and what happens to wages.

Secretary Fowler, Chairman Ackley, and Director Schultze have discussed with the committee the fiscal measures which the President is proposing to the Congress to assure continued stable growth.

There have been adjustments in the national monetary policy.

In addition to this, the President and all of the members of his administration have made clear their commitment to the principles of the stabilization policies embodied in the President's economic message and in the report of the Council of Economic Advisers. This commitment is reflected in a series of affirmative, and in general effective, actions.

The future remains in the hands of the private decisionmakers—which is right in a democracy. The evidence is that the key decisions will be made responsible, and with sufficient realization that the historic gains of the past 5 years depend upon the continued exercise of this responsibility.

Chairman PATMAN (presiding). Mr. Ross is to be heard next and then we will question the witnesses.

Mr. Ross. Thank you, Mr. Chairman.

I have submitted to the committee a statement of approximately 75 pages which I do not plan to read in full. May I ask that it be entered into the record?

Chairman PATMAN. It will be inserted in the record at this point.

PREPARED STATEMENT OF ARTHUR M. ROSS, COMMISSIONER, BUREAU OF LABOR STATISTICS, U.S. DEPARTMENT OF LABOR

*The Economic Situation in 1966*

SUMMARY STATEMENT

This is my first opportunity, as the newly appointed Commissioner of Labor Statistics, to appear before this distinguished committee. I hope it will not be out of place if my initial comment emerges from 25 years as a professional economist rather than 3 months as a Government servant. Over the past two decades, I have followed the hearings and reports of the Joint Economic Committee with great interest and unflinching respect. Along with the rest of the profession I have come to realize how much the country owes to this committee, as well as the Council of Economic Advisers, for indispensable contributions to economic understanding and policy. The Joint Economic Committee has truly served as an instrument of public education as well as policy review.

For this reason, I was greatly complimented by the committee's request to present a report on the current economic situation with particular reference to employment and unemployment, wages and fringe benefits, productivity and prices. The invitation was doubly welcome because, as I have been reiterating rather tiresomely since the end of October, the Bureau has a duty not only to collect and disseminate statistics but also to analyze and interpret them. This duty has been heightened by the vast operating responsibilities which have been assigned to the Department of Labor under the leadership of Secretary Wirtz. It is equally important because the Bureau serves as the principal source of economic intelligence for management and labor, the Congress and the administration, the press, the universities, and numerous other clienteles.

The Bureau is not a policymaking agency but we do desire to present our statistics and reports in a form which will have the greatest meaning and utility for decisionmakers in private and public life.

The Bureau's report therefore attempts to explain the changes in employment, wages, prices, etc., which have taken place during the past year. It undertakes to predict the course of developments throughout 1966. It points up the problems which will be encountered in maintaining economic expansion, preserving a substantial degree of price stability, and offering employment opportunity not only to those with attractive qualifications but to all who are entitled to it as a matter of right. My oral summary this morning will deal principally with the economic prospects for 1966 as we view them.

An unemployment rate of about 4 percent can hardly be regarded as exhaustion of manpower reserves to a point where further economic expansion must be reduced to a pace governed by future enlargement of the labor force. Apart from the persistence of high unemployment rates among Negroes, teenagers, and unskilled laborers, we should note the great variations from one area to another. If New York and Los Angeles have unemployment rates twice as high as Milwaukee and Detroit, if Scranton and Wheeling have rates four times as high as Lancaster and Cedar Rapids, it would be difficult to argue that manpower reserves have been exhausted. In any case the statistics do not show the extent of underemployment nor the possibilities of upgrading the skills and contributions of workers.

Our expectation is that the unemployment rate can be reduced to about 3.5 percent by the end of 1966. This figure results from our projection that real output can be increased by slightly more than 5 percent over the course of the year, and that productivity per man-hour—which I will discuss shortly—will advance by 2.8 to 3.0 percent in the total private economy. We calculate that the total labor force will rise from 79.4 million in December 1965 to 81 million in December 1966, about 300,000 more than the increase which might have been expected on the basis of the long-term trend. These additional 300,000, we believe, will be drawn into the labor force by the attraction of abundant employment opportunity.

If the military services expand in accordance with our present understanding, the civilian labor force will rise from 76.6 million in December 1965 to 78 million in December 1966. Civilian employment will rise from 73.4 million to 75.3 million; and unemployment will fall from 3.1 million to 2.7 million. (The monthly estimates are seasonally corrected.)

A forecast of this kind can only be approximate within a range of one or two tenths. Needless to say, any important change in military manpower plans, defense procurement, or the scale of hostilities in Asia would affect the projections.

I would not want to suggest that the anticipated employment increase of nearly 2 million for 1966 can be achieved as easily as an increase of even greater magnitude was accomplished in 1965. On the contrary, our projections assume that unprecedentedly vigorous measures will be taken to reconcile the characteristics of manpower demand and supply. For the fact is that they match rather poorly as we look ahead further into the year.

Up to the present, manpower shortages have been only spotty and have been subject to considerable exaggeration. But as the year progresses, three types of employees will become increasingly difficult to find: (1) engineers, scientists, doctors, economists, and other professionals; (2) skilled tradesmen in metalworking and construction; and (3) poorly paid but essential workers for hospitals, rest homes, restaurants, laundries, and other services establishments.

The labor supply will consist of the present unemployment plus the new additions to the labor force. While there were 3 million unemployed in January, 900,000 of these were teenagers. Those under 18 were mainly in school and seeking part-time work. Many of the 18- and 19-year-olds wanted full-time work, but this group, in general, does not have industrial skills or professional training. Another 900,000 were adult women, unaccustomed to heavy industrial employment where so many jobs are developing. About 300,000 were awaiting recall from temporary layoff or had already lined up jobs to begin in the future. About 300,000 had been out of work more than 26 weeks, an indication of severe economic handicaps in the active job market of 1966. (Note: There is some overlapping among these categories; they should not be added together.)

The expected increase in the labor force also requires careful analysis. On the basis of the long-term trend and the age profile of the population, one would have expected a net increase of about 650,000 males and an equal number of females. More than one-third would be teenagers, the majority in school and desiring part-time work. This picture will change as a result of military inductions and the attraction of extra people into the labor force. Inductions will reduce the number of draft age men available for civilian jobs. We expect that an extra 300,000 individuals will enter the labor force, but these will consist mainly of women and teenagers, along with some middle-aged and older men who may come out of retirement.

It is quite obvious that the matching of manpower requirements with available workers will require the most vigorous efforts. Training and upgrading:

programs of all types will have to be accelerated. Jobs will have to be redesigned. Educational and experience requirements will have to be reappraised. Substandard wages and working conditions in many establishments will have to be improved. Workers will have to be drawn out of surplus areas into shortage areas. Women, young persons and older workers will have to be used in jobs where they have not previously been employed. It can be expected that overtime work and moonlighting will become more common.

The implications concerning Negro employment are equally obvious. Professionally trained Negroes have good opportunities, but only a small percentage of Negroes have professional training as yet. About 8 percent of Negro male employees are construction or metal craftsmen, as compared with about 14 percent of white male employees. Negroes are generally welcome in the low-paid service occupations, it is true, but are increasingly reluctant to settle for substandard wages and working conditions.

Thus, further progress toward full employment will not be easy. But there was never any reason to assume that the goals of the Employment Act could be achieved without difficulty or strenuous effort. On the contrary, the lesson of American as well as foreign experience is that effective manpower utilization programs are most necessary, and can be most successful, as full employment is approached. I have always believed that a full employment goal—in terms of an unemployment ratio—cannot be defined in vacuo. It depends on the intensity of efforts to overcome the obstacles which lie in the path. In the last analysis, therefore, full employment is a political rather than a statistical concept.

The report discusses numerous measures of compensation and attempts to show how they are related. For contracts negotiated during 1965, wage increases scheduled to go into effect within 12 months from the date of settlement averaged 3.9 percent. But when all wage increases to become effective during the life of each agreement are averaged over the life of the contract, the average is 3.3 percent per year. Our information on fringe adjustments is not good, but they were probably somewhat greater than wage adjustments. We do know that union wage scales in construction rose 4.1 percent between mid-1964 and mid-1965, while increases in total compensation averaged 4.8 percent for that industry.

While union wage increases during 1965 were greater than in previous years, this tendency was even more pronounced in the case of nonunion employment. The southern textile industry, for example, granted three rounds of wage increases in a period of approximately 18 months. We also find that earnings for a selected group of occupations have been rising more rapidly in the less unionized areas than in the more highly organized areas.

Practically all measures of wage change have been moving up more rapidly in recent years, but two other facts should be pointed out in order to put the situation in perspective. First, current increases are considerably less than during the 1955-57 period, when unemployment averaged slightly more than 4 percent of the labor force. (Negotiated wage adjustments averaged 5.4 percent in 1955 and 1956, as compared with 3.9 percent in 1965.) Second, built-in escalation of the wage structure (resulting from oversized adjustments in pattern-making situations, large deferred increases, and widespread cost-of-living clauses) is by no means as great as during the Korean war or the 1955-57 period.

Under these circumstances, we do not anticipate that this year's compensation increases will differ very much from last year's except that new social security taxes, equivalent to about two-thirds of one percent, have gone into effect, and nonunion rates will probably go up more rapidly, especially in low-wage industries. Predictions concerning organized workers can be made with some assurance. Over 4 million workers will receive deferred increases, averaging about 3.2 percent, under collective agreements. Two million of these will obtain another 2 or 3 percent in accordance with escalator clauses. Relatively few major contracts are subject to renegotiation; these are concentrated in electrical products, communications, air transport, coal mining, railroads, and west coast longshoring.

As the committee knows, unit labor costs are affected not only by changes in compensation but also by movements of productivity. The increase in productivity for the private economy as a whole was 2.8 percent in 1965, a lesser rate of advance than in the previous several years. Since output per man-hour continued its rapid advance in agriculture, the retardation took place in nonagricul-

tural industries, where the rate of increase was 2.4 percent. Within the latter category, productivity in manufacturing continued to increase more rapidly than in nonmanufacturing industries.

Evidently pressure on resource supply, especially in trade and service industries, was beginning to be felt during 1965. This pressure will certainly continue throughout the present year. On the other hand, the cumulative impact of the 1964-65 investment boom, and the incorporation of new technology, will serve to maintain the rate of productivity advance. Our estimate is that the increase in output per man-hour for the total economy will be about 2.8 to 3 percent in 1966.

Finally, a word about retail and wholesale prices in 1965 and the prospect for 1966. The 2-percent rise in the Consumer Price Index between December 1964 and December 1965 was dominated by higher prices of meats and consumer services, including household, medical, and transportation services. Eggs, footwear, fuel, and tobacco products also contributed to the increase. Some observers have suggested that if the Bureau were to make greater allowance for quality improvements, the recorded increase would not be so high. It is not at all evident, however, that significant quality improvements were made during 1965 in the consumer goods which advanced in price (with the notable exception of cigarette filters). The quality of consumer services deteriorated, if anything. Quality improvements were involved in the 1-percent decline in the price index for durable consumer goods, although the removal of excise taxes was chiefly responsible for the reduction.

At the wholesale level, price increases of livestock, poultry, and eggs at the farm, and processed foods at the next stage of production, accounted for the bulk of an over all 3.4-percent increase. Other important components which advanced in price were metalworking machinery, nonferrous metals, lumber, and petroleum products. A dramatic increase in hides and skins had little effect on the wholesale index but did contribute to the rise in leather and shoe prices.

Construction costs rose about 4 percent as a result of higher costs for labor and various building materials.

Looking ahead into 1966, it is likely that price problems will be largely concentrated in the same sectors where they were located in 1965. Meat prices will continue to advance for some months at least, although probably at a slower rate. Fruit and vegetable prices, which declined in 1965, are impossible to predict. Various raw materials and industrial products are moving up to a certain extent. Whether these increases can be insulated from the consumer depends on whether other costs can be held in check and whether the President's appeal for price and wage restraint is heeded. In view of efficient new capacity, ample supply of products and high profit levels in consumer durable industries, one is entitled to optimism about the prospects of price stability there. The substantial offset against price advances elsewhere afforded by the elimination of excise taxes will not be available this year, however. And as I emphasize in the body of the report, consumer services will continue to be a problem area.

It seems evident to us that the pressure of demand this year will require the strongest vigilance to prevent excessive and harmful price increases.

In submitting our report, I know that the committee is aware that economic projections have a certain margin of error in any circumstances and are more than usually hazardous amidst the uncertainties of the present moment. I regret that our information on certain subjects—such as fringe benefits, job vacancies, and industry changes in productivity—is not what it should be. We are proposing to improve our program of data collection and analysis in these and other respects during the forthcoming fiscal year.

Notwithstanding these deficiencies, I hope that the body of our statement will contribute to the discussion of this year's splendid Economic Report.

#### I. THE EMPLOYMENT SITUATION

The year 1965 witnessed great improvements in the Nation's employment situation. The annual rise in civilian employment was the largest since 1956. This in itself was unusual coming after a long span of good years. But as the year progressed, the demand for labor accelerated, and in December was stronger than at any time during the year. By the fourth quarter of 1965, employment had reached an alltime high of nearly 73 million, and the total unemployment

rate was down to 4.2 percent,<sup>1</sup> its lowest quarterly average since the spring of 1957. The rate has since declined further.

This rapid economic growth, combined with increases in the defense program, resulted in a steadily tightening job market. Although there was no general labor shortage, stringencies in some occupations, industries, and areas became evident by the end of the year.

The 1964-65 gain in employment deserves special attention. When the year opened, the uptrend in employment had persisted longer than in any previous cycle since World War II. The annual average gain from 1963 to 1964 had been substantial (1.5 million), but it was greater in 1965, even exceeding the 1958-59 gain when the economy was recovering from a recession. Moreover, the uptrend actually steepened somewhat as the year drew to a close (chart 1).

#### *Full-time and part-time employment*

While voluntary part-time employment continued to rise in line with long-term trends, the extra growth in employment during the past 2 years was in full-time jobs. This was a sharp departure from earlier postwar trends. To illustrate this point, from 1963 to 1965 the number of workers on full-time schedules rose by 3¼ million, while the number of voluntary part time advanced by 800,000. This was a ratio of 4 to 1. From 1956 to 1963, on the other hand, the ratio was only 1½ to 1.

The accelerated growth in full-time employment since 1963 can be attributed mainly to stronger demand for labor in the goods-producing and related industries. These developments had several important consequences.

1. The number of nonfarm workers on part time for economic reasons (such as slack work or inability to find a full-time job) was reduced by 350,000 as workweeks were lengthened and more full-time jobs became available. By the fourth quarter of 1965, the number involuntarily working part time had been reduced to 1.8 million, a 10-year low.

2. A 10-year uptrend in unemployment was reversed. After recovery from each of the 1954, 1958, and 1961 recessions, the unemployment rate had leveled off at a higher point than before the recession began. In early 1964, however, a trend began which moved the rate below its pre-1961 recession levels by the end of 1964 and returned it to the average 1955-57 rates (4.2 percent) by the end of 1965. Thus, the interim goal has been achieved (chart 2).

3. The reduction in unemployment for full-time workers and for adult men was sharper than for the labor force as a whole. The unemployment rate for full-time workers, which had been very close to the total rate in early 1963, was 0.5 percentage point below in the fourth quarter of 1965. The jobless rate for men 20 years of age and over went below 3 percent for the first time since October 1953.

#### *Manufacturing employment*

Employment growth in this sector had accelerated in 1964, stimulated in large part by the tax cuts, but even the impressive performance of 1964 was exceeded in the following year. In 1965, expansion in the demand for goods was strong enough to boost employment and hours of work, even though productivity continued to rise. As a result, manufacturing employment expanded by 700,000 to a record high of 18 million, accounting for nearly one-third of the expansion in nonfarm employment over the year.<sup>2</sup> Moreover, the expansion in factory employment accelerated in the fourth quarter. Nearly every manufacturing industry reflected the yearend pickup in employment, with especially strong gains in machinery, transportation equipment, electrical equipment, and fabricated metals.

The unemployment rate in manufacturing fell very sharply over the past 2 years, reaching 3½ percent in the final quarter of 1965, its lowest level since the Korean war. In late 1965, the hiring rate was at its highest and the layoff rate at its lowest point in over 12 years. The quit rate began to rise, after a long period of stability, also indicating the greater availability of job opportunities.

<sup>1</sup> Annual data cited in this section are averages of the 12 monthly figures. Data for specific months and quarters are seasonally adjusted.

<sup>2</sup> The industry employment figures are based on establishment reports of the numbers of employees on payrolls. The figures cited are preliminary annual averages of the data for 12 months. In most industries, changes in employment from December 1964 to December 1965 were greater than year-to-year changes in the annual averages.

The number of factory production workers advanced by 600,000 to 13.4 million from 1964 to 1965. The 1963-65 developments for production workers were in sharp contrast to the trend of the preceding decade. From the end of the Korean war to 1963, the number of production workers had moved unevenly downward. In the recovery periods following each recession, the number of production workers had leveled off below the prerecession peak. With the 1963-65 upsurge, production worker employment surpassed the 1960 cyclical peak and approached the 1956-57 highs. However, it still remained well below the 1953 peak and even further below the World War II high.

Employment growth among nonproduction workers in manufacturing was somewhat smaller between 1961 and 1965 than in previous expansionary periods. This development, together with the recent surge in production jobs, has halted the advancing ratio of nonproduction workers to all employees in manufacturing. This proportion had increased over the postwar period—from 16.4 percent in 1947 to 26 percent in 1961—but held steady in the 1961-64 period and actually dipped to 25.6 percent in 1965.

The factory workweek rose sharply in 1965, accompanying the gains in employment. The evidence suggests that the upturn in overtime, which began in the fall of 1964, represented mainly a normal adjustment to the Nation's vigorous economic expansion, and was not a result of shortages of labor. Increases in hours in 1965 were attributable to a need for immediately available labor input. Since employment gains also accelerated during the year, there was clear indication that employers could find and would hire new workers.

The workweek of production workers in manufacturing industries averaged 41.1 hours in 1965, an advance of nearly one-half hour from a year earlier and the highest level recorded since World War II. Increases in the workweek occurred in virtually all major manufacturing industries, and were especially large in the durable goods industries. The entire rise in the workweek took the form of overtime work at premium pay. Overtime averaged 3.6 hours per week, up one-half hour from 1964, and was at its highest level since this series originated in 1956.

#### *Employment advances in other industries*

The service-producing industries continued to provide large numbers of new employment opportunities. Both retail trade and State and local government expanded their employment by about 400,000 between 1964 and 1965, somewhat more than in the previous year, and reached new alltime highs.

An increase of 85,000 was recorded in transportation and public utilities. This was the second consecutive year of expansion, but, at 4 million in 1965, employment in this sector averaged 200,000 below 1957 levels. The impetus for the 1964-65 gain was provided by motor freight, air transportation, and communications. These gains more than offset the continuing secular decline in railroad jobs.

Employment in contract construction rose by about 150,000 to an alltime high of 3.2 million. Rising commercial and industrial construction, which reached a new high, more than offset a slowdown in housing starts.

Mining and agriculture were the only industry divisions that did not contribute to the employment expansion in 1965. Mining employment has shown little change since 1963, apparently stabilizing at about 630,000 after a long-term decline. Agricultural employment was reduced by 200,000, about in line with long-run trends.

#### *Major occupational developments*

Mainly reflecting developments in manufacturing and construction, blue-collar employment rose 900,000, the largest gain since the Korean war. About half of the rise occurred among semiskilled operatives, with employment reaching a record high of 13.4 million. Since 1961, employment of workers in the semi-skilled occupations has grown steadily, but it was not until the first quarter of 1964 that their jobless rate began a sustained downtrend. By the fourth quarter of 1965, it had been reduced to 4.9 percent, its lowest level since 1953.

There was also a substantial employment advance—250,000—for skilled craftsmen in 1965. Employment in this occupation reached an alltime high, and by yearend the jobless rate fell below 3 percent for the first time in 12 years.

Unskilled workers found more new employment opportunities than in any year since 1951. The employment of nonfarm laborers, which had shown no persistent trend from 1952 to 1964, rose by 250,000 in 1965, with a high proportion accounted



for by teenagers. The jobless rate for laborers was reduced to less than 8 percent by the end of 1965, a 12-year low. Most of the additional jobs were in the service-producing industries, which are less affected by technological innovation.

White-collar employment continued its long-term uptrend, rising by about 1 million. The steady growth in the white-collar occupations in the last two decades has closely paralleled the very rapid rise in the service-producing industries. Nearly 75 percent of all white-collar workers are employed in trade, finance, insurance and real estate, miscellaneous services, and government. Clerical employment in the past year expanded by almost half a million. This was the largest gain in nearly a decade and followed a rise of 400,000 between 1963 and 1964. Over four-fifths of the 1965 increase was among women. Sales employment in the past 2 years advanced by 350,000, with most of the gain in the last year. The healthy economic climate in manufacturing and trade contributed to the rise in this occupation, where employment had been on a 4-year plateau. Both sales and clerical employment were at all-time highs.

The demand for professional and technical workers remained high in 1965, as 350,000 workers were added to this occupation. Over the postwar period, professional workers have been the fastest growing of all occupations, expanding at an average rate of 300,000 per year.

The only white-collar occupation which showed an employment decline was managers, officials, and proprietors. In this group, a drop in self-employment offset small increases among salaried managers.

Annual employment growth in the service occupations, which had averaged some 200,000 workers since 1961, slowed to 100,000 during 1965 because of a slight decline among private household workers (reflecting improving opportunities in other occupations) and only a moderate advance (150,000) in the other service occupations.

#### *Unemployment—Substantial improvement but continuing problems*

Improvements in the unemployment picture in 1965 were evident throughout the labor force. For adult men, full-time workers, and blue-collar workers, unemployment rates were reduced below those prevailing during the 1955-57 cyclical peak (the last time the total rate was as low as 4 percent). The same was true for married men; their jobless rate was below 2 percent by yearend. (Chart 2.) In addition, there were significant reductions in unemployment for adult women, continuing the trend which began in the spring of 1964.

Pockets of high unemployment still remained as 1965 came to an end. Despite notable improvements, the problem of providing jobs for the long-term unemployed, teenagers, and Negroes continued to require serious attention.

*The long-term unemployed.*—The average number of persons unemployed for 15 weeks or longer was down to 675,000 in the last quarter of 1965, accounting for one-fifth of total unemployment. (Chart 3.)

Declines in long-term unemployment actually accounted for nearly half of the total reduction in unemployment over the past 2 years. In absolute numbers, the net decline in the total seeking work 15 weeks or longer was 350,000. A large part of the drop was among those out of work 6 months or longer. Negroes, older workers, and unskilled workers shared in the improvement.

Despite these recent declines, the number of long-term unemployed was still about 200,000 higher than in the boom year of 1956 and about 500,000 higher than in 1953. The burden still falls disproportionately on unskilled and semiskilled manual workers and on those with no previous full-time work experience. These three groups accounted for one-half of the long-term unemployed as contrasted with only one-fourth of the civilian labor force. Similarly, while improvements have been noteworthy among Negro workers, they were still represented disproportionately among the long-term jobless.

As long-term unemployment declined, "frictional" or short-term unemployment constituted a greater share of the total number of unemployed. For the first time since 1957, fully half the unemployed had been seeking work less than 5 weeks. A large and growing proportion of the unemployed were youngsters looking for part-time work or their first full-time jobs, women reentering the labor force in search of work, or persons who had quit one job to look for another. Because this kind of "frictional" unemployment is inherent in the operations of a free and dynamic labor market, it is more difficult to reduce. However, there is no fixed level of frictional unemployment. When the demand for labor intensifies, less time is lost between jobs or in finding a first job, and frictional unemployment declines.

*Teenage jobseekers.*—The unemployment rate of teenagers rose between 1962 and 1963 and remained at very high levels in 1964, as their numbers in the labor force grew markedly. Teenagers did not share in the general reduction in jobless rates in 1964 and early 1965. (Chart 4.) This disappointing record, together with the fact that so many more would be reaching age 18 in 1965, had aroused great concern about their job outlook. As a result, extraordinary efforts to find jobs for young people were undertaken by governments, private industry, and community organizations. Enough jobs were provided to absorb the record number of young workers entering the labor force, and teenage unemployment remained unchanged at the 1964 average level of 1 million.<sup>3</sup> This must be credited as one of the major achievements on the job front during 1965.

As had been expected, an unprecedented number of teenagers were added to the labor force in 1965 (550,000 on an annual average basis), but the surprise was that an equal number obtained jobs. The over-the-year employment rise was the largest ever recorded and brought the number of employed 14-to-19-year-olds above 6 million for the first time. Teenagers, who represent less than 10 percent of total employment, accounted for 30 percent of the 1964-65 employment increase.

Although there was no reduction in the number of teenagers unemployed, the jobless rate declined slightly—from 14½ percent in 1964 to 13 percent in the second half of 1965. At this level, it was more than three times the rate for all workers. Thus, despite their success in finding jobs during the year, the unemployment of teenagers continued to represent a major problem. Moreover, their continuing high rate of labor force entry insures that it will remain a problem throughout the 1960's. During the school years, about half of the teenage unemployed are students seeking part-time jobs.

*Negro workers.*—Negroes benefited considerably in 1965 from the economic expansion and the various manpower programs. Although they still accounted for one-fifth of the unemployment total in late 1965 (twice their share of the labor force), their unemployment rate fell below 8 percent for the first time since 1957.<sup>4</sup> Adult men accounted for most of the improvement. On the other hand, there has been no gain in the employment situation for nonwhite youngsters. As in other recent years, 1 out of every 4 Negro 14-to-19-year-olds in the civilian labor force was unemployed in 1965; the number looking for jobs averaged about 200,000. The problem of Negro youth unemployment is magnified by its heavy concentration in the poorer neighborhoods of large cities.

One important reason for higher jobless rate of Negroes is the concentration of Negro workers in occupations most susceptible to unemployment. Despite continuing progress in upgrading Negro workers, even in 1965 they were still highly concentrated in unsteady, low-paying, unskilled jobs. The upgrading during the last 5 years has been a relatively slow process, moving the proportion of nonwhite workers in white-collar and craftsmen occupations from 23.8 percent in 1960 to 27.4 percent in 1965.

#### *Emerging manpower shortages*

With the sharp rise in employment and the continuing decline in unemployment, specific manpower shortages have begun to appear. The expected pressure of demand in 1966 resulting from economic growth, together with the expanding outlays and rising military manpower requirements of the Vietnam conflict, requires a careful review of the balance between manpower demand and supply.

Evidence of shortage may appear in many ways: difficulty in meeting production schedules; a slowing down in employment growth accompanied by rises in hours of work; sharp increases in earnings; rises in the quit rates; increases in unfilled job openings and declines in applications for employment. These signs of shortages may be reflected in a group of workers, an area, an occupation, or an industry. Each piece of evidence has its own significance, and each must be analyzed separately, since rarely do all the signs point in the same direction. A more detailed explanation of what some of these indicators showed in 1965 may help to clarify the present situation.

<sup>3</sup> During the school year, teenage unemployment averaged about 800,000, including about 450,000 who were seeking part-time work. The annual average is swelled by those entering the work force in the summer months to look for temporary jobs.

<sup>4</sup> Statistics for all nonwhite persons have been used to depict the employment situation for Negroes. Negroes represent about 92 percent of all nonwhites in the United States.

*Employment growth.*—The rapid and widespread employment growth in 1965 shows that labor shortages did not develop to the point where employers were unable to find the workers they needed.

The over-the-year increase in employment of adult men, however, is one sign of the tightening situation and provides some cause for concern. The number of adult men employed in December 1965 was only 400,000 greater than in December 1964. During the previous year the corresponding increase had been 700,000.

The retarded increase in employment of adult men was not entirely unexpected, however, in view of the very low unemployment levels obtaining throughout 1965.—In December 1965, the seasonally adjusted rate of unemployment for adult men was 2.6 percent, the lowest level since the latter part of 1953. This lower unemployment partly reflects the results of increased draft calls. While about 1.2 million adult men are still unemployed, allowance must be made for seasonal and frictional elements. Of the remainder, some have such severe educational or other handicaps that they are unlikely to enjoy steady work even in the most active job markets.

Falling unemployment rates for particular occupational groups are also signs of a tightening job situation (chart 5). Especially noteworthy are the recent sharp declines among key skilled and semiskilled workers, which not only reached particularly low levels last year but appear to be headed for further declines. The unemployment rate for craftsmen was down to 2.8 percent in the fourth quarter of 1965 (seasonally adjusted); this is especially significant because it is considerably below the 4.1 percent in the fourth quarter of 1964 and the 4.7 percent in the fourth quarter of 1963. Unemployment rates for professional and technical workers (at 1.4 percent in the fourth quarter of 1965) have been relatively low for several years. On the other hand, the rates for nonfarm laborers (7.7 percent) and semiskilled operatives (4.9 percent) were still fairly high in the fourth quarter of 1965. The unemployment rate of 7.7 percent in construction reflects casual employment relationships and high turnover among many construction workers. It does not negate the evident shortage in certain crafts and localities.

*Hours of work.*—Hours of work did not increase very much in 1965. The workweek in manufacturing was 41.4 hours (seasonally adjusted) in December, only one-fifth of an hour higher than a year previously. In the mining industries, transportation and public utilities, the workweek was up only fractionally. In most other industries for which data are available, there was little or no increase.

Among the major blue-collar groups, the average workweek for craftsmen and foremen was 42.3 hours in December 1965. For operatives the average was 41.6 hours, and for laborers, 35.6 hours. These workweeks were virtually unchanged from the levels of December 1963.

*Labor turnover.*—Turnover rates—particularly quit rates—provide some indication that the manpower situation tightened in 1965. The quit rate in manufacturing was about 1.9 percent per month, somewhat above the 1.5 percent average in 1964, and about the same as that of 1955 and 1956, but well below the 2.8 rate during the Korean war and the 6-percent rate during World War II. Employers still are able to find new workers, since the rate of new hires has also been rising. In December 1965, for example, the new hires rate (seasonally adjusted) was a relatively high 3.8 percent, as compared with 2.9 percent in December 1964.

*Differences among industries.*—Significant differences in the manpower situation appear when individual industries are examined. Although there were widespread reports of labor shortages in many industries, there was little real evidence that production schedules were being delayed to any significant extent, with the possible exception of metalworking and construction in some localities. This is not to say that employers found all the qualified workers they needed, for many did not. Mature, experienced and capable workers were increasingly hard to find in 1965. Nevertheless, the situation did not reach the critical stage.

Concern was voiced in late 1965 about the industries most closely related to the defense effort—aircraft and parts, ordnance, electronic components and accessories, communication equipment and private shipbuilding and repair. On an overall basis, these industries were able to increase their employment sharply in 1965. In December 1965, employment in these 5 industries reached 1,856,000,

the highest monthly level since comparable data became available in 1958. Yet the picture became mixed as the year progressed. Most of these industries complained of shortages of scientists and engineers, technicians, draftsmen, machinists and tool and die makers. At the end of 1965, there were sharp increases in hours of work. In aircraft, for example, average weekly hours reached 43.6 in December 1965 (unadjusted), nearly comparable to the levels at the time of the Korean war. There was also a substantial increase in the ratio of unfilled defense orders to shipments.

Serious manpower problems also began to emerge in the metalworking machinery industry. Although firms in this industry were able to expand employment significantly in 1965, weekly hours and overtime hours increased even more sharply. The average workweek stood at 46.3 hours in December, very close to the peak level reached during the Korean war. Difficulties in meeting production schedules, as well as recent rises in the wholesale price index for metalworking machinery, were attributed in part to manpower shortages.

Still another industry in which manpower problems emerged during 1965 was the contract construction industry, although labor stringencies do not appear to be as serious as in the other industries mentioned. Employment in this industry rose by more than 190,000 between December 1964 and December 1965, and hours of work inched up somewhat during this period. The unemployment rate for this industry dropped sharply during the year. In construction, as in other industries, the problem is one of shortages in some areas and some skills, rather than a general exhaustion of manpower reserves.

Manpower problems also arose in some of the lower paying, nondurable goods manufacturing industries and service industries. With the sharply increased demand for workers in durable goods industries, many workers moved from low-paid employment to more remunerative industries and higher skilled jobs. As a result it has become more difficult to fill positions in the low-wage industries, as well as entry-level jobs in the higher wage industries.

*Geographic differences.*—As the manpower situation differed among industries, so did it vary among geographic areas. Nearly all of the Nation's major job centers shared in the recent decline of unemployment. One-third of the 150 major labor areas—nearly double the number a year ago—achieved low unemployment rates of approximately 3 percent or less. At yearend, 19 major labor areas—the lowest number since 1957—remained in the "substantial unemployment" category, with rates of 6 percent or more, including several in California, Massachusetts, Pennsylvania, and West Virginia. Within individual cities there were heavy concentrations of unemployment in some neighborhoods, especially in the Negro ghettos such as Harlem, Watts, and West Oakland. It should also be noted that no important labor area was suffering a general labor shortage at the end of 1965.

The tightest job markets are found in the Great Lakes region (e.g., Detroit, Milwaukee, Cleveland, Cincinnati, and Chicago), where the heavy manufacturing industries are centered. Estimated unemployment in these areas was in the neighborhood of 2 to 2.5 percent toward the end of 1965.

In Detroit, the unemployment rate in November stood at 2.2 percent, the lowest since the Korean war. Production schedules in tool and die shops were being maintained only with great difficulty. Construction of hundreds of dwellings was being delayed by a shortage of carpenters. In the auto industry, however, overtime was being used successfully to maintain production schedules. In an attempt to solve their manpower problems, many employers in the area relaxed hiring specifications, used extensive overtime, and engaged in nationwide recruitment and importation of foreign workers; some factories were hiring women for jobs normally performed by men.

Unemployment in the Milwaukee area was 2.2 percent in November 1965, a 9-year low for the area. Metalworking establishments in Milwaukee were being particularly hard hit. Many firms have instituted training programs and have begun to redesign their jobs for less skilled workers and to relax hiring specifications. The backlog of orders has grown and delivery dates have been extended.

Although the unemployment rate in Cleveland stood at 2.8 percent of the area's workforce in November 1965 (only slightly less than in November 1964), labor shortages were apparently affecting production in tool and die shops, as reflected by backlogs of orders and longer delivery schedules.

Unemployment in the Cincinnati area declined from 4.4 percent in November 1964 to 3.2 percent in November 1965. Although wages still appeared to be relatively stable, some "raiding" of smaller employers was reported, particularly in machine tool, metal fabricating, and aircraft industries. In these industries, shortages of workers began to impede production.

In Chicago, the unemployment rate was 2.6 percent in November 1965, considerably lower than the 3.2 percent figure 1 year earlier. Job shortages did not appear to have significantly restrained the growth pace of the area. Nevertheless, machine and tool and die shops were being pressed to complete orders and were passing up opportunities to bid on others.

Other areas reporting manpower problems of lesser intensity are Boston, Seattle, Minneapolis, and Houston. In still other cities (including New York, Pittsburgh, Baltimore, and Philadelphia), there were no indications of serious shortages. And as already noted, job markets were relatively loose in many New England and west coast areas. Fresno, Los Angeles, and San Diego, Calif., all had unemployment rates of 5 or 6 percent, as did Fall River and Lawrence in Massachusetts. Other eastern cities, with high unemployment rates included Altoona, Scranton, Wilkes-Barre, Atlantic City, and Miami. The persistence of excessive unemployment in these cities, and in the Negro neighborhoods almost everywhere, clearly demonstrates that a 4-percent overall unemployment rate does not mean full employment.

*Occupational differences.*—From what has already been said, it is clear that three types of occupational shortages emerged in 1965. First were the professional employees—engineers, scientists, mathematicians, economists, physicians, nurses, et cetera. Second were skilled craftsmen in metalworking and construction—machinists, turret lathe and milling machine operators, sheet-metal workers, shipfitters, boilermakers, welders, carpenters, etc. Third were low paid but essentially personnel such as hospital attendants, cooks, waiters, dishwashers, domestics, tailors, and laundry and dry cleaning employees. Poor wages, unfavorable working conditions, limited opportunities for advancement, and lack of prestige combined to aggravate the hiring difficulties in these occupations.

*Usefulness of job vacancy data.*—The Department of Labor has made experimental job vacancy surveys in 16 areas, and will continue these pilot studies during the first half of 1966. Our own surveys corroborate those of private researchers in showing that vacancies can be identified and reported; that occupational, wage rate and other details can be collected so that the character of each vacancy is accurately defined; that vacancy data can be most helpful in understanding the situation in specific labor areas, especially when analyzed in connection with related labor turnover and unemployment data; and that important policy implications emerge. Examination of such data helps to indicate areas where manpower demand is seriously deficient; areas with a serious imbalance between the requirements of available jobs and the qualifications of available workers; vacancies which cannot be filled because of low wages and other unattractive conditions; situations where training and upgrading of workers must be accelerated and hiring specifications must be relaxed; situations where workers should be encouraged to come in from other areas; situations where workers must be moved more expeditiously from declining to expanding industries; and so on.

Thus the value of continuing, comprehensive knowledge of job vacancies—with occupational, wage rate and other dimensional detail—seems quite evident. The Department of Labor is proposing to initiate a full-scale program of job vacancy surveys in fiscal 1967.

#### *Prospects for 1966*

Rising manpower requirements of the Armed Forces and defense industries, combined with continued economic growth, will give rise to a greater-than-normal expansion of the labor force, raise employment levels and reduce unemployment rates below their present levels.

*Labor force expectations.*—Past trends in labor force participation rates of various age and sex groupings would produce a labor force increase of 1.3 million workers between 1965 and 1966. These trend projections would be valid if we could assume that the present size of the armed services and the overall unemployment rate of about 4 percent were to continue unchanged. In that case, the expected increases in civilian labor force and employment would be ap-

proximately equal to the growth in the total labor force. The 1.3 million trend increase would consist of the following broad groups:

Total change-----	1, 310, 000
Males, total-----	650, 000
14 to 19-----	270, 000
20 to 24-----	150, 000
25 plus-----	230, 000
Female, total-----	660, 000
14 to 19-----	190, 000
20 to 24-----	100, 000
25 plus-----	370, 000

We already know, however, that some of these assumptions, made for the purpose of long-range projections, will not hold in 1966. The armed services are expanding, rapid employment increases are occurring in some sectors of the economy, and the unemployment rate will surely decline below 4 percent. Consequently it must be expected that labor force and employment growth will diverge from the projected long-term trends during 1966.

The Armed Forces are scheduled to increase to 3.0 million by June 30, 1966, and to average 3.0 million during the year, as compared with 2.7 million in 1965. The additional 300,000 will count against the expected labor force growth of 420,000 males under 25 years of age. Rising demand for higher education, as well as increasing draft calls, has apparently boosted the number of young men enrolled in college on a full-time basis beyond expectations. Here, again, the expected net gain in the number of young men in the civilian labor force is reduced. The 1966 increase for this age group may be no more than 100,000 instead of the 420,000 implied by the trend. The 230,000 increase in men 25 and over will constitute the main additional resource of male workers for the civilian economy.

Another factor affecting labor force growth in 1966 will be the strong demand for labor. There is evidence that labor force participation of women and youngsters responds to improvement of job opportunities. The increase pace of economic activity in the next year will not only permit the reemployment of some of the jobless, and absorb the labor force growth expected on the basis of long-term trend, but will undoubtedly attract additional workers into the job market.

The size of this addition can be tentatively estimated by a previously established relationship between deviations from trend increases of employment (including Armed Forces) and deviations from trend of unemployment. Based on observed post-World War II developments, an approximated 3-to-2 ratio has been found between these two factors. For example, if employment rises by 300,000 more than trend, there would be, on average, a reduction of 200,000 in unemployment, thus leading to the employment of an additional 100,000 more than expected from groups outside the labor force.

The increase in demand for workers in 1966 will be substantially above the long-term trend rate of growth. Given the expected increase in gross national product and assuming some small increase in average hours of work, as well as an increase of 3 percent in productivity, civilian employment may rise by 1.8 million. Together with the 300,000 expansion in the armed services, this means a net increase of 2.1 million—about 800,000 more than the calculated long-term trend increase.

If the 3-to-2 ratio of employment to unemployment deviations continues to hold, the 800,000 additional posts in military and civilian activities would be filled from 2 sources. The volume of unemployment would be reduced by about 500,000, and 300,000 additional persons attracted into the labor force. Thus the labor force increase would equal 1.6 million rather than 1.3 million, as calculated from long-range projections. The total labor force would average 80.0 million for 1966. Our estimate is that if appropriate policies are pursued by private and public decisionmakers, the unemployment rate can be pushed down to about 3.5 percent by the end of this year. The sources of this greater-than-trend labor force growth may be inferred from analysis of experience in the post-World War II period. Sharp increases in labor demand such as occurred in 1951-52

and 1955-56 elicited rapid response from women and young workers. They are the main groups whose work commitment responds to changes in labor demand, since almost all men 25 to 59 years old who are not disabled are already in the labor force regardless of the shortrun employment situation.

Recent changes in total labor force by age and sex provide some further insight. From the fourth quarter of 1964 to the fourth quarter of 1965, total labor force increased by 1.7 million, including about 550,000 men and 1,150,000 women. For men 18 and 19, the actual increase was considerably less than trend, apparently due to a sharp spurt in school enrollment. Among men 55 to 64, there was a decline of about 50,000 instead of the expected trend increase of 100,000. On the other hand, the number of youths 14 to 17 in the labor force increased more than expected, but most of these were seeking part-time jobs. For all men taken together, the growth was only slightly less than the expected annual average increase.

The over-the-year change for women was 500,000 greater than the trend increase. The response to expanding job opportunities not only affected the teenagers but also the younger married women whose home and family responsibilities are frequently a deterrent to working outside the home.

There has been considerable speculation concerning the number of additional adult men who could be induced to enter the labor force with increasing demand for labor. There has been a slight slippage in labor force participation rates of adult men in recent years as compared with the highest levels of observed rates in earlier post-World War II years. This has led to the view that considerable numbers of adult men had given up the search for work, discouraged after being unable to find jobs over an extended period of time. Presumably, these men would welcome the opportunity to rejoin the labor force once sufficient job opportunities became available. However, upon closer analysis, this slippage in participation rates represents primarily some increase in the number of men able to retire on disability and a growing propensity to retire at earlier ages rather than discouragement over employment opportunities.

One bit of evidence is the fact that, as noted above, there was a decline instead of the expected increase over the past year in the number of men 55 to 64 years old in the labor force, despite expanding employment opportunities. Attempts at direct measurement of the effects of job discouragement suggest that the number is not very large. Questions are being used on the experimental Monthly Labor Survey to obtain information on this group. Persons not in the labor force who intend to look for work in the next year, or whose last job was terminated because of economic reasons are asked why they are not looking for work. Based on an average of the results for the last 6 months of 1965, the questioning revealed that only about 60,000 men, aged 25 to 64 years of age, were not looking for work because they believed no work was available. This category includes workers idled by a seasonal lull, and those who believe they can't get jobs because of racial discrimination, lack of education, inadequate training, or lack of skills or experience.

There is a possibility that a greater number of men with severe disabilities are now reporting themselves as not in the labor force. Men under age 50 may now receive disability benefits under OASDI, and there has been a considerable increase in the number of male disability beneficiaries. Although disability beneficiaries must be unemployable in order to qualify for benefits, some may have been reported as unemployed prior to receiving disability payments.

In the monthly labor force survey, there has been an increase in the number of men 35 to 64 years old who are reported as unable to work but the increase in ages 35 to 54 is only about equal to the effects of increased population. Only in ages 55 to 64 has there been some increase in the proportion of the population reported as unable to work.

In summary, young workers and women remain the primary source of additional labor supply, with relatively few adult men. Men 60 years and over, whose labor force participation rates have been declining primarily because of retirement, might conceivably provide a limited source of additional workers.

#### *Summary*

Manpower demands will clearly intensify in 1966. Continuing capital expansion, the needs of an expanding defense effort and overall economic growth will require more workers with better qualifications. Higher draft calls will reduce the potential labor supply. The industries, occupations, and areas—discussed earlier in this section—already feeling the pinch will be the ones most affected

in 1966. At the same time we face the problem of reducing unemployment in the areas where it is still excessive and offering work opportunity to those persons whose economic handicaps are so great that they cannot participate even in the unprecedented national prosperity of 1966. Thus, the period ahead will test our ability to use our human resources to an even fuller extent in order to meet production schedules, eliminate inflationary bottlenecks, maintain satisfactory economic growth, and make the promise of the Employment Act a reality for all our people.

## II. CHANGES IN COMPENSATION

In 1965 both wage increases negotiated under collective-bargaining agreements and those put into effect for unorganized workers showed the effects of the long sustained economic upturn. The effect was apparently somewhat greater on unorganized workers whose wages are more sensitive to changes in the level of economic activity. Although wage increases were higher in 1965 than in the previous year, they were generally smaller than in 1957 when a comparable rate of unemployment was last reached.

The heightened activity took the form primarily of more frequent or widespread wage increases than in previous years, although it also affected the size of wage increases in individual situations. Workers in basic steel and related industries received their first cash wage increase since 1961. In a number of other major collective bargaining situations, such as petroleum refining, men's suits and coats, and the northern cotton textile industry, the interval between general wage changes was shortened from the previous pattern in the industry.

### *Negotiated increases*

In major collective bargaining contracts concluded during 1965, the wage adjustments negotiated and scheduled to go into effect within the first contract year averaged about 3.9 percent, according to preliminary estimates, whereas in 1964 the comparable figure was 3.2 percent, and in 1963 it was 3 percent. The differences between 1964 and 1965 exaggerate the differences in total wage increases going into effect over the entire life of these contracts. The automobile contracts negotiated in 1964 provided for a very small or no first-year wage increase, while 1965 settlements in basic steel and related industries concentrated much of their wage increase in the first contract year. Moreover, because of delays in reaching some settlements, the number of workers receiving two wage increases within 12 months was relatively large in 1965. If, instead of examining only increases for the first year, all the wage increases to become effective during the life of the agreement are averaged over the length of the contract, the average is 3.3 percent per year for contracts negotiated in 1965 compared with 3 percent in 1964 and 2.3 percent in 1963.<sup>5</sup>

Earnings of workers in a group of metropolitan areas<sup>6</sup> studied by the Bureau of Labor Statistics also rose significantly faster between the fall of 1964 and the fall of 1965 than during the preceding year. For example, weekly salaries of office-clerical jobs rose about 3.4 percent from late 1964 to late 1965; during the preceding comparable period they rose about 2.8 percent. The picture for skilled maintenance jobs and for unskilled workers was similar, as table 1 indicates.

The step-up of wage advances in 1965 was apparently more marked for nonunion than for organized workers. Many nonunion plants do not change wages every year; in most recent years between 50 and 60 percent of the workers in unorganized manufacturing plants have been employed where general wage increases are put into effect in any given calendar year. However, in 1965, preliminary data indicate this proportion probably rose to about 70 or 75 percent.

Other information indicates that earnings in selected occupational groups rose somewhat faster in the less unionized than in the more highly organized cities. Generally in the years before 1965 the reverse relationship was found.

The southern cotton textile industry is the outstanding example of the quickened pace of wage activity in nonunion establishments. Wage increases these

<sup>5</sup> This analysis was based on contracts affecting 10,000 or more workers; these contracts cover about half the workers covered by all major collective bargaining situations. The survey of all major contracts refers to settlements affecting 1,000 or more workers in all industries except construction, the service trades, finance, and government. Wage changes in construction are discussed subsequently.

<sup>6</sup> The data covered 28 metropolitan areas out of the 82 areas in which the Bureau of Labor Statistics makes occupational wage surveys. Results of the 1965 surveys are available for these 28 areas. Cities in all regions of the country are included.



mills announced in mid-1965 were their third round in about 18 months; supplementary benefits were also liberalized during the year. Previously, these textile mills had made general wage changes no more often than every 2 or 3 years. The textile increases reflect not only the widespread prosperity in the country as a whole, but circumstances special to this industry, including the effect of the cotton equalization law, improved equipment and management, union organizing pressures, and increasing difficulties of recruiting textile workers from rural areas.

While the significance of these larger and more widespread increases in rates of pay should not be overlooked, two facts should be emphasized:

1. As chart 6 indicates, general wage changes during 1965 were somewhat smaller on the average than those that went into effect in 1957—the last previous year when the unemployment rate was at about the same level.

2. Available information indicates that there was less contrast between 1964 and 1965 in the size of total package settlements—i.e., in the average cost of negotiated changes in wages and fringe benefits combined—than in wage changes alone. Some of the wage increases negotiated in 1965 represent a shift in emphasis away from measures designed to increase income and job security as the rate of unemployment fell rather than a real acceleration in costs. On the average, the proportion of the settlement cost represented by changes in fringe benefits fell between 1964 and 1965. For example, a comparison of the basic steel settlement of 1962, 1963, and 1965 could yield, in terms of wages, zero increases in 1962 and 1963 and an annual rate of about 2.3 percent in 1965 (with a first-year wage increase of about 4.2 percent); in terms of wages plus benefits, the increases would be about 2 or 2.5 percent in 1962 and 1963 and about 3 percent in 1965.

#### *Earnings and compensation changes effective in 1965*

The preceding discussion has focused on decisions that were reached in 1965. Actual changes in wages and in hourly compensation (wages plus benefits) were affected not only by these decisions, but by decisions reached in earlier years: Thus, the 1964 automobile agreement to increase pensions raised expenditures on pensions in 1965. A variety of other factors, such as changes in the composition of the labor force (its distribution among jobs and industries with different wage levels), affect earnings while changes in the age and length of service of the labor force can affect expenditures on such benefits as vacations. Variations in the amount of overtime and lateshift work at premium rates can also affect average earnings.

Thus, in 1965 the effect of wage increases on average hourly earnings of manufacturing workers was partly offset by expanding employment. Because new workers are usually hired at the lower end of the wage scale, average hourly earnings in manufacturing, excluding premium pay for overtime, actually rose less in 1965 than in 1964. These hourly earnings rose 2.8 percent for December 1964 to December 1965 and 3 percent for December 1963 to December 1964.

Because hours and hence premium pay for overtime rose, gross hourly earnings advanced more in 1965 than in 1964 (table 2). In retail trade, despite a growth in employment, gross hourly earnings advanced rapidly in 1965 (about 4.8 percent), in part because of the increase in the Federal minimum wage applicable to this industry. The increase in earnings in other nonmanufacturing industries was greater than in manufacturing but less than in retail trade.

#### *Compensation increases in the construction industry*

As in other industries, the increase in construction wage rates was greater in 1965 than in 1964. Union wage scales in construction rose 3.7 percent from mid-1963 to mid-1964 but 4.1 percent between mid-1964 and mid-1965. Increases in union wage scales plus employers' contributions for benefits amounted to 4.5 percent in the earlier period and 4.8 percent in the year ending July 1965.

These figures include the changes in wage rates and benefit contributions that actually became effective between July 1964 and July 1965, including changes that had been agreed to under contracts negotiated in earlier years. To the extent that they included increases agreed to in earlier years, they do not fully reflect the current bargaining situation in the construction industry.

A special tabulation was made of the increases in construction wage rates and benefits that were agreed to in 16 major settlements covering at least 5,000 workers each. Altogether, they covered about 340,000 workers (table 3). The total increases in wage rates and benefits were averaged over the length of these

new contracts. The resulting annual increases range from 4.3 to 8.3 percent, with an average of 6.1 percent. It should be emphasized that these contracts, which were heavily concentrated on the west coast, may not be typical of the country as a whole. Moreover, there is evidence that increases negotiated in settlements affecting large numbers of construction workers exceed the increases for all settlements in industry. However, perhaps the most significant aspect of these 1965 settlements was that almost all provided substantially larger increases than the previous contracts for the same groups of workers. The annual rates of increases provided by the earlier contracts ranged from 3.4 to 6.4 percent and averaged 4.8 percent.

#### *Prospects for 1966*

The major new factor that will affect expenditures on wages and supplementary benefits in 1966 will be the increase in social security taxes that went into effect on January 1. The new rates, plus the higher taxable earnings base (which went to \$6,600 from \$4,800 a year), will add approximately two-thirds of a percent to hourly labor costs.

Except for social security taxes, other components of hourly labor costs will probably rise about as fast, on the average, in 1966 as in 1965 or perhaps slightly faster. This forecast is based on the following reasoning: (1) The further growth in employment will continue to dampen the effect of increase in wage rates, although shortages of labor may result in upgrading of workers and possibly more hours of overtime at premium rates; (2) on the average, the increase in wage rates and benefits going into effect for unionized workers will not be appreciably different in 1966 than in 1965; and (3) increases in compensation for nonunion workers will likely be larger than last year.

The estimates for organized workers can be made with some assurance since changes in wages and benefits for large numbers are already determined by agreements negotiated in 1965 or earlier. About  $4\frac{1}{4}$  million workers under major collective bargaining agreements are scheduled to receive deferred wage increases in 1966. In addition, major collective bargaining agreements for over a half million workers provide that there shall be no across-the-board wage increase during 1966. These include workers in basic steel and aluminum. Among the workers who will receive deferred wage increases during 1966 are 2 million in manufacturing, including 600,000 automobile workers, who will receive increases averaging about 10.5 cents, or 3.4 percent, as well as employees in meatpacking, the aerospace and the can industries. Others who will receive deferred increases include almost 450,000 railroad nonoperating employees, workers in retail trade, and truckdrivers, as well as about 750,000 workers in the construction industry. Deferred wage increases in manufacturing and selected non-manufacturing industries (other than construction) are summarized in table 4. The construction scale increases are concentrated at 10, 15, 20, 24, 25, 30, and 35 cents; with increases of at least 25 cents for almost 2 out of 5 construction workers scheduled to receive a deferred adjustment next year.

Even though the workers who are covered by cost-of-living escalator clauses will receive substantially larger escalator adjustments, average expenditures per hour (except for social security taxes) for all workers covered by deferred wage or benefit increases will probably rise slightly less in 1966 than in 1965. (Parenthetically, it may be pointed out that only about half as many workers are covered by cost-of-living escalator clauses as at the peak of popularity for such escalation. The wages of about 2 million workers under major contracts, including workers in the automobile, automobile parts, farm equipment, aerospace, meatpacking and trucking industries, are subject to adjustment under cost-of-living escalator clauses; in 1958 and 1959, about 4 million were under similar clauses.<sup>7</sup> Hence, during the coming year any acceleration in the increase of the Consumer Price Index will have little effect on the average on the wages of workers covered by long-term contracts that do not expire. However, even in the absence of formal escalation provisions, the course of the Consumer Price Index is a major factor in bargaining and in wage determination for unorganized workers.)

Relatively few major collective bargaining contracts are subject to renegotiation or reopening this year. As table 5 indicates, contracts for less than a fifth of

<sup>7</sup> In addition, at least 200,000 unorganized workers—mostly in establishments where union production workers have contracts—are covered by provision for cost-of-living escalation, and an estimated 325,000 production workers in nonunion and smaller union establishments in manufacturing were under cost-of-living escalator clauses in mid-1965.

the workers covered by large collective bargaining agreements (those affecting at least 5,000 workers each) are scheduled to expire during the year. Among the industries where negotiations are scheduled to take place are electrical products, telephones, air transportation, and Pacific longshoring. In addition, contracts in bituminous and anthracite coal can be renegotiated. In the railroad industry, the nonoperating brotherhoods can negotiate but they are bound by terms of existing agreements to defer any wage increase until 1967.

Of the contracts that will be renegotiated during the year, some are in industries that historically negotiate somewhat smaller increases than steel or automobiles, and none is usually pattern setting. In these 1966 contracts, the reduction in take-home pay resulting from the workers' share of higher social security taxes, plus the more rapid increase in the Consumer Price Index, may lead to some diversion of 1966 settlements away from fringe benefits toward wage increases. However, adding together the picture of deferred wage and benefit changes to anticipated changes resulting from 1966 negotiations would indicate about the same increase on the average for all organized workers as in 1965.

While 1966 will be a relatively light bargaining year, 1967 will be a heavy one. Among the contracts that will be renegotiated next year are those in automobiles, trucking, rubber, and meatpacking. As in all years, substantial numbers of construction contracts will be renegotiated.

It is more difficult to predict the course of wages in nonunion than in organized establishments. Unionized firms are, of course, committed regarding general wage increases and changes in benefits for the length of their collective bargaining agreements which, in many cases, extend for a period of at least 2 or 3 years. In periods of labor shortage, they may, of course, increase the pay of individual workers and, hence, their hourly earnings by more rapid advancement and more liberal job classification. Their costs may also rise because they employ a larger number of workers on late shifts or increase that amount of work subject to premium overtime rates, and those with escalator clause may have greater increases in cost-of-living allowances than anticipated. On the other hand, their plantwide average hourly earnings may be reduced if employment expands substantially, since new workers are often hired at below-average pay. Nevertheless, the provisions of their union contracts are the major factors affecting their hourly wage costs.

Nonunion firms, however, are free to change their wages and benefits at any time they feel they need to do so in order to compete for labor. They may give all their workers higher rates of pay—that is, make general wage increases—or, especially if they are small, they may be more liberal in adjusting the pay of individual workers. For these reasons, projections for nonunion wages are more risky than for organized workers. However, it is probable that the increases in wages in nonunion firms will be at least as large as in 1965, and three factors might cause nonunion firms to give somewhat larger increases in wages than in 1965. These are (1) growing shortages of workers; (2) the more rapid increase in prices, since nonunion employers have traditionally been heavily influenced in their wage decisions by increases in the Consumer Price Index; and (3) the reduction in workers' take-home pay resulting from their share of the higher social security tax. A new minimum wage would affect some unorganized workers, although part of the increase in wages of workers directly affected by a new minimum would probably occur anyway in response to market forces. As in the case of collective bargaining negotiations, the increase in wage rates may, in some cases, be substituted for liberalized supplementary benefits, especially in view of medicare and the 1965 increase in regular social security benefits. Hence, the increase in wage rates may not represent a net speedup in the increase in hourly compensation costs compared with 1965.

Total compensation is affected, of course, not only by wage increases but also by increases in supplementary benefits. The importance of these benefit expenditures is illustrated by information contained in table 6, which shows the expenditures on a variety of supplementary benefits as a percentage of the salary of white-collar workers in 1963. Since that time, these benefits have continued to grow. Unfortunately, the Bureau does not have adequate information on fringe benefit costs and increases. But, putting everything together our expectation is that wage and fringe adjustments (taken together) for union and nonunion employees (taken together) will not be much greater in 1966 than in 1965, apart from the advance in social security taxes.

## III. PRODUCTIVITY TRENDS

During the past few months there has been a general impression of a slowdown in our rate of productivity growth. It is important to review this development in 1965—to see whether there was, in fact, a slowdown and, if so, whether it implies a continuing lower rate of productivity gain. Such a development would have important consequences for the rate of growth of our economy, for employment, and for the costs of production, particularly employment costs per unit of output.

A real slowdown in the rate of productivity advance over a period of several years would be an unfavorable factor in the total employment situation. If there should be a drag on productivity, the factors which caused such a drag would probably have a similar effect on the growth of the economy—so the lack of sufficient economic expansion would have a negative impact on employment. At the same time, lower productivity rates would tend to result in higher rates of increases in unit labor costs.

Productivity (output per man-hour) rose 2.8 percent in 1965.<sup>8</sup> In some respects, this figure does not really indicate a drastic curtailment in the rate of productivity advancement. Past experience with data covering many years suggests that some annual fluctuations should be expected—what happens in a single year is not necessarily indicative of a new or changing longer term trend. The 1965 rate is somewhat below the postwar average annual gain of 3.2 percent, but it is certainly higher than the previous long-term rate of 2 percent (1909-47).

However, the 1965 change does seem low when it is related to two other factors—the change in output and the productivity experience in recent years (table 8).

Over the long run, technological improvement is a pervasive factor in the advancement of productivity. There is also a close relationship between changes in output and changes in productivity, particularly over short periods of time. As output increases, the productive capacity of the economy tends to be more efficiently utilized, with a resultant improvement in output per man-hour. Generally, the larger the increase in output, the larger the increase in productivity. In 1965, private GNP rose 5½ percent. Ordinarily, with this large a gain in output a productivity gain of as much as 3½ percent might be expected, rather than the less than 3-percent gain which actually occurred.

The second factor is the experience of the period 1960-64. Productivity in that 4-year span rose 3.8 percent a year, partly a result of the great technological improvements which were taking place among different industries, partly related to the high—4.6 percent—rate of gain in output. These trends led many to expect a continuation of high rates of productivity gain.

Why, then, did the productivity gain drop to a less than 3-percent rate in 1965, while output rose as much as it did? Although sufficient data are not available for accurate appraisal, a partial explanation seems to arise out of other factors which have been recognized in previous years and which also might have been expected to occur again. As the economy continues to operate at higher and higher levels to meet increasing demand, additional or reserve resources of plant and equipment, labor and management, are drawn into the production process. On the average, these additions tend to be more marginal, and often less efficient, than the average resources in use. The combination of these less efficient resources would exert some downward pressure on potential productivity increases.

A related factor is the pressure on existing capacity. An increase in the rate of capacity utilization frequently results in higher productivity of all factors—including labor and capital. However, when the utilization rate approaches its maximum, the gains in efficiency may be slowed down. Some evidence of this shows up in manufacturing where the operating rate had reached 89 percent in December 1965,<sup>9</sup> compared with a preferred rate of 92 percent. In some industries the rate was equal to or in excess of the preferred rate.

Pressures on productive resources were further indicated by the labor shortages which appeared in various occupations and regions, by the increase in average hours, and by the higher turnover rates (both accessions and quits) which occurred in 1965.

<sup>8</sup> The productivity measures used in this analysis are based on employment and man-hour data derived primarily from establishment reports.

<sup>9</sup> Sources: Federal Reserve Board and McGraw-Hill. See also Economic Report of the President, January 1966, table 9, p. 68.

It is difficult to assess the future importance of these factors because the economy has rarely experienced such long, sustained periods of growth except during wartime. Nevertheless, some of the factors which contributed to the smaller productivity gain in 1965 can be expected to continue to operate for the next few years, particularly should output continue to increase at a high rate.

At the same time, there are three other major factors at work which may act to stimulate productivity increases.

Foremost among these, perhaps, is the increase in new plant and equipment which is resulting from the unprecedented growth in capital investment over recent years and which is likely to relieve some of the pressure on capacity. In both 1964 and 1965 investment in plant and equipment increased over 10 percent; most of these gains were in the form of producers' durable equipment (table 9). Such a gain over a 2-year period has not previously occurred in the 18 years of the postwar period. This high rate of capital spending is expected to continue through 1966, according to both Government and private surveys taken in the latter part of 1965.

There is, however, a lag between the time when expenditures on plant and equipment are made and when they are realized as actual operating facilities. There is also a timelag before new facilities, incorporating technological advances, become efficiently operative (the shakedown period).

Thus, although sharp increases in investment took place in 1964, the impact on productivity was probably not significant in 1965. The cumulative increase of investment in 1964 and 1965 should have a substantial influence on productivity growth over the next few years.

A second factor is that much of the new investment not only increases the total of available capital resources, but also incorporates technological innovations. This includes the most recent technological advances as well as the accumulated improvements in products, processes, and materials brought about by the application of science and engineering. A BLS report soon to be published shows extensive advances in automation and other forms of technology taking place in all kinds of industries—manufacturing, transportation, construction, electric power production, insurance, among others.<sup>10</sup>

The third factor influencing productivity gains is related to the quality of the work force participating in the productive process. The long-term rise in educational attainment plus the intensification of various manpower development and training programs by the Government and private organizations in recent years will provide an increment to the productivity potential of the work force.

Thus, there are factors operating on both sides with regard to productivity gains. Pressures on capacity, spot labor shortages, and use of marginal resources will continue to dampen the rate of gain somewhat. On the other side, the combination of new investment, technology, and training should enable productivity to maintain its rise in manufacturing. The results in agriculture will depend upon weather and harvest.

#### *Major sectors and industries*

The trends in productivity for the private economy reflect the diverse movements which have occurred in its component sectors. Productivity in agriculture, for example, has, during both the entire postwar period and the last 5 years, outdistanced the gains in the nonagricultural economy (chart 7). From 1947 to 1965, output per man-hour in agriculture increased at the rate of 5.7 percent per year, an extremely high rate for such a long period. Over the last 5 years the average gain was 5.2 percent, including a more than 7 percent increase in 1965.

The high rate of growth in agriculture has had an important impact on the rise in productivity of the total private economy, particularly over the early and middle years of the postwar period. However, agricultural employment is now a much smaller part of the economy and the overall impact of its high productivity gains is and can be expected to be less important.

In the nonagricultural sector of the economy output per man-hour rose 3.3 percent per year during the last 5 years, higher than its postwar rate of about 2½ percent. It was in this part of the economy where by 1965 the pressures on existing capacity exerted the strongest influence, reducing the increase in 1965 to 2.4 percent, very much below the rate for the 5-year period.

<sup>10</sup> "Technological Trends in Major American Industries," BLS Bulletin 1474, February 1966.

Revised postwar data for manufacturing are not yet available<sup>11</sup> so our estimates for this sector are not quite up to date. The indications are that the average productivity gains in manufacturing for the last 5 years markedly exceeded those for the postwar period as a whole. This much better record partly reflects the larger increases in output which occurred in the period 1960-65.

Individual industries, in both manufacturing and nonmanufacturing sectors of the economy, show widely divergent movements in productivity. Unfortunately, the BLS has, thus far, been able to produce estimates for only a few industries and these do not represent an adequate cross section of the economy. Nevertheless, these few industry measures are useful to illustrate the wide range of productivity change that does occur (table 10 and chart 8).

Average annual increases in productivity as high as 6 percent or more for the period 1959-63<sup>12</sup> were experienced by industries such as gas and electric utilities, petroleum refining, tires and tubes, and railroads.

Annual increases of less than 3 percent occurred in industries such as glass containers, steel, concrete products, and footwear.

Thus, some industries experienced higher than average gains, some lower than average. It should be noted that the industry measures are based on a somewhat different concept<sup>13</sup> than the broader measures for the economy and its major sectors. Moreover, the broader measures reflect not only the trends among various industries but also the changes in the relative importance of the component industries (e.g., shift from low-productivity to high-productivity industries).

#### *Unit labor costs and real labor payments*

*Unit labor costs.*—In 1965 unit labor costs in the private economy rose slightly less than 1 percent (0.9). This increase was about half the average yearly gain for the entire postwar period; although less than the increase of 1964, it was higher than the small average gain (0.4 percent) experienced in the 4 years, 1960-64.

As can be seen in chart 9 the growth in unit labor costs during the postwar period has not been uniform. A distinct break in the direction of the trend occurred around 1960. From an annual rise of over 2 percent during the first part of the period, the rate fell to slightly over one-half of 1 percent from 1960 through 1965 (table 11).<sup>14</sup>

Unit labor costs can be viewed as the ratio of hourly compensation to productivity. Compensation includes wages and salaries plus contributions of employers to social security programs, private health, welfare, and pension funds and additional minor items of labor income.<sup>15</sup> Trends in unit labor costs reflect divergent movements in these two components. Increases in compensation per man-hour do not necessarily result in increases in labor costs per unit of output, if the former are offset by productivity gains. Over the postwar period as a whole compensation per man-hour has risen more rapidly than productivity, and unit labor costs have increased. The break in unit labor cost trends results from differential movements in the two components. Hourly compensation rose 4.3 percent a year in the 4-year period 1960-64, a smaller gain than the 5½ percent rate which occurred in the earlier part of the postwar period. At the same time, productivity in the private economy rose faster in the previous 4 years than it did for earlier years. Thus, the change in the direction of the trend of unit labor costs resulted from both greater than average increases in productivity and less than average increases in hourly compensation.

<sup>11</sup> GNP originating in manufacturing (in 1958 dollars) consistent with the revised postwar estimates of total GNP will be published by the Department of Commerce in the near future.

<sup>12</sup> Data for most industries are available only through 1963. For a few industries 1964 data are available.

<sup>13</sup> The indexes of output per man-hour for selected industries are based on the physical output concept; the broader measures covering the economy and its major sectors are based on GNP, i.e., a net output concept. The broader measures reflect not only the trends of the individual industry components but also the changes in the relative importance of these components.

<sup>14</sup> All the rates are computed on the basis of the least squares of the logarithm of the indexes. Rates derived on the basis of a single average of the percent change—compound form—may differ slightly from these.

<sup>15</sup> In order to develop hourly compensation data consistent with productivity measures (which refer to all persons engaged in the production activities of the private economy) an estimate of the wages, salaries, and fringe benefit part of the income of the self-employed was derived, and included in the compensation data.

The larger increase in unit labor costs in 1965 reflected primarily the slackening in the productivity gain since compensation per man-hour rose somewhat less than over the previous 4 years.

*Real labor payments.*—Compensation can be viewed as income for employment as well as a cost of production. As such, the trend in compensation per man-hour, adjusted to reflect real purchasing power, can be compared with the trend in output per man-hour to determine whether increases in real earnings have kept pace with productivity gains.

In the past 5 years, 1960–65, real compensation per man-hour rose 3 percent per year and did not keep pace with the greater than average advance in productivity. However, there have been other times during the postwar period when real compensation per man-hour moved up more rapidly than productivity. In fact, over the entire postwar period the average increase in real hourly compensation of all persons in the private economy was identical to the increase in productivity (chart 10).

*Unit labor cost trends in manufacturing, United States and eight industrial countries*

From the standpoint of labor cost per unit of output, American manufacturers are in a better position relative to overseas producers than they were in the late 1950's. For the United States and Canada, unit labor cost (the ratio of total labor expenditure including supplements to total output) has been nearly stable since 1957, whereas such cost has risen in Europe and Japan. The stability of U.S. labor cost applies to both the production worker and nonproduction worker segments of the manufacturing labor force, particularly since 1960.<sup>10</sup>

From 1950 to 1957, all nine countries underwent substantial inflationary pressures, varying in degree but generally sufficient to buoy unit labor costs markedly upward. Since 1957, many of the countries intensified their efforts to achieve price and cost stability as competition for foreign markets sharpened (table 13).

Nevertheless, the indexes continued to rise. Between 1957 and 1964, the increase in all-employee unit labor cost was just 5 percent in the United States and 3 percent in Canada; but 11 percent in Japan; 16 percent in Sweden and the United Kingdom; and over 20 percent in Germany and the Netherlands. The 1957–64 increase was 42 percent in France, but only 9 percent after taking account of devaluations of the franc. The increase in Italy was 17 percent, based on figures for production workers only.

More striking are the trends since 1960. For the United States and Canada, unit labor cost showed no rise at all, while cost rose 10 to 30 percent in the other seven countries. The evidence shows that many of the countries checked the labor cost rise at least temporarily between 1963 and 1964, since only the Netherlands and Italy show significant increases during that period. The rise may have resumed in 1965, however.

Preliminary U.S. data for 1965 show no increase in manufacturing unit labor cost over 1964. In fact, unit cost may have declined by a small fraction. Canada shows a small increase, estimated at about 2 percent. The European countries and Japan appear to have posted cost increases during 1965, although information is not yet complete enough to make a careful estimate. Continued wage gains abroad, together with a slower tempo of production and productivity gains, indicate unit labor cost increases of 3 to 6 percent in each of the major countries abroad.

The indexes are intended only to measure trends in unit labor cost. They do not provide absolute comparisons from country to country, nor do they measure cost trends for production factors other than labor. The indexes apply to all manufacturing industry combined for each country. Trends for individual manufacturing industries or plants may differ considerably from the trends for all manufacturing. Also, trends for nonmanufacturing industry may vary from trends for manufacturing.

#### IV. RETAIL AND WHOLESALE PRICES

It is not difficult to understand the widespread concern over the price increases that took place in the United States during 1965, because of their contrast with the unusual stability that prevailed during the preceding 6 years.

<sup>10</sup> These findings, through 1964, are contained in two articles published in the September 1965 Monthly Labor Review. The countries covered are the United States, Canada, France, Germany (Federal Republic), Italy, Japan, the Netherlands, Sweden, and the United Kingdom.

The Wholesale Price Index for December 1965 was up by 3.4 percent over a year earlier, compared with practically no change on an overall basis from 1958 through 1964. The Consumer Price Index rose by 2 percent during 1965, compared with an average annual increase of 1.3 percent in the prior 6 years.

At the same time it is important to view these developments in a broader prospective. The advance in prices last year was appreciably less than that which we experienced as recently as 1956 and 1957, and considerably smaller than the jump during the first year of the Korean conflict. The Wholesale Price Index went up 4½ percent during 1956 and the Consumer Price Index nearly 3 percent. The increase in wholesale prices moderated to about 2 percent during 1957, but consumer prices continued upward by another 3 percent.

From June 1950 to June 1951, the Wholesale Price Index jumped nearly 15 percent and the Consumer Price Index almost 9 percent. During that year, as in 1965, the largest increase was in prices of farm products (20 percent) and foods (15 percent at wholesale and 11½ percent at retail). At the same time, industrial commodities at wholesale averaged about 14 percent higher by the end of the first year of the conflict in Korea, whereas they rose by only one-tenth as much (1.4 percent) during 1965. The continued relative stability of industrial prices last year is highly significant for the 1966 price outlook.

Whether a 2-percent consumer price increase and a 3-percent wholesale price should be described as "inflation" is purely a matter of definition. From one point of view any advance in prices may be deemed inflationary. A more significant concept would involve self-reinforcing speculative phenomena such as inventory accumulation, manpower hoarding, and accelerated velocity of money. From the latter standpoint the 1965 price increases would not constitute a true inflation.

#### *Farm products and foods*

About two-thirds of the total increase in the Wholesale Price Index during 1965 was caused by advances in prices of farm products (11 percent) and processed foods (8½ percent). Nearly half of the rise in the Consumer Price Index also resulted from a 3½-percent rise in retail food prices caused largely by sharply higher meat prices. Livestock and meats had been in oversupply during 1963 and 1964, and prices were depressed causing a cutback in production and marketing, beginning in late 1964, especially for pork. Total pork production dropped about 10 percent last year and cold-storage holdings were sharply depleted. Beef production was maintained, but supplies were inadequate to meet the growth in demand. Some of the demand shifted to poultry and eggs, causing prices to rise in spite of very high production.

As a result of this situation, livestock and poultry prices averaged 31 percent higher in December 1965 than a year earlier, while egg prices were up nearly 39 percent (table 14). These increases were reflected promptly in 24 percent higher wholesale prices of meats, poultry, and fish, and in a 13½-percent advance in retail meat prices (tables 14 and 15). Eggs at retail were up by 15½ percent.

Fruit and vegetable prices also advanced sharply during the second quarter of 1965 because of a drought-shortened 1964 crop of potatoes and unfavorable weather in the fresh fruit and vegetable growing areas during the winter and early spring which hampered planting, cultivation, and harvesting operations. Retail prices of fresh fruits and vegetable reached their highs in June and July, but dropped sharply thereafter and, by yearend averaged about 3 percent below 1964 levels.

While further increases in farm and food prices are expected for 1966, the sharp advances of 1965 are not likely to be repeated. Meat prices probably will rise somewhat with higher demand, reflecting enlargement of the Armed Forces and a continued strong advance in personal incomes. Per capita consumption of meats is higher in the Armed Forces than in the population generally, and the proportion of the food dollar going for meats increases as family incomes rise. On the supply side, slaughter of cattle and calves will be lower than in 1965 if cattlemen expand their breeding herds, as expected. Lamb prices will increase for the same reason. Retail pork prices will probably rise in the next few months because the "pig crop" in the fall of 1965 was relatively small. It is possible that pork prices will decline a little in the second half of 1966 because the high "hog-corn ratio" will encourage pig production in the first half of the year.



No reliable prediction can be made concerning prices of fruits and vegetables, the second most important food category because supplies are so highly dependent on weather conditions. Heavy damage to winter vegetable crops has already been reported from the recent freezing weather which extended far into the South. After midyear, harvests of fruits and vegetables were abundant in 1965. Harvests will again be abundant this year if weather conditions are normal in the growing areas.

If the rate of increase in farm and food prices slows down this year, as expected, one of the principal sources from which upward pressure on the general price level came during 1965 will be moderated.

#### *Industrial commodities*

While the overall 1965 advance in prices of industrial commodities was quite modest, there were sharp increases for several commodities. A 47-percent rise in wholesale prices of hides and skins resulted from a strong increase in demand, particularly for export, because of a decline in exports to world markets from Argentina. There also appears to have been a strong speculative element in the runup of hide prices not warranted either by the volume of current or prospective military orders for boots and shoes. However, leather prices reacted with an increase of nearly 10 percent during 1965, and footwear prices were raised about 4½ percent at wholesale and 3½ percent at retail. Further increases in footwear prices have already been announced.

Apparel prices rose only moderately during 1965—1.3 percent at wholesale and less than 1 percent at retail. However, wholesale prices of wool products were up by 2½ percent and cotton products nearly 2 percent. After several years of suffering from overcapacity, the textile industry operated at a rate of about 95 percent of capacity against a preferred rate of around 96 percent. This development created a favorable climate for price increases, some of which probably should be characterized as "speculative." Military requirements for Vietnam involve little in the form of woolens. Purchases of cottons could have had little direct impact on the total textile market from the quantities that have been ordered so far.

Prices of nonferrous metals had begun to advance in the latter part of 1963, and the increases continued in 1964 and 1965. In December 1965, they averaged 3.7 above a year ago. Domestic producers' prices of copper ingots advanced by about 6 percent last year and copper scrap prices were up by 15 percent. Foreign producers' prices rose considerably more, and prices in the dealers' market bounced upward to as much as 70 cents a pound, nearly twice the U.S. producers' price of 36 cents. Since many U.S. copper users cannot fill their needs from domestic production, they were forced to pay the higher dealers' prices. As a result, prices of copper products have moved up sharply. During 1964 and 1965, prices of copper wire and cable products rose by an average of 17 percent, and copper tubing by 23 percent or more.

Price increases for some other nonferrous metals, including nickel, zinc, and tin, have been held in check to some extent through sales from Government stockpiles and the tariff on nickel from Canada, the major U.S. supplier, was suspended until mid-1967. While the early November increase in aluminum ingot prices was subsequently rescinded, ingot prices still had risen about 9 percent since September 1963 although not all of this increase has been passed through to prices of fabricated aluminum products. Likewise, the full effects of advances in finished steel prices for such items as tin plate, cold finished bars, and structural shapes may not yet have been reflected in prices of metal containers, machinery, and construction. By the end of last year, prices of raw durables as a whole had risen about 16 percent since September 1963, whereas prices of finished durable manufactures were up by less than 3 percent over the same period.

Machinery prices did go up last year. The largest increase was for metal-working machinery, 4 percent, while agricultural and construction machinery prices advanced 2½ percent. Prices were stable, however, for electrical machinery and equipment which has been encountering stiff import competition. With investment in new equipment continuing to rise strongly this year, there may be further price increases for some types of machinery.

Construction costs were up about 4 percent in 1965, somewhat more than in other recent years, in spite of the fact that materials prices rose only about 2 percent. Higher labor costs were the principal cause. Lumber prices averaged 4 percent higher over the year, mostly because of a 6-percent increase in southern

pine prices. Concrete reinforcing bars cost 4 percent more, while structural steel shapes were unchanged during 1965 but went up 4 percent last month. Prices of asphalt roofing also were raised about 4 percent, but gypsum products dropped more than 8 percent in price and flat glass was down 2 percent. With an increase in housing construction and a further rise in other types of construction expected for 1966, prices of building materials may advance more rapidly this year.

Prices of refined petroleum products, which had previously fallen to unusually low levels, increased more than 4½ percent at wholesale during 1965. Home heating oil prices rose nearly 3 percent, while retail gasoline and motor oil prices were up more than 3½ percent. Petroleum product prices are expected to be firm this year, but they probably will not rise as much as they did last year.

#### *Consumer durables*

For the past several years, price advances in some sectors of the economy have been offset to a considerable extent by price declines for such consumer durable goods as new cars, appliances, radio and television sets, and phonographs. List prices for many of these goods have risen somewhat, but improvements in quality have exceeded the increases in list prices. In compiling the price indexes, the Bureau of Labor Statistics adjusts the quoted prices for changes in the quality of the products insofar as possible. As a result, the Bureau of Labor Statistics price indexes for new cars have declined since 1959, and the index for electric refrigerators is now lower than it was in 1940.

The outlook for continued price stability of durable consumer goods (especially automobiles and household appliances) is good despite the fact that raw materials and certain other costs have been rising. The reasons include (a) efficient new capacity coming into use, (b) continued increases in productivity, although perhaps at a lower rate than in the past, (c) excellent profit records and (d) ample supplies on the market. At the end of December, for example, dealers had 45 days' supply of new cars in inventory, the largest for several years. In addition, the used car market has been softening somewhat. The outlook for price stability of numerous branded products such as drugs, toilet goods, soaps and detergents is also good. Major producers in the durable goods and brand-name industries have significant market control, so that one cannot predict from a supply-and-demand analysis how they will exercise their discretion in 1966. If consumer durable prices do not decline further, an important offset to price increases elsewhere in the economy would be eliminated.

Furthermore, a significant part of the 1965 price decline for consumer durables resulted from reduction or removal of the Federal excise tax on these items. Special studies by the Bureau of Labor Statistics for the Treasury and Council of Economic Advisers showed that the tax cut from 10 to 7 percent on new cars was completely passed on to consumers by manufacturers and dealers. With respect to household appliances and home entertainment equipment (radios, TV, etc.), manufacturers held their prices, permitting dealers to give their customers the full benefit of the tax cut, but about 20 to 40 percent of the dealers failed to reduce their prices accordingly. Overall, the Bureau of Labor Statistics estimated that about nine-tenths of the tax reduction was passed on to consumers in lower prices, including practically all of the retailers' tax previously levied on such items as jewelry, furs, toiletries, etc. These cuts had a downward influence on the CPI last year amounting to about 0.3 percent on the all-items index, with a large part of it applying to the durable goods segment.

The additional cut from 7 to 6 percent in the tax on new cars effective January 1, 1966, will further reduce the new car price index slightly unless Congress should rescind it. However, most of the other excise tax reductions this year relate to services, such as telephone, movie admissions, cabarets, club dues, etc. Prices of consumer durables other than new cars will not be subject to any further downward influence from this source.

While the picture for consumer durables is mixed, the combination of efficient new productive capacity, ample supply of products and high profit levels entitles one to be optimistic about the prospects of price stability.

#### *Consumer services*

One of the principal causes of the upward creep of the Consumer Price Index since 1958 has been the persistent rise in prices of consumer services. Rents have risen steadily, by a little more than 1 percent a year; but other services have shown much sharper increases. Likewise in 1965, rents went up by just 1 percent, while the advance for other services averaged 2.9 percent.

Transportation service costs rose nearly 4 percent in 1965, mostly because of sharp increases in automobile insurance premiums (10½ percent) and in charges for automobile repairs (2½ percent). Public transit rates averaged about 1½ percent higher over the year.

The cost of housekeeping services (domestic service, babysitters, laundry, child care, etc.) advanced 4½ percent last year, and personal care service (mostly barber and beauty shops) were up by 3 percent. Home maintenance and repair services cost 3½ percent more. The proportion of the consumer dollar spent for services rises as incomes increase, and the service industries have not been well prepared to meet the greater demand thrust upon them in recent years. Wages in these industries are traditionally low, but they constitute a large element in operating costs. Productivity improves very slowly, if at all, and any rise in wages tends to be promptly translated into higher prices.

In spite of the fact that average hourly earnings of workers in the service industries rose more rapidly than they did for workers in manufacturing during 1965, the service industries found it difficult to obtain and keep competent employees. The quality of services deteriorated further and prices were raised. Manpower training programs have been instituted to prepare people for work in the service industries, but not on an adequate scale to meet the need. It seems inevitable that wages will have to be raised in order to attract workers into the service industries. These industries are not characterized by large, profitable enterprises which can successfully be drawn into a program of voluntary price restraint.

Medical care, among consumer services, has many special aspects. With the rapid growth of medical and hospital insurance programs paid for partially or entirely by employers, many families have been able to enjoy adequate medical care for the first time. This has put a tremendous strain on hospital facilities and on the supply of doctors and nurses. Wages of service personnel in hospitals, like those in other service industries, have risen somewhat from their traditionally low level, but are still not high enough to attract sufficient workers.

The number of physicians, in relation to the population, has not increased for several decades despite the greatly expanded demand for their services. It is estimated that general practitioners had an average workload of 169 patients per week in 1965, up sharply in just 1 year from 157 in 1964. When the medicare program becomes effective at mid-year 1966, the load on medical facilities and personnel seems sure to increase greatly, since many of the elderly who have not been able to afford adequate medical care will desire to take prompt advantage of this opportunity. Unless effective measures can be taken to augment facilities and manpower in medical services, costs will advance more sharply than the 3½-percent increase that took place in 1965.

#### *Summary of the price outlook*

As noted earlier, one of the most significant aspects of the current picture is the modest extent of the overall advance in industrial prices during 1965, compared with the first year of the Korean conflict and even with 1956 and 1957. Chemicals, textiles, paper and rubber showed only moderate price increases last year, as did metal products and machinery on the whole (finished steel prices were up by only 1.4 percent). Price of nonmetallic mineral products were stable, and furniture and other household durables at the wholesale level actually declined slightly.

This continued relative stability of industrial prices is particularly important since higher costs for these basic items would eventually be reflected in higher prices for finished producer and consumer goods. The experience of several other industrialized countries in this respect will illustrate the point.

Since 1958, the U.S. wholesale price index has risen by only 3.7 percent, compared with about 12 percent in Canada, 9 percent in Belgium, 15 percent in Denmark, 21 percent in France, 8 percent in West Germany, 11 percent in Italy, 5½ percent in Japan, and 10 percent in Switzerland. These differentials between U.S. price increases and those of other countries undoubtedly have made a major contribution to improvements in our balance of trade and to the solution of our international payments problems. Furthermore, although most of the countries listed were able to slow down the rate of advance in their primary market prices during 1965, their consumer prices continued to rise at a more rapid rate than the United States. Compared with the 2-percent rise in our Consumer Price Index, consumer price indexes increased by about 2½ to 3 percent in Belgium, Canada, West Germany, France, and Italy; 4 percent in Switzerland; 9 percent in Denmark; and 10 percent in Japan. Considering the moderation of

the advance in our industrial prices, I would not expect the Consumer Price Index in the United States to show as much increase in 1966 as most other countries had last year, in spite of the scheduled military buildup.

Needless to say, deescalation or cessation of hostilities in Vietnam would change the picture, as would a drastic enlargement of the conflict. It seems evident to us that the pressure of demand this year will require the strongest vigilance to prevent excessive and harmful price increases.

TABLE 1.—Median area percent of increase in average earnings of selected occupational groups in 28 metropolitan areas, selected periods<sup>1</sup>

Occupational groups	Year ending in latter part of—	
	1965	1964
Office clerical (men and women).....	3.4	2.8
Skilled maintenance trades (men).....	3.7	3.0
Unskilled plant workers (men).....	3.3	2.7

<sup>1</sup> Source: Locality occupational wage survey program. Wage rate data for individual areas relate to a month in August–December 1965 and to the same months in 1964 and 1963; estimates for skilled maintenance workers based on 27 areas.

TABLE 2.—Average hourly earnings in selected industries, December of 1962–65

Industry	December 1962	December 1963	December 1964	December 1965 <sup>1</sup>	Percent increase		
					1962–63	1963–64	1964–65
Manufacturing.....	\$2.43	\$2.51	\$2.58	\$2.66	3.3	2.8	3.1
Mining.....	2.74	2.78	2.86	2.97	1.5	2.9	3.8
Contract construction.....	3.41	3.53	3.63	3.76	3.5	2.8	3.6
Wholesale trade.....	2.41	2.48	2.55	2.65	2.9	2.8	3.9
Retail trade <sup>2</sup> .....	1.74	1.81	1.87	1.96	4.0	3.3	4.8
Finance, insurance, and real estate.....			2.34	2.43			3.8

<sup>1</sup> Preliminary.

<sup>2</sup> Excludes eating and drinking places.

TABLE 3.—Annual rate of increase in wage scales and benefits in selected major building trades settlements, 1965

Situation	Annual rate of increase (percent)	
	1965 settlements	Previous settlement in same situations
Philadelphia carpenters.....	4.3	3.8
Chicago carpenters.....	5.1	3.9
Chicago sheet metal workers.....	5.2	4.4
Eastern Washington and northern Idaho carpenters.....	5.3	4.7
Western Washington building laborers.....	5.4	4.3
Southern California carpenters.....	5.4	4.5
Western Washington carpenters.....	5.4	5.0
Southern California cement masons.....	5.6	4.7
Southern California operating engineers.....	5.7	5.1
Chicago laborers.....	5.7	5.6
Southern California building laborers.....	5.8	3.4
San Francisco Bay area carpenters.....	6.8	6.4
Oregon and southwestern Washington carpenters.....	6.9	4.9
Northern California laborers.....	7.8	6.3
Oregon laborers.....	8.0	4.0
Northern California carpenters.....	8.3	5.4

NOTE.—Information taken predominantly from secondary sources.

TABLE 4.—*Deferred wage increases, major collective bargaining situations, 1962-66.*<sup>1</sup>

Average deferred wage increase (cents per hour)	Approximate number of workers affected (in thousands)				
	1962	1963	1964	1965	1966
All deferred increases .....	1,970	2,636	2,154	3,091	2,304
Under 5 cents.....	77	188	204	99	143
5 and under 6 cents.....	127	196	190	183	159
6 and under 7 cents.....	839	573	341	325	294
7 and under 8 cents.....	224	873	353	987	192
8 and under 9 cents.....	254	129	118	391	475
9 and under 10 cents.....	147	123	69	555	617
10 and under 11 cents.....	97	241	125	208	1,151
11 and under 12 cents.....	82	208	48	99	113
12 and under 13 cents.....	32	38	13	169	81
13 and under 14 cents.....	40	33	30	9	1
14 cents and over.....	50	64	37	59	71
Not specified or not computed.....	3	19	13	8	13

<sup>1</sup> Average increase for all workers covered by a settlement. Excludes construction, the service trades, finance, and government.

<sup>2</sup> Includes 195,000 workers in 1966, 101,000 in 1964, and 112,000 in 1963 employed where deferred wage increases were provided but estimates of the average increase for each bargaining unit were not made.

TABLE 5.—*Expiration dates specified in 306 agreements covering 5,000 workers or more*<sup>1</sup>

Year and month	Number of agreements	Number of workers (thousands)	Significant contract expirations
Total .....	306	5,243.5	
1966.....	93	976.2	
January.....	3	34.2	
February.....	5	29.7	
March.....	2	13.0	
April.....	8	55.6	Construction.
May.....	7	65.5	
June.....	13	143.0	Construction; Pacific longshoring.
July.....	5	41.7	
August.....	5	33.6	Apparel.
September.....	13	120.6	Communications.
October.....	17	252.3	Electrical products; communications.
November.....	8	134.5	Communications.
December.....	7	52.5	
1967.....	107	2,063.9	
January.....	6	175.8	Apparel (dresses).
February.....	5	94.3	Food products.
March.....	28	453.4	Trucking; communications; paper.
April.....	9	125.4	Rubber.
May.....	18	238.0	Food products; apparel; construction.
June.....	4	40.7	
July.....	3	31.5	
August.....	9	90.8	Food products (meatpacking).
September.....	10	682.3	Automobiles; machinery.
October.....	6	61.1	Machinery.
November.....	6	49.3	
December.....	3	21.3	
1968.....	75	1,231.1	
January-June.....	45	616.6	Aluminum; fabricated metal; apparel (men's clothing).
July-December.....	30	614.5	Steel; aircraft; maritime.
1969.....	14	168.1	Hotels and restaurants; construction; maritime.
1970.....	5	82.5	Construction.
Open end.....	12	721.7	Coal mining; railroads.

<sup>1</sup> Based on agreements known to be in effect on Jan. 1, 1966. For 45 situations, covering 434,300 workers, agreements effective in 1966 were not available.

TABLE 6.—*Supplementary compensation for nonproduction employees in private industry, 1963*

[Average employer expenditures as a percent of basic salaries]

Item	All reporting employers	Employers with expenditures
Total paid leave, excluding sick leave.....	8.0	8.0
Vactions.....	4.8	4.8
Holidays.....	2.9	3.0
Miscellaneous paid leave <sup>1</sup> .....	.3	.4
Retirement programs.....	7.4	7.4
Legally required programs.....	2.6	2.6
Private pension and retirement plans.....	4.9	5.5
Unemployment programs.....	1.6	1.6
Legally required programs.....	1.5	1.5
Severance or dismissal pay.....	.1	.3
Supplemental unemployment benefits.....	( <sup>2</sup> )	.3
Health benefit programs.....	4.2	4.2
Legally required work-connected disability programs.....	0.3	0.3
Other legally required programs <sup>3</sup> .....	( <sup>2</sup> )	.2
Sick leave.....	1.5	1.6
Health, accident, and life insurance.....	2.5	2.6
Life insurance, accidental death and dismemberment insurance, and death benefits.....	0.9	1.0
Hospitalization, surgical, and medical plans and sickness and accident insurance.....	1.6	1.6
Savings and thrift plans.....	.3	2.5
Yearend and other special bonuses.....	2.3	4.6
Penalty pay.....	3.2	3.3
Total overtime pay.....	3.0	3.1
At straight-time rates.....	2.1	2.1
At premium rates.....	.9	1.0
Shift differentials.....	0.2	0.4

<sup>1</sup>Includes military, jury, witness, voting, and personal leave.

<sup>2</sup>Less than 0.05 percent.

<sup>3</sup>Primarily temporary disability insurance.

TABLE 7.—*Average annual percent change<sup>1</sup> in output per man-hour and related data, 1947-65*

Item	1947-65	1960-65
Total private economy:		
Output per man-hour <sup>2</sup> .....	3.2	3.7
Output.....	3.6	4.8
Employment.....	.8	1.2
Man-hours.....	.4	1.1
Agriculture:		
Output per man-hour.....	5.7	5.2
Output.....	1.4	1.0
Employment.....	-3.3	-4.0
Man-hours.....	-4.0	-3.9
Nonagriculture:		
Output per man-hour.....	2.6	3.3
Output.....	3.7	5.0
Employment.....	1.3	1.7
Man-hours.....	1.0	1.6

<sup>1</sup> Computed from least squares trend of the logarithms of the indexes.

<sup>2</sup> Output refers to gross national product in 1958 dollars; man-hours based primarily on establishment reports.

TABLE 8.—Year-to-year percent change in output, output per man-hour, man-hours, 1947-65<sup>1</sup>

Period	Total private economy			Agriculture			Nonagriculture		
	Output	Output per man-hour	Man-hours	Output	Output per man-hour	Man-Hours	Output	Output per man-hour	Man-hours
1947 to 1948	4.9	4.2	0.5	11.8	16.2	-3.7	4.4	3.0	1.4
1948 to 1949	-3	3.2	-3.3	-3.2	-2.5	-6	-1	3.9	-3.8
1949 to 1950	10.3	8.3	1.9	5.4	13.8	-7.4	10.6	6.4	3.9
1950 to 1951	6.3	2.9	3.3	-5.2	2	-5.2	7.0	2.0	4.9
1951 to 1952	2.5	1.9	.6	3.3	8.4	-4.8	2.5	1.0	1.5
1952 to 1953	5.0	4.1	.8	5.3	13.1	-6.9	5.0	2.9	2.1
1953 to 1954	-1.3	2.3	-3.5	2.0	5.1	-2.9	-1.5	2.2	-3.6
1954 to 1955	8.5	4.4	3.9	2.6	6	1.8	8.9	4.4	4.3
1955 to 1956	1.9	.1	1.8	-5	4.1	-4.4	2.0	-6	2.7
1956 to 1957	1.4	3.0	-1.5	-2.4	5.7	-7.7	1.6	2.2	-6
1957 to 1958	-1.3	2.9	-4.2	2.5	10.4	-7.1	-1.5	2.5	-3.8
1958 to 1959	7.0	3.7	3.2	1.4	1.7	-3	7.3	3.5	3.6
1959 to 1960	2.5	1.6	.9	3.8	5.3	-1.5	2.4	1.3	1.2
1960 to 1961	1.9	3.4	-1.5	1.4	7.9	-6.0	1.9	2.9	-1.0
1961 to 1962	6.8	4.6	2.0	-5	2.0	-2.4	7.1	4.6	2.4
1962 to 1963	4.0	3.5	.6	3.6	9.2	-5.2	4.0	2.8	1.2
1963 to 1964	5.2	3.6	1.6	-2.0	9	-3.5	5.6	3.6	2.1
1964 to 1965	5.7	2.8	2.8	4.5	7.3	-2.6	5.7	2.4	3.3

<sup>1</sup> Output refers to the gross national product in constant dollars; man-hours based primarily on establishment reports of the Bureau of Labor Statistics.

TABLE 9.—Year-to-year percent change in constant dollar capital investment, 1947-65

Period	Nonresidential fixed investment	Producers' durable equipment	Period	Nonresidential fixed investment	Producers' durable equipment
1947-48	5.0	4.5	1956-57	0.2	1.0
1948-49	-9.2	-12.1	1957-58	-12.2	-14.1
1949-50	8.7	9.7	1958-59	6.0	11.6
1950-51	5.6	2.8	1959-60	6.8	6.1
1951-52	-3.3	-3.5	1960-61	-3.4	-5.1
1952-53	6.3	4.9	1961-62	9.2	12.8
1953-54	-2.7	-5.0	1962-63	4.4	6.6
1954-55	10.9	13.1	1963-64	10.0	13.3
1955-56	7.7	4.0	1964-65	13.8	14.4

Source: Survey of Current Business.

TABLE 10.—Output per man-hour in selected industries, average annual percent change, 1959-63

Industry	All employees	Production workers
Bituminous coal and lignite mining.....	(1)	8.0
Coal mining.....	(1)	8.0
Copper mining, recoverable metal.....	(1)	25.3
Gas and electric utilities.....	26.8	27.3
Iron mining, usable ore.....	(1)	6.2
Railroads, revenue traffic.....	26.3	26.4
Candy and other confectionery products.....	2.8	2.2
Cement, hydraulic.....	5.7	6.3
Concrete products.....	2.3	2.9
Flour and other grain mill products.....	6.2	5.4
Footwear.....	1.0	0.8
Glass containers.....	2.3	2.3
Malt liquors.....	5.3	4.9
Manmade fibers.....	3.9	4.4
Paper, paperboard, and pulp mills.....	5.2	5.4
Petroleum refining.....	6.0	6.5
Primary aluminum.....	4.7	4.8
Primary smelting and refining of copper, lead, and zinc.....	4.4	3.8
Steel.....	22.9	22.4
Tires and inner tubes.....	6.2	6.4
Cigars.....	7.5	7.8
Cigarettes, chewing and smoking tobacco, and snuff.....	5.4	5.8

<sup>1</sup> Not available.

<sup>2</sup> 1959-64.

<sup>3</sup> Nonsupervisory workers.

TABLE 11.—Average annual rates of change in output per man-hour, hourly compensation, and unit labor costs in the private economy for selected years<sup>1</sup>

Item	1947-65	1960-65
Unit labor costs.....	1.8	0.6
Output per man-hour.....	3.2	3.7
Compensation per man-hour.....	5.0	4.2
Real compensation per man-hour.....	3.2	3.0

<sup>1</sup> All rates computed from the least squares trend of the logarithms of the index numbers.

TABLE 12.—Indexes of output per man-hour, compensation per man-hour and unit labor costs in the private economy, 1947-65

[1957-59=100]

Year	Output per man-hour	Compensation per man-hour	Unit labor costs	Year	Output per man-hour	Compensation per man-hour	Unit labor costs
1947.....	69.2	54.5	78.8	1957.....	96.9	95.8	98.9
1948.....	72.1	59.3	82.2	1958.....	99.7	99.7	100.1
1949.....	74.4	60.3	81.0	1959.....	103.4	104.4	101.0
1950.....	80.6	64.5	80.0	1960.....	105.1	108.5	103.2
1951.....	82.9	70.9	85.5	1961.....	108.7	112.5	103.5
1952.....	84.5	75.3	89.1	1962.....	113.7	117.5	103.3
1953.....	88.0	80.1	91.0	1963.....	117.7	122.1	103.7
1954.....	90.0	82.5	91.7	1964.....	121.9	128.3	105.3
1955.....	94.0	85.1	90.5	1965.....	125.3	133.2	106.2
1956.....	94.1	90.0	95.6				



TABLE 13.—Indexes of unit labor cost in manufacturing for selected countries, 1950-64

(1957=100)

Selected countries	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964 <sup>1</sup>
NATIONAL CURRENCY BASIS															
All employees:															
United States:															
Series A <sup>2</sup> .....	80	87	91	93	95	92	96	100	103	101	101	101	101	100	99
Series B <sup>3</sup> .....	76	82	86	90	92	90	97	100	102	102	106	106	104	105	105
Canada.....	77	84	90	92	94	91	93	100	101	101	104	103	102	103	103
France.....	50	67	76	80	82	87	92	100	113	115	115	123	132	141	142
Germany, Federal Republic of.....	87	97	95	93	92	92	99	100	103	102	105	111	119	123	124
Japan.....	109	107	113	102	105	106	106	100	106	100	98	100	108	113	111
The Netherlands.....	72	78	81	78	81	85	92	100	103	98	100	108	111	119	126
Sweden.....	60	69	83	87	91	95	99	100	102	101	102	106	113	116	116
The United Kingdom.....	69	74	83	84	85	88	96	100	105	104	105	113	117	116	117
Production workers:															
United States:															
Series A <sup>2</sup> .....	87	95	97	98	97	95	98	100	100	98	98	95	95	95	94
Series B <sup>3</sup> .....	83	89	92	95	94	92	98	100	100	99	102	100	99	100	100
Germany, Federal Republic of.....	89	100	97	94	91	94	100	100	102	100	102	108	114	116	117
Italy.....	109	107	111	106	102	100	101	100	98	91	91	92	99	109	114
Sweden <sup>4</sup> .....	63	74	88	89	93	96	100	100	100	98	98	101	105	107	106
The United Kingdom.....	71	75	83	86	87	90	98	100	103	102	103	109	111	110	110
U.S. DOLLAR BASIS <sup>5</sup>															
All employees:															
Canada.....		76	88	90	92	88	91	100	100	100	103	97	92	91	91
France.....	54	73	82	86	88	94	100	100	93	88	89	94	101	108	109
Germany, Federal Republic of.....	87	97	95	93	92	92	99	100	103	102	105	117	125	129	130
The Netherlands.....	72	78	81	78	81	85	92	100	103	98	100	114	118	126	133
Production workers:															
Germany, Federal Republic of.....	89	100	97	94	91	94	100	100	102	100	102	113	120	122	123

<sup>1</sup> Preliminary.

<sup>2</sup> Based on Federal Reserve Board index of manufacturing production.

<sup>3</sup> Based on estimates of gross national product originating in manufacturing, published by the U.S. Department of Commerce, Office of Business Economics.

<sup>4</sup> Manufacturing and mining.

<sup>5</sup> Adjusted for changes in the official or commercial exchange rate. Until 1961, the Canadian dollar had no par value and was allowed to fluctuate freely in international exchange

markets. Adjustments for France are based upon changes that occurred in 1957 and 1958. Adjustments for Germany and the Netherlands are based upon changes in par value that occurred in March 1961.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Division of Foreign Labor Conditions (BIC), February 1966.

TABLE 14.—*Change in wholesale prices during 1965, major components and selected specific items*

Commodity	Percent change December 1964 to December 1965	Effect on all commodities index <sup>1</sup>
All commodities.....	+3.4	-----
Farm products <sup>2</sup> .....	+11.1	+1.1
Fresh and dried fruits and vegetables.....	-6.6	-.1
Livestock and poultry.....	+31.2	+1.0
Eggs.....	+38.6	+2
Processed foods <sup>2</sup> .....	+8.5	+1.2
Meats, poultry, and fish.....	+24.3	+1.0
Canned and frozen fruits and vegetables.....	+3.2	0
Refined vegetable oils.....	+11.3	0
Industrial commodities <sup>2</sup> .....	+1.4	+1.1
Hides and skins.....	+46.7	0
Silk products.....	+22.3	0
Leather.....	+9.9	0
Wastepaper.....	+9.1	0
Petroleum products, refined.....	+4.7	+2
Footwear.....	+4.4	0
Lumber.....	+4.2	+1
Metalworking machinery and equipment.....	+4.1	+1
Metal containers.....	+4.0	0
Gas fuels.....	+3.7	0
Nonferrous metals.....	+3.7	+1
Asphalt roofing.....	+3.7	0
Fertilizer materials.....	+3.1	0
Agricultural machinery and equipment.....	+2.5	0
Construction machinery and equipment.....	+2.5	0
Household appliances.....	-2.0	0
Flat glass.....	-2.2	0
Television, radio receivers, and phonographs.....	-2.4	0
Manmade fiber textile products.....	-5.1	-.1
Fats and oils, inedible.....	-5.7	0
Gypsum products.....	-8.3	0

<sup>1</sup> The change (increase or decrease) for each listed product alone would have caused the all-commodities index to go up or down by the amount shown.

<sup>2</sup> Includes a number of products in addition to those listed.

TABLE 15.—*Change in consumer prices during 1965, major components and selected specific items*

Item	Percent change December 1964 to December 1965	Effect on all items index <sup>1</sup>
All items.....	+2.0	-----
Food <sup>2</sup> .....	+3.5	0.8
Meats.....	+13.5	.6
Fruits and vegetables.....	-3.1	-.1
Eggs.....	+15.5	.1
Other nondurable commodities <sup>2</sup> .....	+2.0	.5
Footwear.....	+3.5	.1
Gasoline and motor oil.....	+3.7	.1
Tobacco products.....	<sup>3</sup> +7.4	.1
Durable commodities <sup>2</sup> .....	-1.0	-.2
New cars.....	<sup>4</sup> -2.9	-.1
Used cars.....	-4.4	-.1
Appliances.....	-3.2	0
Services <sup>2</sup> .....	+2.7	.9
Rent of house or apartment <sup>5</sup> .....	+1.0	.1
Other household services <sup>5</sup> .....	+2.4	.3
Transportation services.....	+3.9	.2
Medical care services.....	+3.5	.2

<sup>1</sup> The change (increase or decrease) for each listed product alone would have caused the all items index to go up or down by the amount shown.

<sup>2</sup> Includes a number of items in addition to those listed.

<sup>3</sup> Due mostly to increases in State taxes on cigarettes and other tobacco products.

<sup>4</sup> Largely the result of reduction or elimination of Federal excise taxes.

<sup>5</sup> Covers mainly domestic service, babysitters, laundry, and drycleaning.

Chart 1.

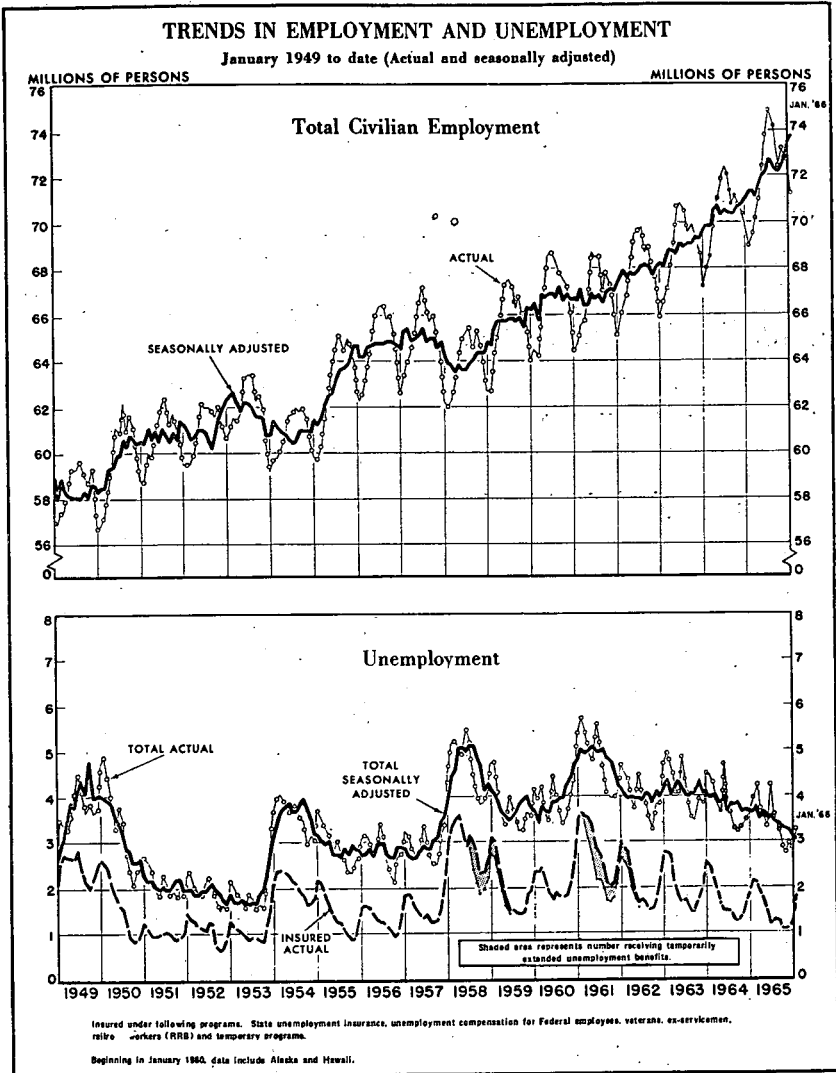


Chart 2.

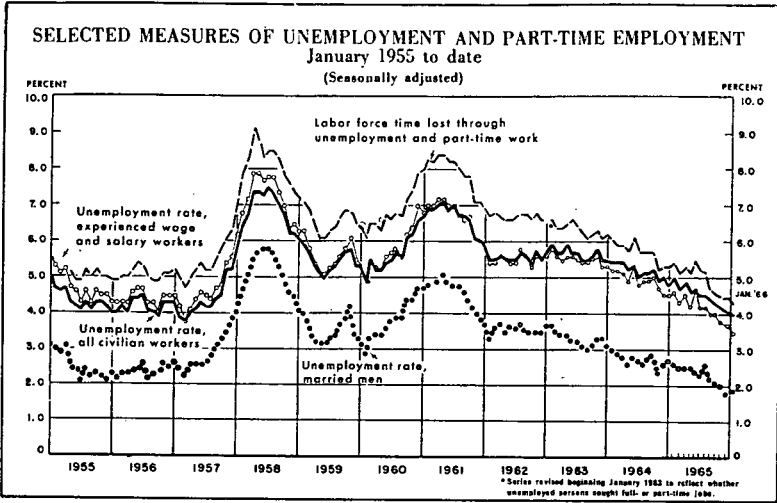


Chart 3.

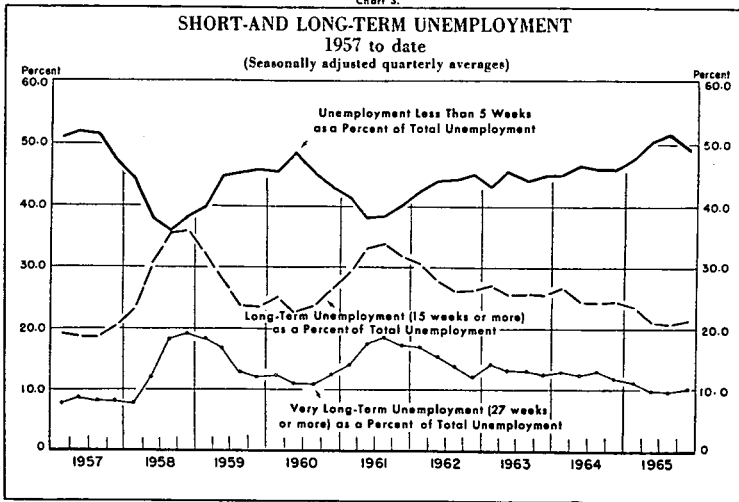


Chart 4.

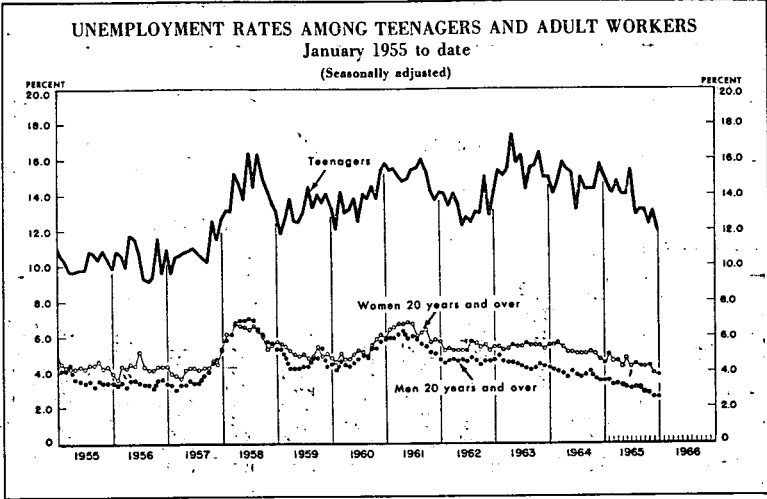


Chart 5.

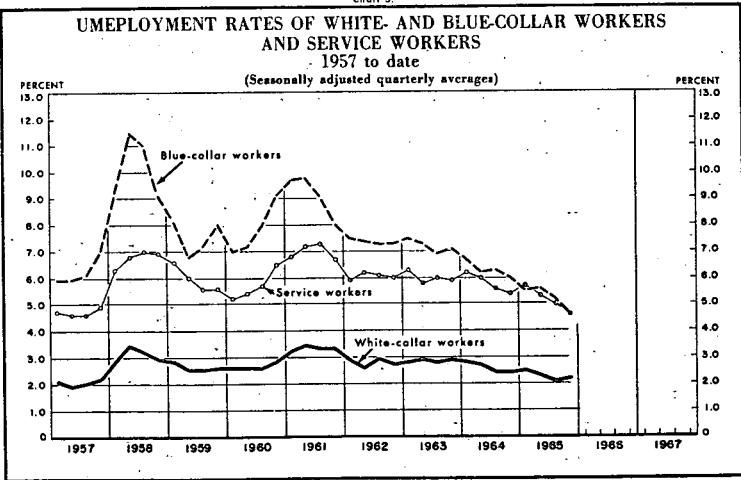
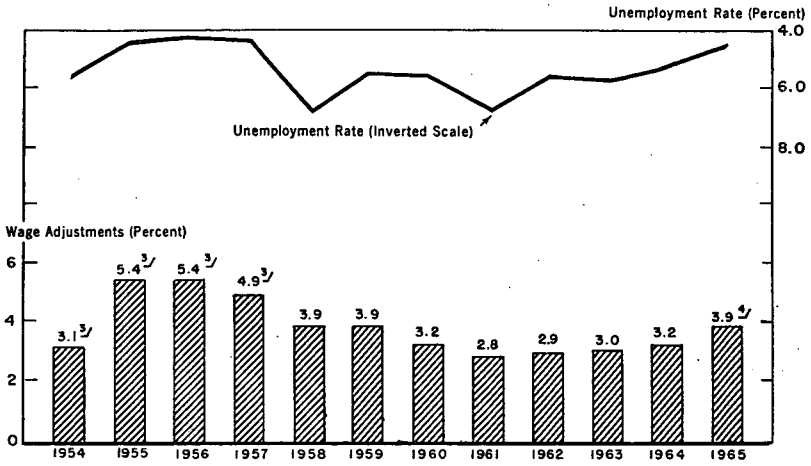


Chart 6. Negotiated Wage Rate Adjustments<sup>1/</sup> and the Unemployment Rate, 1954-65



<sup>1/</sup> Average negotiated wage rate adjustments effective within 12 months in major collective bargaining situations. These are median adjustments, including no wage changes, decreases in wages, and increases in wages, but excluding cost of fringe benefits. Medians are computed by distributing all workers affected by a settlement according to the average wage rate provided by the settlement.

<sup>2/</sup> Percent of average hourly earnings, adjusted to exclude the effect of premium pay for overtime work.

<sup>3/</sup> Estimated

<sup>4/</sup> Preliminary

Chart 7. Output per Man-hour - Total Private Economy, Agricultural and Nonagricultural Sectors, 1947-65

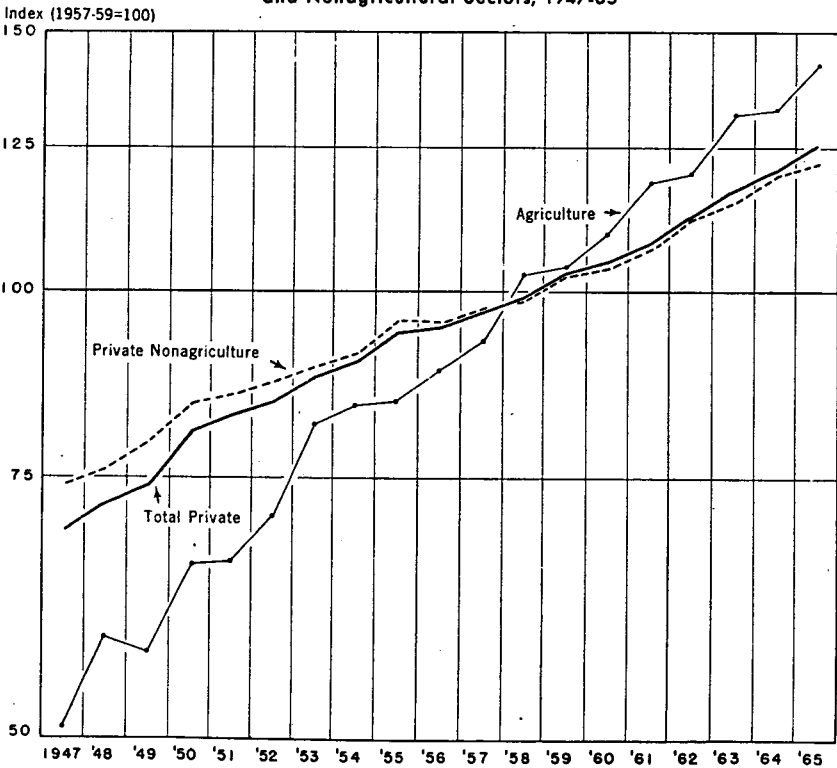


Chart 8. OUTPUT PER MAN-HOUR IN SELECTED INDUSTRIES  
Average Annual Percent Changes, 1959-1963

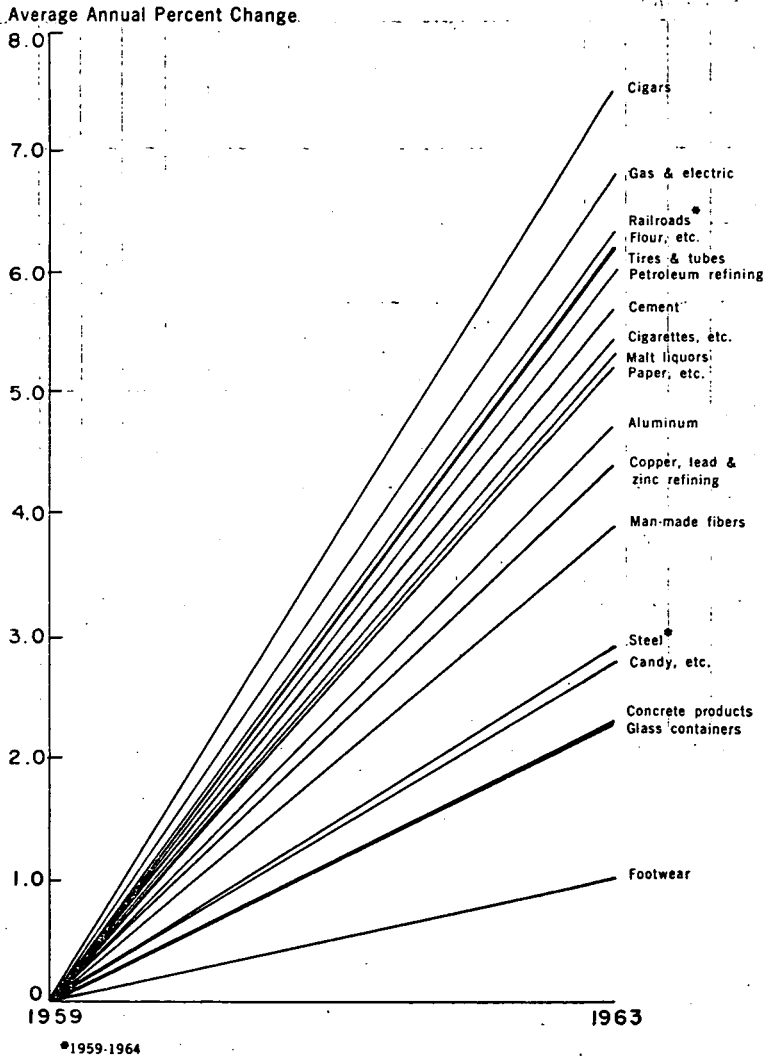


Chart 9. Total Private Economy  
Output Per Man-Hour, Compensation Per Man-Hour, and Unit Labor Cost, 1947-65

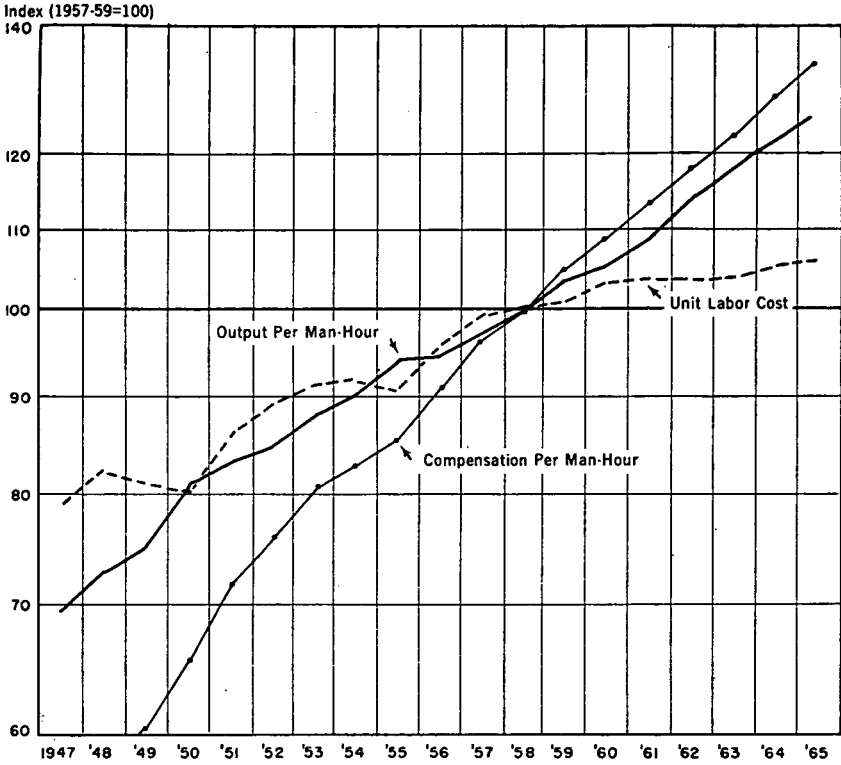




Chart 10. Total Private Economy  
Output Per Man-Hour and Real Compensation per Man-Hour, 1947-65

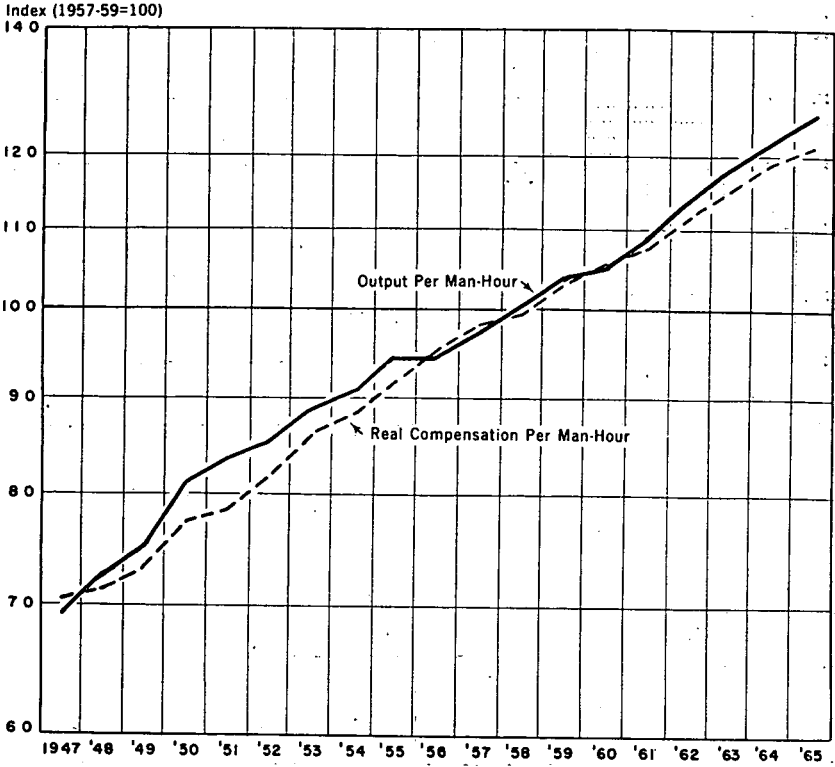


Chart 11.  
CONSUMER PRICE INDEXES: COMMODITIES AND SERVICES

February 2, 1966

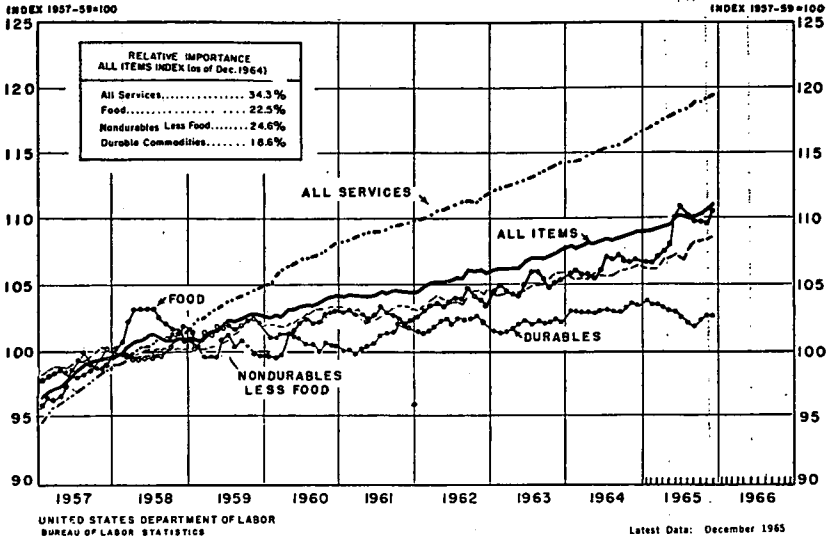


Chart 12.  
WHOLESALE PRICE INDEX  
SELECTED GROUPS

January 19, 1966

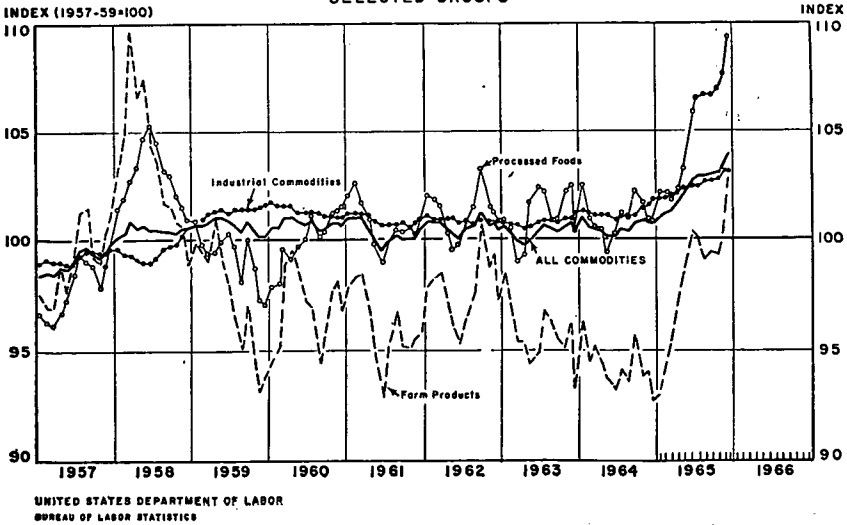
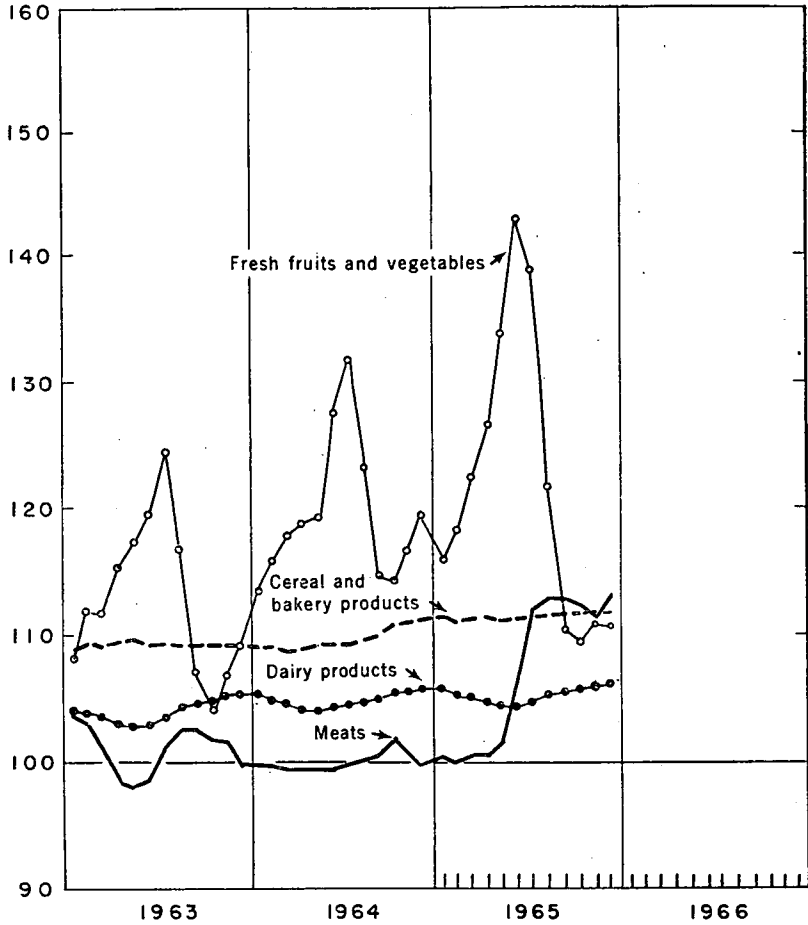
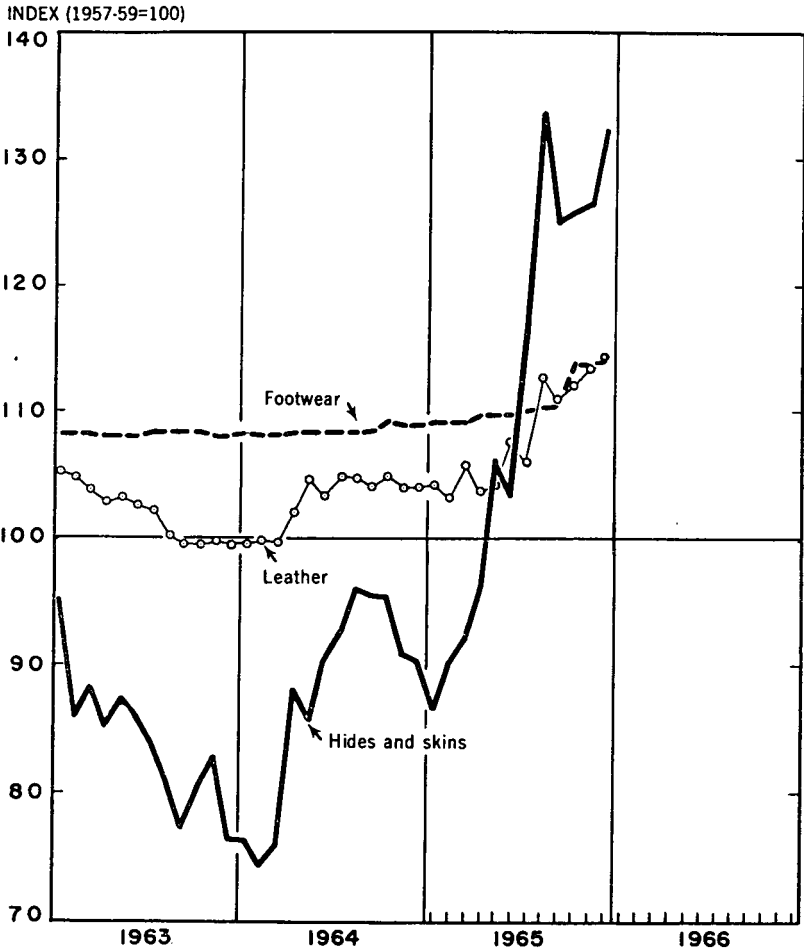


Chart 13. CPI: MAJOR TYPES OF FOOD

INDEX (1957-59=100)



**Chart 14. WPI: HIDES, LEATHER, AND FOOTWEAR PRICES**



**Chart 15. WPI: SELECTED INDUSTRIAL PRICES**

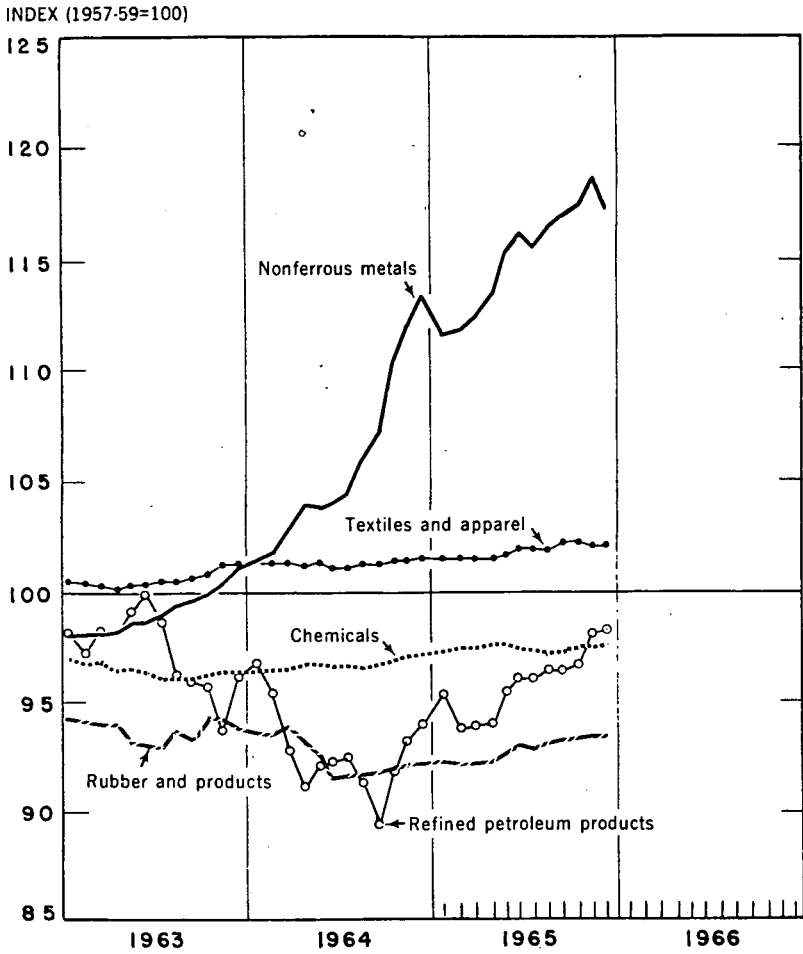
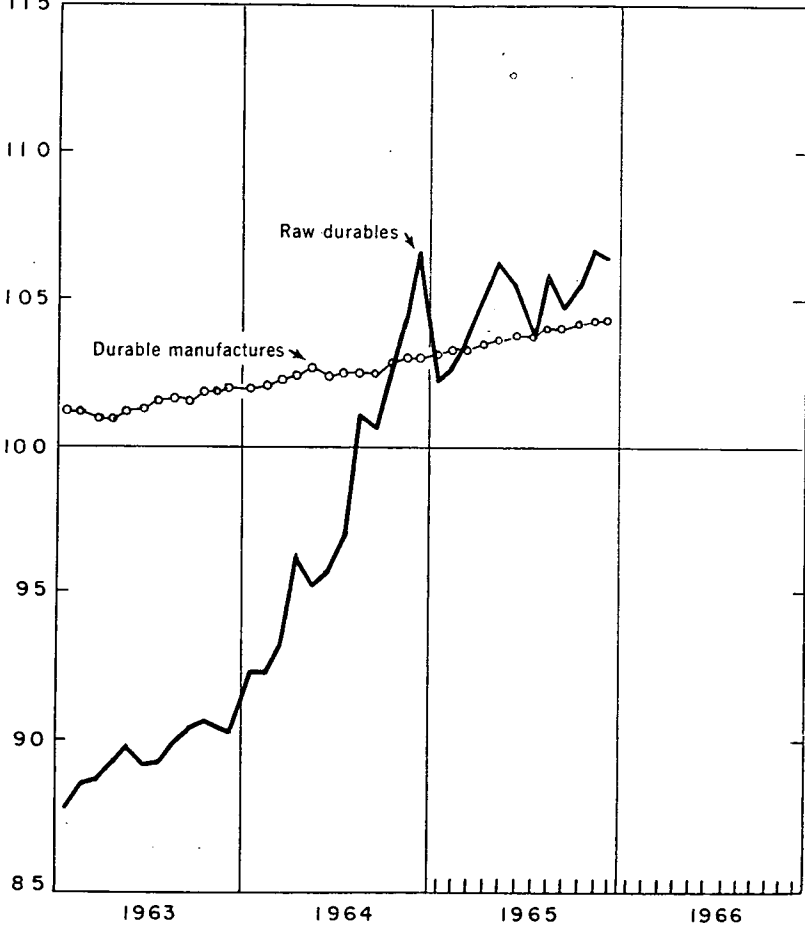
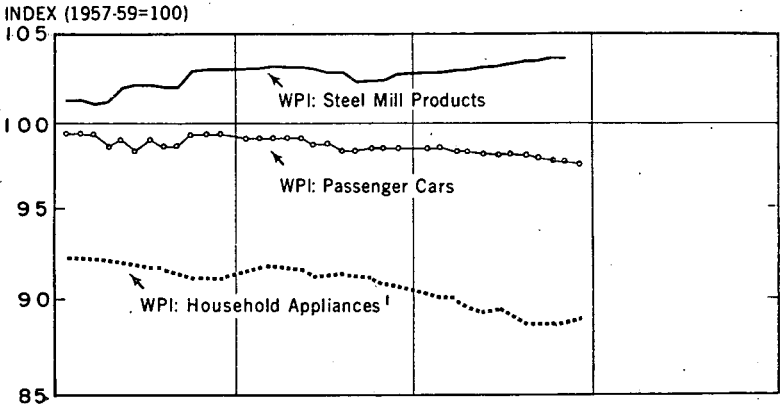


Chart 16. WPI: DURABLE RAW AND MANUFACTURED GOODS

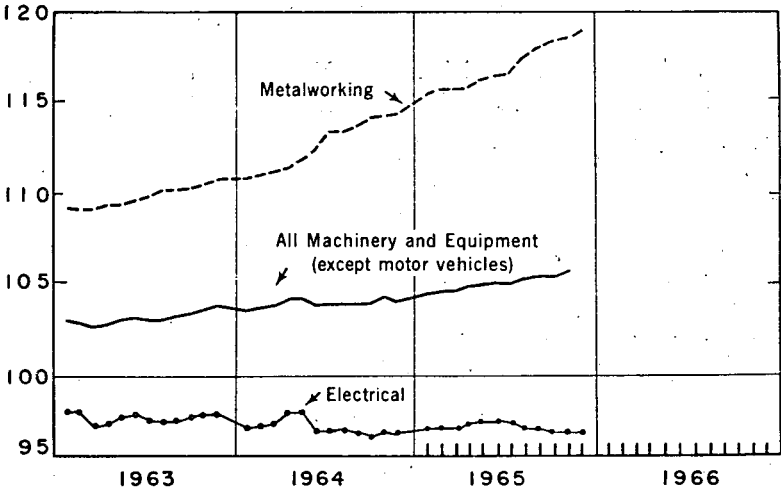
INDEX (1957-59=100)  
115



**Chart 17. WPI: STEEL, CAR, & APPLIANCE PRICES**

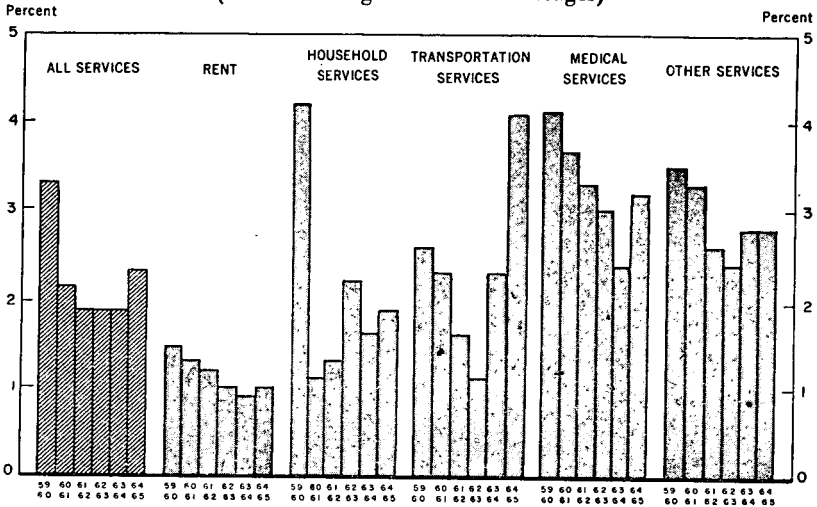


**Chart 18. WPI: MACHINERY & EQUIPMENT PRICES**



<sup>1</sup> Except TV, radio, and phonographs

**Chart 19. YEAR-TO-YEAR CHANGES IN CONSUMER PRICES**  
(Percent changes in annual averages)



**TESTIMONY OF ARTHUR M. ROSS, COMMISSIONER, BUREAU OF  
LABOR STATISTICS, U.S. DEPARTMENT OF LABOR**

Mr. Ross. Mr. Chairman, as the newly appointed Commissioner of Labor Statistics, this is my first opportunity to appear before this distinguished committee. I hope it will not be out of place if my initial comment comes from 25 years as a professional economist rather than 3 months as a Government servant.

Over the past couple of decades I have followed the hearings and reports of this committee with great interest and unflinching respect. And along with the rest of the profession I have come to realize how much the country owes to the Joint Economic Committee as well as the Council of Economic Advisers for indispensable contributions to economic understanding and policy. The Joint Economic Committee, in the view of the economic profession as a whole, has truly served as an instrument of public education as well as policy review. And for that reason I was greatly complimented by the committee's request to present a report on the current economic situation with particular reference to employment and unemployment, wages and fringe benefits, productivity and prices.

We do feel the Bureau has a duty not only to collect and disseminate statistics but also to analyze and interpret them. Indeed, this duty has become more important by the vast operating responsibilities which the Congress has assigned to the Department of Labor under the leadership of Secretary Wirtz. And it is also true that the Bureau serves as the principal source of economic intelligence for management and labor, the Congress, and the administration, the press, the universities and our numerous other clienteles.

Therefore, in our report we attempt to explain the changes in employment, wages, prices, et cetera, which have taken place during the past year. We undertake to predict the course of developments



throughout 1966 insofar as that is possible in the uncertain milieu of the present day.

We try to point out the problems which will have to be encountered in maintaining economic expansion, preserving a substantial degree of price stability, and offering employment opportunity not only to those with attractive qualifications but also to those who are entitled to it as a matter of right.

My oral remarks this morning will deal principally with the economic prospects for 1966 as we view them.

Senator JAVITS. Mr. Chairman, would the witness yield?

The Senate is having a cloture vote at 11 o'clock. I ask the chairman to ask the witness how long he would plan to take, because we lose our opportunity to question either in a very few minutes:

Chairman PATMAN. I wonder if it will be agreeable for you to suspend temporarily and without objection let the Senators be heard first, taking the time until 11 o'clock.

Will that be satisfactory?

Senator JAVITS. Fine.

Chairman PATMAN. Will that be satisfactory with you?

Mr. Ross. Of course.

Chairman PATMAN. Go ahead, sir.

Senator JAVITS. Mr. Chairman, I will limit myself to 9 minutes so we can both get over there in time.

Mr. Secretary, first, of course, it is always a pleasure to welcome you.

I am struck by two things in your testimony. One is, that I find no comments on the Automation Commission's report; the other is that your comments on the wage-price guidelines are rather implicitly expressed. It is indicated at the very end where you deal with some aspects of the wage curve.

Now, could you tell us if there is any reason, for example, why you did not deal with the Automation Commission's report?

Secretary WIRTZ. I am prepared to discuss it in any detail. Frankly, I finished my reading of it late last night. The pressures of time have been severe. I want no misunderstanding about it, there is no affirmative reason for leaving it out of here. It is a report to the Congress as well as to the President. It is in your hands and it had seemed to me there would be a redundancy about my commenting on it as an independent matter. I have no reservations.

Senator JAVITS. Mr. Secretary, is there any administration policy on two big elements of that report? One is the cost of carrying a half-million floating unemployed, that is the problem of the transition from job to job because of automation, and the other is the reverse income tax, the guarantee of a basic annual income to overcome one effect of this new phenomenon.

Secretary WIRTZ. There is, so far as I know, no administration policy on the second point. I feel no reservations about expressing a personal view. On the first point there is a very clear policy and a good deal of what we are doing in the Manpower Development and Training Act program and in the antipoverty program, in the educational programs, including the vocational educational programs directed toward removing the burden of that half a million as far as the economy is concerned.

Senator JAVITS. Is it done in any planned way? You say there is an administration policy. Is the administration taking half a million men as a likely addition to the force of unemployed and say here is our plan to deal with them?

Secretary WIRTZ. Yes, but if the question, Senator, suggests or inquires as to whether we have a specific for that situation our answer would be that it will not lend itself to a specific, the answer to it must include not only the application of the fiscal and the monetary policies, but also very specifically a concentration of these other programs on this group. We know at this point almost exactly where they are physically. We know now a great deal more than we did before about who they are. We are presently engaged in trying to develop name-by-name inventories in the various cities.

Senator JAVITS. Are you saying that the administration does accept the figure of 500,000 and states to us that it has plans to deal with that number of people?

Secretary WIRTZ. I do not mean to accept to that extent, the detail of the Automation Commission's report, which I have not read in detail. I have no reason for rejecting it. Our own approach, perhaps, is toward a somewhat different group than that one. It includes, as I have suggested here, a very strong emphasis on the present long-term hard-core unemployed. It also includes very definite emphasis on the teenage unemployment group, perhaps more emphasis than there was there, and I think there is this difference in approach between the two.

I find in the administration's policy more emphasis upon the necessity of programs, manpower, training, educational programs, which are directed specifically at that group than I do in the Automation Commission's report where there is a larger emphasis, comparatively in terms of this balance, on the fiscal and monetary figure.

Senator JAVITS. What is your figure in men? What is the Labor Department's figure as contrasted to the Automation Commission's figure of 500,000?

Secretary WIRTZ. I do not remember the definitions of that figure well enough to know what the difference is.

Our figures show this, they show a long-term hard-core unemployed of about 650,000, which I think is much that same thing.

Senator JAVITS. You said you would state your personal view on this reverse income tax idea, but Mr. Secretary, I am not here to entrap you in any answers. You are an administration official and if you wish to answer, fine. If you don't just say so.

Secretary WIRTZ. I do not mean to press it at all. I don't think it has much value, but my own personal view is that the answer is negative as far as I am concerned. I want to make it clear that is a personal view.

Senator JAVITS. May I ask you to submit a statement for the record which will deal with the 500,000 or the 650,000, as you will, of hard-core unemployed, and pinpoint for us the ways in which is planned to deal with the training or retraining of these people and the transitional problem which they have?

Secretary WIRTZ. I will be glad to do it now. It is probably better if it be added for the record.

Senator JAVITS. Add it for the record.

(The information below was submitted by the Department for the record:)

As of January 1966, there were 678,000 persons unemployed for 15 weeks or more, the official definition of "long-term unemployment." These men and women constitute 20 percent of all the unemployed during that month.

Throughout the history of the Manpower Development and Training Act, considerable emphasis has been given to these long-term unemployed. As a matter of fact, 40 percent of all enrolled trainees under MDTA, through the end of 1965, were long-term unemployed—double their corresponding proportion in the labor force.

Senator JAVITS. May I ask you if you feel the amounts provided in the President's budget are adequate for the job which you are describing?

Secretary WIRTZ. Yes; I do.

Senator JAVITS. I notice another very sticky problem here, and that is the problem of, again, nonwhite unemployment which is very much higher, about double that of white. I am going to leave the problem of teenagers aside because I think you are very right about the fact that the lumping of the problem of teenagers looking for part-time jobs in the unemployment figure is a very disturbing factor, not necessarily legitimate.

But taking nonwhite unemployment, do you feel that if we amended and stiffened up the FEPC provisions of the 1964 Civil Rights Act, do you think it would deal more effectively with correcting that situation?

Secretary WIRTZ. That act deals with the discrimination aspects of the program and my view is that there is still somewhat more that could be done as far as discrimination is concerned. My own preoccupation has been a good deal more with the training aspects of the problem, the disadvantage aspects of it. I think they are more fundamental today than the discrimination aspects. I think there is more that can be done on this program.

Senator JAVITS. I have just one minute. May I ask you this: What do you think of the idea that has been urged of some massive Marshall plan-type attack on the problem of bringing Negroes, to be very specific, up to parity, as a means to remedy the denial of opportunity, in terms of education, et cetera, which has been visited upon them for 100 years? Do you think that rather than through the law, the discrimination question, this problem could be dealt with in terms of a massive program which would take special money, et cetera? This is another Appalachia; an infinitely bigger one.

Secretary WIRTZ. Yes; I would subscribe completely to the approach. I think that probably there are today significant elements of that plan already at work. Let me simply answer your question, in your terms, in agreement, and in mine I would simply say it seems to me that the point is civil rights, equal rights, and until we get there we have not accomplished much.

Senator JAVITS. Would you also, for the record, submit a statement as to what is being done along those lines of zeroing in on the problem of Negro unemployment which is so much higher?

Secretary WIRTZ. Yes, sir. It will be primarily in the form, if this is all right, of showing the extent to which the MDTA, antipov-erty, training, education, vocational educational programs, deal with it.

Senator JAVITS. Give it to us in terms of the number of people involved, if you can.

Secretary WIRTZ. Fine.

Senator JAVITS. Finally, I will ask you to submit for the record comments other than what is contained in your statement on the guidelines question and their validity, whether they work out satisfactorily and effectively in the view of your Department. If you could submit something to us on that score.

Secretary WIRTZ. I am less clear about what it would be you had in mind.

Senator JAVITS. I think we ought to know from the labor point of view what you think of the whole guidelines concept and if it is working? You made no comments on the 3.2 percent guidelines in your statement. Labor is agitating that they are arbitrarily fixed at 3.2 percent; that they should be 3.6 percent.

Secretary WIRTZ. I want to be as general as possible. Any statements of mine will be very much in line with those you have received from the Council of Economic Advisers.

Senator JAVITS. Let us say that.

Secretary WIRTZ. I meant that to be the point of the paragraph. (The following material was subsequently supplied by the Department:)

The statement which follows is the response to query of Senator Javits as to whether a special massive program has been developed to solve the nonwhite employment problem and what the Federal Government is doing in the way of training, education, etc:

The employment problems of Negro Americans are several and varied and programs designed to meet them are similarly diverse. In short, these problems, like the "problem" of unemployment as a whole, do not yield to a single, massive program. We do have a number of specific programs, however, which bear to a large extent on the employment problems of Negroes.

Statistical data on the employment assistance provided Negroes through the Employment Service are not available because current policy prohibits the recording of an applicant's race, creed, color or national origin on any official record. (As a matter of information to the committee this policy is currently under review and, after thorough study of the pros and cons, need for change may be indicated.) Nevertheless, it seems a fair assumption that a substantial proportion of the 6,047,100 agricultural placements made in fiscal year 1965 were nonwhite and that nonwhites constitute a sizable fraction of the 6,329,700 non-agricultural placements made during the same period.

Job development activities of the Employment Service gear-in closely with the Service's work under the Equal Employment Opportunity Act and there is no doubt that significant contributions have been made in both areas. Employers are encouraged to follow equal opportunity hiring practices and are assisted in finding qualified applicants, including nonwhites. The Employment Service cooperates fully with the Urban League and other such organizations interested in equal employment opportunity by encouraging employers not only to eliminate discrimination but also to open up job opportunities hitherto regarded as for "white only."

In recent years the Employment Service has intensified its efforts to provide occupational information and job placement services to students and graduates of predominantly Negro colleges. Sixty-five percent of all Negro college students are in these colleges. The substantial increase in employer recruitment at these colleges has not benefited all graduates, especially those majoring in such fields as social work, social science, the humanities, industrial arts, and teaching. The Employment Service tries to help with this problem by encouraging seniors to register in their local employment offices for both local and interstate referral.

School integration has resulted in displacement of some Negro teachers from employment in some localities; in others, it is still in prospect. The Employ-

ment Service, together with professional teacher associations at State and national levels, is attempting to assist these persons by offering placement service tailored to their individual needs and preferences, through job development, interarea recruitment, training, mobility grants, and other services. The Employment Service is helping to achieve full utilization of this important manpower resource.

In order to promote and open up new apprenticeship opportunities for Negroes, apprenticeship information centers are being established in local employment offices in selected metropolitan areas. There are currently 10 such centers in operation and we expect to have a total of 24 by the end of fiscal year 1966.

Selective Service rejectees include a high proportion of Negroes. The Employment Service encourages those who fail to pass the Armed Forces Qualification Test to report to their local employment offices for counseling, testing, training, and placement services.

The Employment Service is establishing a network of 200 youth opportunity centers in public employment offices in 139 major metropolitan areas to provide needed service to disadvantaged youth. Of these, 122 centers are already in operation. These services include intensive individual counseling and assistance in preparing for and obtaining employment. They serve as a principal recruiting and referral center for the Job Corps, Neighborhood Youth Corps and training provided under MDTA. The YOC's are invariably situated in areas with a high proportion of Negroes in the population. Consequently, it can be assumed that Negro youth are among their principal beneficiaries.

Cooperative programs developed with public and private high schools throughout the country are an important element of the Employment Service's assistance to youth. The purpose of these programs is to provide counseling, testing, and job referral services to prospective graduates and to potential "dropouts." During the 1964-65 school year, the Employment Service served approximately 600,000 high school seniors in schools which awarded over two-thirds of all high school diplomas. In addition, more than 50,000 high school dropouts benefited from this program. About 125,000 high school graduates and 25,000 dropouts served through this program were placed in jobs after leaving school during the 1964-65 school year.

All of the foregoing programs and activities are operated by the U.S. Employment Service. The U.S. Employment Service records do not reflect the race, color, creed, or national origin of the persons served. However, from the nature of these programs and the geographic location within major metropolitan areas of the offices from which the programs are administered, it can be inferred that the numbers and proportions of Negroes benefited are high.

However, records kept under the Magovern Act of training programs show that approximately 375,000 persons have been authorized to receive institutional training in the 3 years MDTA has been operative. Over 250,000 persons were enrolled for training and 131,000 completed training.

From the detailed information available on most persons enrolled through June 1, 1965, it is clear that Negroes are very well represented. Approximately 30 percent of MDTA enrollees are nonwhite—a substantially higher proportion than nonwhites represent of all jobless workers. Even more significantly, nonwhite representation has been steadily increasing in order to meet the needs for providing them with the means for competing on a more equal basis in the job market. Thus, for the first half of 1965, it was 33 percent, up from 27 percent in 1963.

Unemployment problems are intensified for workers at the two extremes of the age scale. Our training program has had relatively more success in reaching younger than older workers but both age groups are under represented as will be noted from table 1, attached.

Education is a major factor in qualifying for institutional training. Those with the least formal schooling have the most difficulty. Part of this may be due to being unaware of opportunities and failure to apply for training. Table II, attached, reflects the educational attainments of persons enrolled in institutional training programs.

On-the-job training experience under MDTA is comparable to institutional in all respects save one—the placement rate is somewhat higher. Nearly 80 percent of Negroes who complete on-the-job training courses obtain employment as against approximately 68 percent for those who complete institutional training courses.

Statistics on operations of the Neighborhood Youth Corps, the Department of Labor's part of the War on Poverty (Economic Opportunity Act of 1964, title I, part B), show that antipoverty programs, too, focus heavily on the Negro. Detailed data on the first 49,712 enrollees, representing approximately 25 percent of the total number of youth enrolled during fiscal year 1965, show that Negroes were among the primary beneficiaries (see table III, attached).

TABLE I.—Persons enrolled in MDTA institutional programs by color and age and sex, cumulative through June 1, 1965

[Percent distribution]

Age and sex	MDTA institutional trainees	
	White	Nonwhite
Total.....	100.0	100.0
Under 19 years.....	13.1	12.3
19 to 21 years.....	21.6	27.4
22 to 44 years.....	52.5	55.0
45 years and over.....	12.8	5.4
Male.....	100.0	100.0
Under 19 years.....	12.3	12.5
19 to 21 years.....	23.3	27.0
22 to 44 years.....	54.1	53.9
45 years and over.....	10.3	6.5
Female.....	100.0	100.0
Under 19 years.....	14.6	12.0
19 to 21 years.....	18.5	27.9
22 to 44 years.....	49.7	56.2
45 years and over.....	17.1	4.0

TABLE II.—Educational attainment of white and nonwhite persons enrolled in MDTA institutional programs cumulative through June 1, 1965

[Percent distribution]

Highest grade completed	MDTA institutional trainees	
	White	Nonwhite
Total, both sexes.....	100.0	100.0
Less than 8th grade.....	6.0	6.5
8th grade.....	10.0	6.7
9th to 11th grade.....	30.1	37.9
12th grade.....	47.0	41.9
Over 12th grade.....	6.9	7.0

TABLE III.—Persons enrolled in New York City in-school and out-of-school projects through June 1965, by race (sample)

[Percent]

Color	All enrollees	In-school	Out-of-school
White.....	60.7	63.1	48.7
Negro.....	36.5	33.9	49.2
Other.....	2.8	3.0	2.1
Total.....	100.0	100.0	100.0

The Office of Education advises us that vocational education enrollment data are not collected on the basis of race.

Chairman PATMAN. Senator Proxmire?

Senator PROXMIRE. First, Mr. Secretary and Commissioner Ross, I want to complement both of you. I think that the administration has, as you say, done a superlative economic policy job. Very few people, even the most optimistic, thought we could have the kind of growth we have had, the kind of prosperity and stability, and I think that more than perhaps any other official of the administration you and your Department have to deal with the knottiest problem of achieving that price stability while we have economic growth and I think that the programs that you have so well enunciated here certainly, as I say, have been mighty responsible, and Mr. Ross, I want to welcome you. I happen to be Chairman of the Statistics Subcommittee of this committee and I have followed your career and your announcements since you have been in office with hearty approval.

I am delighted to see the kind of inquiring and thoughtful approach you have and the kind of innovations you have suggested for the future for statistics.

Mr. Ross. Thank you, sir.

Senator PROXMIRE. There is no question that the basic reason for the big economic policy progress we have made has been because of our greatly improved statistics, but there is plenty of room for more, as you have so often said.

Now, you say, Mr. Secretary, that about one-half of the reduction in unemployment came from changes in manpower training programs of various kinds, and civil rights and about half from fiscal and monetary policies.

What does this leave for the actions of the free market, for the innovative originality of American businessmen and so forth?

Secretary WIRTZ. I appreciate the question and the amendment that it suggests. In other cases, situations, I have used what is only a conversational statistic that 90 to 95 percent of it is in the workings of the private economy and that the role of Government is probably effective only in the area of 5 to 10 percent and would answer your question that way.

And these figures are intended to refer only to that area of the effect of the Government policies.

Senator PROXMIRE. The catalyst—

Secretary WIRTZ. Yes, of course, when you get into programs like the Neighborhood Youth Corps program, the other fairly large-scale employment programs, there is a more direct Government element there.

I would still think in terms of whatever the Government may do in a supportive capacity as being only part of this 5 to 10 percent and the rest of it is the working of the private economy.

Senator PROXMIRE. On price stability I think you have made a strong case, and other administration spokesmen have, too, but the contrary side has been put strongly in a column in the Washington Post, I would like to read a couple of excerpts from it and ask you to comment. Particularly there is an almost unanimous opinion among business executives and industrial economists that the labor shortage is having a serious inflationary effect on costs.

They complain that economic policymakers in Washington do not seem to recognize it. Then this article goes on to say:

"To the executive on the firing lines, the statistics indicating stable labor costs, do not reflect the increases in cost caused by rising fringe benefits, rising overtime pay, the increase in the cost of materials purchased, the recent increases in social security taxes, the adverse effect on costs resulting from increased work of unskilled workers and less efficient standby equipment.

"Many of these executives indicate that this inflation will have to be offset by higher prices; administration admission to the contrary notwithstanding."

I notice that just the other day there was a revision of the labor cost per unit manufacturing output, indicating there is an even more stable situation than we suspected in this area with labor costs between June and December being not simply stable, but having declined from 98.8 in June to 98.1 in December. The December figure is preliminary?

Secretary WIRTZ. Yes.

Senator PROXMIRE. However, executives around the country, in Milwaukee and elsewhere, as I have indicated, do feel this does not state the full case. What is your answer?

Secretary WIRTZ. The description of the attitude of the executives in the story would confirm the position of the executives; I think it is only a very partial statement of the case. There is a lot of detail. One thing that is not mentioned there is what has happened to profits over the last 5 years, which is interesting. Profits have gone up 50 percent before taxes, 65 percent after taxes.

In just good, old-fashioned terms, it is about as good a round measure of this kind of thing as I know.

The only other point I would mention in my answer is the one to which you have referred—I wish the country could realize the significance of what has happened as far as unit labor costs in manufacturing in this country are concerned in the past 5 years. I wish they could realize the importance of the fact they have stayed almost level for the last 5 years where before they were going up 3 to 3.5 percent a year.

I wish they could realize the significance of the fact they have stayed level in this country during 5 years when they have gone up 11 percent in Japan, 28 percent in the Netherlands and by varying percentages in between in the meantime.

Now, the unit labor cost is the figure which does measure the relationship between wage increases and productivity and it is the point that goes into profits and my basic reaction is that that kind of report leaves out too much.

Senator PROXMIRE. Is it not the marginal cost that is likely to increase the prices? As you indicated in your statement, it is harder now in many lines to hire skilled, competent workers and consequently the most recent workers hired cost more in needed training or in competence. Furthermore, under this kind of a rationing system it is harder to meet orders.

Under these circumstances, has there not been a traditional tendency in American business and elsewhere in the world for prices to rise? Will this not take an extraordinary degree of statesmanship on the part of business?

Secretary WIRTZ. Yes, but I think the lesson in the last 5 years, we have infinitely more good sense, self-restraint, responsibility than was



exercised before with respect to precisely these matters. I think it is a great national asset.

Senator PROXMIRE. Also, you forecast a drop in unemployment from 4 to 3.5 percent. Isn't it going to be even more difficult in the coming year than it was in the past year to achieve price stability, assuming that your predictions are correct?

Secretary WIRTZ. It is going to require more balance, the balance of self-restraint. I do not believe there is any more reason than there was before to anticipate trouble.

Senator PROXMIRE. Apropos of your suggestion on teenagers, I understand that there is a recent suggestion for a split minimum wage recognizing that 12 percent of teenagers are out of work, 1.8 percent of married men are out of work. The contention is that what a minimum wage does is to, of course, discourage some employers from hiring the less efficient, less experienced, less reliable worker and the more experienced and more mature worker is more desirable.

Do you think under these circumstances there might be a case for a lower minimum wage for teenagers, a higher minimum wage for those who are older and perhaps even a greater—even a further discrimination along the line?

Secretary WIRTZ. I would be opposed to the split. I would recognize that in a higher order of things there would be reason for recognizing different minimum wage situations, but in the lower and present practical order of things I think the possibilities of abuse of a split would far outweigh the advantages of it and would, therefore, be opposed to a split in the minimum wage.

I would add only one other thing, a report submitted to the Congress last week reflects our study of whether there has been a depressive or adverse effect on employment resulting from the minimum wage increases of the last 5 years. The evidence is negative. And I do not believe that there will be—

Senator PROXMIRE. Is there not some hard prima facie evidence inasmuch as there are 12 percent of the teenagers out of work? Do you think that is any extent, because we do have \$1.25 minimum wage?

Secretary WIRTZ. No, I do not. In Japan there is no unemployment of teenagers or children. In Japan every single boy or girl is employed. They come into a department store and they will be employed with no questions asked, and the reason is because the entry wage is way, way down, so it is quite clear that if you reduced a wage far enough, you would find full employment.

No question about that at all.

Now, the rest of the story, of course, is that partly as a result of this, the standard of living in Japan is much lower than it is here. I understand your question to be within the range of practical possibility that we have in mind, and my answer is within that range.

I would, of course, recognize that you could eliminate unemployment among the teenagers, by putting in a 25-cent starting rate, but I am sure we do not want that.

Senator PROXMIRE. From that standpoint we will have a discrimination inasmuch as those who are not covered by the Federal minimum wage laws are covered only by the State minimum wage laws, which in general are lower, and less comprehensive.

In general, the teenagers get the jobs that are not covered by the Federal law.

Secretary WIRTZ. That discrimination is very repugnant. The present minimum wage laws cover two-thirds of the white workers in this country and only half of the nonwhite workers.

Senator PROXMIRE. Any figures on the percentage of teenagers?

Secretary WIRTZ. About 40 percent of all teenagers are employed in activities subject to the minimum wage. They also cover in their present coverage, two-thirds of the men in the country and only half of the women, so the discrimination to which you refer is very real.

Senator PROXMIRE. In an article this morning in the Wall Street Journal on the U.S. Job Corps, there is an assertion by a Mr. Herbert Hill, director of the labor programs for the National Association for the Advancement of Colored People. He is for it; but he says it must be increased a hundredfold if it is really going to have real social meaning, if it is going to do its job.

The Job Corps offers some beautiful examples of individual achievement, but it is too small to have the kind of real impact this country is going to need in view of the job ahead?

Secretary WIRTZ. I do not think so. When the Job Corps program, which is Mr. Shriver's direct administration, becomes fully effective, it is my impression there will be about—I think that article includes a figure—I think it is 10,000 to 15,000 graduates a month when the program gets moving.

If Mr. Hill's hundredfold applies to the present output from the Job Corps, I think we would all agree with it, but if he is talking about the program when it levels out, which will be quite soon now, during this year we will be up to 10,000 graduates a month, that will reflect over a third of the OEO budget, the application of the OEO budget. I would not think that that should be enlarged in those comparative terms.

Senator PROXMIRE. Thank you, Mr. Chairman.

Representative CURTIS. Mr. Chairman, I wonder inasmuch as we have started on the interrogation and the statements are with us and we have had a chance to view them, whether we cannot just go ahead.

Chairman PATMAN. Is there any objection?

(No response.)

Chairman PATMAN. Will it be all right with you, Mr. Ross?

Mr. Ross. Of course.

Chairman PATMAN. I see you have a very comprehensive statement here; you have some fine tables and charts and we appreciate them very much.

Mr. Ross. Thank you.

Chairman PATMAN. They will be in the record then at the point indicated and we will continue to interrogate you and Mr. Wirtz then.

Mr. Curtis?

Representative CURTIS. First, I want to get something straight. You said, Mr. Secretary, that there were a smaller number of wage contract bargainings to take place this year.

I have seen a statement that they are larger—more people will be involved in the wage contract bargaining to come in 1966. I am wondering if what you are saying is that there is a smaller number of large collective agreements, or is the overall number of employees smaller?

Secretary WIRTZ. It would be smaller in both respects, Mr. Curtis. Representative CURTIS. Both?

Secretary WIRTZ. Yes, both in number of contracts and in number of people covered by them.

Representative CURTIS. In other words, you were not referring to a smaller number of large collective contracts?

Secretary WIRTZ. I was referring to that and it is true in those terms; it is also true in terms of the number of people covered by the contracts.

Representative CURTIS. I wonder if you would for the record give us the actual figures you might have on that, because I would like to reconcile these two different points.

Secretary WIRTZ. I think that enumeration is in Mr. Ross' statement.

Representative CURTIS. Is it in your statement, Mr. Ross?

Mr. Ross. Yes, it is. (See table 5, p. 315.)

Representative CURTIS. I have not yet had a chance to get to this.

Now, I want to direct my first line of questioning to this problem of inflationary forces. I have been a little bit surprised at your statement, Mr. Secretary, as well as those of the previous Government witnesses. The Consumer Price Index rose from December to December, by 2.2 points, and the Wholesale Price Index rose from December to December by 3.4 points, with the heavy rise occurring in the last 4 months, roughly, which was the point of departure from the previous expenditure policy of the Federal Government.

Up until September, the annual rate of expenditure in the administrative budget had been running at about \$97 billion. In September it increased to about \$110 billion. But in spite of these indexes, you do not feel that these inflationary forces are so strong that they are breaking through?

Secretary WIRTZ. I am not quite sure about the specific form of the question. Was the question whether I think that the inflationary forces are sufficiently strong that they are breaking through?

Representative CURTIS. Breaking through, turning once more to the Consumer Price Index, breaking through the wage-price guidelines, if you want to answer that way.

Secretary WIRTZ. I would say I would not expect to see what you are referring to as a breakthrough; I would expect to see a continuing situation which requires continuing close attention, but I think I understand what you mean by the breakthrough.

You mean the kind of thing we had in the Korean period, the kind of thing we had a couple of times during the 1950's, and I do not expect to see that.

Representative CURTIS. No, in aluminum pricing and steel pricing, and copper pricing, and up in New York in the transit workers settlement and the innumerable instances where the Chairman of the Council of Economic Advisers tells me they have moved in to try to bring about adherence to the wage-price guidelines.

They said the cases I was specifically talking about were the ones that have been well publicized, but there are all sorts of other efforts.

What are you doing? What forces are you resisting in going through these motions of persuading people to hold the wage-price guidelines? What are these forces?

Secretary WIRTZ. To the extent that your question, and I perhaps misunderstood it, inquires as to whether I think there will be occasional breakthroughs in one area or another, I suppose we have to recognize the almost inevitability of that and do whatever we can to meet them.

Representative CURTIS. What I am getting at is, the \$3.9 billion deficit in fiscal 1966 which was given us in January of 1965, has now been revised in the President's budgetary message of this January to \$6.9 billion.

These are the months we are in right now, and these are the inflationary forces that I am talking about. These are the inflationary forces that seem to me have resulted in this 2.2-point rise in the Consumer Price Index and the 3.4-point rise in the Wholesale Price Index. I am surprised at your comments. Why do you feel these inflationary forces are not right now with us and how do you expect to combat them on this low-key basis?

Secretary WIRTZ. It is much a matter of terms. It depends first, on whether you include within the proper usage of the phrase "inflation."

Representative CURTIS. "Inflationary forces" is the term I have used.

Secretary WIRTZ. Whether you include those forces which are reflected in some upward movement, any upward movement in price levels, I do not and would feel that what we have seen so far is not a reflection of what is properly "inflationary" forces.

Representative CURTIS. What are you resisting? What are the wage-price guidelines resisting, what is their purpose? What forces are they working against?

Secretary WIRTZ. No question but their attempt is to see to it that the kind of thing you are inquiring about does not happen.

Representative CURTIS. Exactly, but what forces are there? If you have no inflationary forces, maybe there is some other force.

Secretary WIRTZ. It is only a concern, Mr. Curtis, about using the term "inflationary forces."

Representative CURTIS. What terms would you use?

Secretary WIRTZ. Forces of upward pressures.

Representative CURTIS. What are the pressures?

Secretary WIRTZ. The pressures are those which are reflected in every businessman's desire to get the highest price for his product he can at the highest profit and every workingman's desire to get the highest amount he can for his labors. Those are the pressures.

Representative CURTIS. That is the only reason for wage-price guidelines? You would have these in normal times. In other words, I did not realize that this was a permanent structure. Is that right?

Secretary WIRTZ. I do not know how long it will last. We have had them now through a period which started from very, very extreme unemployment to a period which includes now a more satisfactory period of employment. They have served us well in both of those periods.

Representative CURTIS. Let me put it this way: If you expect in 1966, the calendar year, to have to move into more of these jawboning operations, as it has been described in the press, to hold wage-price guidelines—

Secretary WIRTZ. I just do not know. I do not know how far and how many cases we will have to move in, and by "moving in" we mean such a variety of things. We are concerned this week about a wage

increase that was agreed upon last week in northern New Jersey, or 2 weeks ago, as far as the operating engineers are concerned. We are talking to those people about that at this point. I expect there will be—

Representative CURTIS. What do you talk about? I understand you are also looking at the building and construction industry, and the wages in that area. Is it true you are engaged in some jawboning there, too?

Secretary WIRTZ. It is not true there is jawboning going on.

Representative CURTIS. We have difficulty in communicating. The only reason I used the term is that it has been used in the press and seemed to be an appropriate one of describing how you apply this wage-price guideline. You describe it as "consultation." I would go even further, Mr. Secretary, and say regretably that the administration hasn't chosen to limit itself to conversation, but has used powers of the stockpile and in certain instances has used the military procurement policies in others. But I am referring now at least to whatever it is that you people are doing in trying to bring about an adherence to the wage-price guidelines.

And if you want to use another term than "jawboning," if it has a connotation that you do not care for, what do you call it instead? What do you do? Is this just exhortation, or is it just conversation? Can you help me in those choices of words?

Secretary WIRTZ. I am not sure I can, because my words would be bland for perfectly understandable reasons, and yours would have an additional element for equally understandable reasons, and I am afraid mine would not satisfy you.

But what it amounts to—

Representative CURTIS. Satisfy the public. Describe what you are doing, then use your terminology so that the Congress and the public will understand what you are doing. Mr. Secretary, one of the points is, I not only wonder whether you have legal authority to do what you are doing, but I'm not sure what you are doing.

I was surprised in my colloquies on copper and aluminum, and so forth, to have the Council of Economic Advisers say to me, "Well, you are just talking about the publicized efforts that we have engaged in in this process of holding the wage-price guidelines. I am very interested in finding out about all these other instances as to just what went on, as to what you are doing.

If you need some legal tools to do these things, frankly, I would like the Congress to consider them. I think you should tell the Congress what you are doing, using your own language.

You don't like "jawboning," you don't like "exhortation," "exposure," or whatever words I have used. Now, what do you use?

Secretary WIRTZ. I like the words all right; it is just a question as to whether they accurately describe what we are talking about. It may get a little tiresome, because it all involves a matter which is well known, and it includes a greater variety of approaches.

Representative CURTIS. What do you mean "tiresome," Mr. Secretary?

Secretary WIRTZ. I mean my agency may get tiresome, because I start, Mr. Curtis, working only with the most recent materials at hand, with the President's state of the Union message and I moved from that, most particularly, to the President's economic message in which

he set out quite strongly with all of the influence of that Office, with all the authority which it derives not from the individual, but from the country, the desirability and the good sense of people not robbing themselves of what they have earned in the last 5 years.

Representative CURTIS. Could I interrupt a moment?

Secretary WIRTZ. I didn't know it would get tiresome this fast.

Representative CURTIS. No, your answer is not responsive, Mr. Secretary, that is the point. It is not tiresome. As a matter of fact, several Members have requested this committee to conduct studies into wage-price guidelines so we could find out these things and devote the necessary time to study them. My time has expired for this go-around, but possibly one way we could do it would be to zero in on the latest endeavor. You say you are dealing with the engineers. What engineers?

Secretary WIRTZ. Yes; we had conversations yesterday with the Associated General Contractors from northern New Jersey.

Representative CURTIS. I will come back to that, rather than do it now, because my time has expired, and just see what you do in that case, because that might give me an idea of what the techniques are.

Secretary WIRTZ. My point, Mr. Curtis, I do not want to be misunderstood on it, only I do not think there is anything about it which is not well known. I will be glad to explore it to whatever extent it bears it out.

Representative CURTIS. Of course, there is a lot we don't know, and if this committee doesn't know, I suggest the public doesn't know, either.

Secretary WIRTZ. I will be glad to go into that.

Chairman PATMAN. Mr. Bolling?

Representative BOLLING. Mr. Chairman, I do not believe I have any question, but I do have a comment. I, for a number of years, have been so preoccupied with my duties in the Committee on Rules that I have not been able to attend very often these committee hearings, but I find this recent colloquy very memory stirring. It reminds me very much of the discussions that I used to hear in 1950-1951, and 1952 when, not under exactly the same circumstances, but somewhat similar circumstances, some of my friends on this committee were elaborately trying to establish what I have always called a double-wing attack on the military and economic policy of the then administration.

The double-wing attack which I think is already clearly developing consist of saying, "Clearly you are not doing enough but clearly you are doing too much."

With that I will yield my time.

Chairman PATMAN. Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Good to see you here before the committee, Mr. Secretary, and your very able assistant.

Would you report on the progress that has been made in developing a statistical series on job vacancies?

Secretary WIRTZ. I believe you would probably like that from Commissioner Ross.

Representative WIDNALL. Yes.

Mr. Ross. Yes, sir; there have been recently 2 series of experiments in 16 areas. These experiments have shown that job vacancy statistical

collection is practical, the employers can identify the vacancies and can report them, and they are helpful in the planning of training programs and recruitment of labor and for other purposes. We hope this year the Department obtains authorization for a job vacancy program which will cover some 75 or 80 areas.

This is a Department-wide program which will involve participation of the Bureau of Employment Security, the BLS, the States, and the local employment agencies. This will provide not only information needed for occupational training purposes, but will also pinpoint the occupation, the industry, the wage rates, and the other identifying materials which are so necessary in order to know the kind of vacancy that you are dealing with.

Our experiments have been successful and we hope to obtain authorization.

Representative WIDNALL. I am pleased to see that you are making the effort in this particular field. I know Congressman Curtis and many of us here on the minority side have been pressing for action in this area for some time. I would like to ask this question:

Why has there been a reluctance to do this? This has seemed so obvious as the sensible approach, that of matching jobs with abilities of the people that it has been let go too long?

Mr. Ross. Well, of course, a period was necessary for pilot studies and experimentation. There were some who felt that a vacancy was too ambiguous and could not be identified clearly. There were some who were concerned that the data might be misused.

I believe that our present departmental proposal will relieve any concerns about possible misuse, and I believe that the experimental studies have shown the practicability of that type of work.

Representative WIDNALL. Have the experimental studies thus far indicated a change in unemployment figures within the particular areas that are being studied? Does it show that the present latest statistical figures that we have on employment are accurate or does it indicate that there are more job opportunities and more job skills available than is presently thought possible here this day?

Mr. Ross. I have studied carefully the results of the job vacancy surveys and as far as I can see, they throw no doubt whatever upon the validity of the unemployment figures, recognizing, of course, the problem of sampling errors in any unemployment estimates.

We have not found any areas where the vacancies exceed the unemployment. In any case, these vacancy figures show, I think, very dramatically, the problem we are going to face now, which is to match the available labor supply—which will consist of the unemployed plus the new entrants into the labor force—with the vacancies that are presently existing and are coming up, I believe that will be a very difficult problem, because the match is not good and will call for the most vigorous manpower efforts in the year to come.

Representative WIDNALL. How much of the increase in the adult labor force next year will be offset by increases in the armed services?

Mr. Ross. The increase in the labor force next year—the normally expected increase—would have been about 1.3 million. We anticipate, as the Secretary has said, that because of the attraction of an abundant job opportunity, about another 300,000 will come into the market beyond those who would normally enter.

Our present understanding of the expansion of the Armed Forces which is planned is about 300,000.

Representative WIDNALL. Is not one of the difficulties, one of the main difficulties of employment of teenagers the fact that the draft service is hanging over their heads?

Mr. Ross. Excuse me?

Representative WIDNALL. Is not one of the real difficulties in connection with the employment of teenagers the fact that possible draft service is hanging over their head? Being subject to selective service?

Mr. Ross. We find in our area studies and particularly the Milwaukee study that Secretary Wirtz referred to a few moments ago, that this is not so far a major factor in employer thinking.

I might say that we do have, and I would be glad to submit it for the record if the chairman desires, a special table we prepared that might be of interest to the committee, showing for the 14- and 15-year-old group, the 16 and 17, the 18 and 19, and then the mature groups, the number of unemployed looking for full-time work and those looking for part-time work.

Chairman PATMAN. It will probably be useful. It will be inserted here without objection.

(Document referred to follows:)

*Unemployed persons by age and sex; January 1966, and seasonally adjusted unemployment rates, January 1965, October to December 1965 and January 1966*

Age and sex	Total	Looking for full-time work	Looking for part-time work	Seasonally adjusted unemployment rates				
				January 1966	December 1965	November 1965	October 1965	January 1965
	Thousands	Thousands	Thousands	Percent	Percent	Percent	Percent	Percent
Total, 14 years and over .....	3,290	2,632	658	4.0	4.1	4.2	4.3	4.8
14 to 17 years .....	347	103	244	12.8	14.7	13.3	13.0	15.9
14 and 15 years .....	62	( <sup>1</sup> )	( <sup>1</sup> )	8.9	12.4	9.0	6.7	9.4
16 and 17 years .....	285	100	185	14.7	15.8	15.4	16.0	19.1
18 years and over .....	2,943	2,530	414	3.5	3.5	3.7	3.9	4.3
18 and 19 years .....	417	284	133	10.9	11.6	11.3	13.1	14.3
20 to 24 years .....	497	423	73	5.4	5.5	6.4	6.1	7.2
25 years and over .....	2,029	1,823	208	2.7	2.7	2.9	3.0	3.4
25 to 54 years .....	1,590	1,453	136	2.7	2.7	2.9	3.0	3.5
55 years and over .....	441	370	72	2.8	2.7	3.0	3.0	3.1
Male, 18 years and over .....	1,726	1,558	167	3.0	2.9	3.0	3.3	3.9
18 and 19 years .....	201	123	78	9.7	9.8	8.6	12.2	13.1
20 to 24 years .....	247	215	31	4.2	5.1	5.7	5.5	7.1
25 years and over .....	1,278	1,220	58	2.5	2.3	2.5	2.6	3.1
25 to 54 years .....	959	939	20	2.3	2.2	2.4	2.4	3.0
55 years and over .....	320	282	38	3.0	2.7	3.1	3.4	3.4
Female, 18 years and over .....	1,217	972	247	4.6	4.8	5.3	5.2	5.4
18 and 19 years .....	216	161	55	12.3	13.7	14.3	14.1	16.2
20 to 24 years .....	250	208	42	7.1	6.2	7.6	6.9	7.4
25 years and over .....	751	603	150	3.3	3.5	3.8	4.0	4.2
25 to 54 years .....	631	515	116	3.5	3.8	4.1	4.3	4.4
55 years and over .....	121	88	34	2.4	2.7	2.7	2.0	2.6

<sup>1</sup> Virtually all looking for part-time work.

NOTE.—Detail will not necessarily add to total due to rounding.

Source: U.S. Department of Labor Bureau of Labor Statistics.



Representative WIDNALL. Didn't the National Industrial Conference Board make a study of Rochester, N.Y., which showed a higher job availability rate than employment rate?

Mr. Ross. My recollection of that study is not too good. I believe Rochester is an area of very low unemployment rate. I am not sure they showed more vacancies than unemployed, but I could be wrong.

Secretary WIRTZ. I think there was a net figure from the NICB which did show more job vacancies than unemployed. The unemployed figure included domestics and farmworkers, but the vacancies did not. However, a substantial part of the vacancies was for jobs with future starting dates.

Representative WIDNALL. You are speaking about domestics; there is certainly a great shortage in that area in the United States today and one of the difficulties is that nobody wants to "live in." I guess that is the answer to it.

Secretary WIRTZ. That is correct.

Representative WIDNALL. There are good jobs available, well-paying jobs where people can do much better than they can outside with a nondomestic job, and saving their money because of the nature of the employment.

Secretary WIRTZ. The only qualification I would make to your statement is about the well paid. There are two difficulties. I do not think you want a long answer, but we have been looking at it very carefully. The difficulties, among other things, are that a great many of these vacancies are now in cities where those who would do the domestic work are living downtown, the core of the old city, and those people who want the help are living in the suburbs, 8 or 10 miles away.

Now what it means for a good many of the people downtown and a good many of them are nonwhite, what it means is finding a woman, finding somebody to take care of her children, get them to school or not to school; with a good many cases the father is not present and she then has to take two bus rides and a train ride out to the suburbs where most of these jobs are.

I am exaggerating the case to make it. Then the rate is usually a quite low rate which does not include the 3 hours which typically it takes for her to get back and forth. Of course, it does not include the provision for the children.

My point, Mr. Widnall, is only that, first, that I agree there is a shortage; second, filling it is harder than we might have thought.

Representative WIDNALL. Mr. Wirtz, maybe you can answer this question for me. I have noticed in the Washington restaurants, for instance, a very high percentage of foreign language personnel, and many of them seemingly very recent arrivals to this country—how is it that that comes by? Such a prevalence in the restaurant business when there seem to be so many people unemployed in this country that, I think, could be trained very adequately for restaurant help.

Is there any explanation on that?

Secretary WIRTZ. I would like to inquire whether Mr. Ruttenberg, as Manpower Administrator, would have information on that particular point?

Mr. RUTTENBERG. Well, there are a substantial number of applicants for visas to come in under the new immigration law, and as you know,

Mr. Widnall, under the new immigration law passed by the Congress last year, the Secretary of Labor is required to certify there will be no adverse effect on employment in the United States if any individual does have a visa and comes in on a permanent basis.

We are examining each individual application as they come in and approving only those where we find no adverse effect.

Representative WIDNALL. I want to pinpoint one question in relation to this, then my time is up. We live in a city today which is today about 60 percent Negro, where there has been a high amount of unemployment. I simply cannot understand how in many of these restaurants at the time when we are stressing some unemployment and opportunity for Negroes, how they are able to maintain white personnel in restaurant after restaurant with completely new personnel coming in all the time and obviously recently arrived in this country.

Is there any quirk in connection with the immigration laws in connection with that? What's the situation on that?

Secretary WIRTZ. I don't think there is, and it is the kind of situation that would warrant our looking at it. I do not know what the answer to that is.

Representative WIDNALL. You don't have to be very bright to know that something is going on when this practice continues at the time when there is so much attempt in practically every other industry to integrate and integrate fully.

Mr. Ross. If I may comment, Mr. Widnall, I would point out for one thing the unemployment rate is quite low in Washington. It is one of the lower rates, and because of the fair employment policies of the Federal Government, I would guess—and it is only a guess—that the unemployment among Negroes in Washington is by no means anything like as high as in Harlem or Watts or West Oakland or the other places where it is disgracefully high.

Now, so far as the restaurant industry is concerned, I think there are probably two points: One is that restaurant work—the job of waiter or waitress—has higher status in Europe than in the United States; and I think one of the problems in domestic service as well as restaurants is the low status. But the low status is associated with low wage rates and our projections show that certain industries, including restaurants and drycleaning and laundries and other rather low-wage industries, will definitely face manpower problems in the years to come, problems which can be alleviated by training and recruiting, but which I think will also require a reconsideration of wage levels.

Representative WIDNALL. My time is up.

Chairman PATMAN. Mr. Reuss?

Representative REUSS. Mr. Secretary, you rightly stressed the importance of the wage-price guideposts. As you know, I have introduced legislation to try to improve our wage-price guideposts procedure. The legislation would essentially do two things: On the setting up of the guideposts themselves, I would require hearings before this committee, the Joint Economic Committee, in which both labor and management would have their day in court. The bill would permit this committee to initiate congressional action to alter either wage or price guideposts if, in its judgment, they did not serve the national interest.

Secondly, once the wage-price guideposts were established, it would authorize and direct the Council of Economic Advisers to notify the Joint Economic Committee when piercings of the wage-price guideposts of such an importance as to affect the national economic security were proposed. Then the Joint Economic Committee would hold hearings on the rights or wrongs of the proposed action, and issue a public report.

The idea there is to focus public opinion upon the proposed action more fully and in a more informed manner.

How about that?

Secretary WIRTZ. I do know the legislation to which you refer which in its present form I think is H.R. 11916.

Representative REUSS. Yes.

Secretary WIRTZ. Now, my impression, this follows first. I am sure there has been no administration position formulated on it, so that I would be answering in terms of my own views about it. Secondly, I am acquainted with the discussion of this last week in which the Chairman of the Council of Economic Advisers suggested some questions in his mind about the administrative features.

I would like to limit my reactions, then, to a personal position.

Representative REUSS. Please do.

Secretary WIRTZ. With respect to whether that kind of approach would be a good thing, I think it would be a good thing, Mr. Reuss. I think that part of this program which I have had trouble describing to Mr. Curtis—part of it involves the use of the fullest possible, of every possible means of informing the public about what's going on, of advising them and also of enlisting the public interest, whatever that may mean. I would think that the participation of the Congress in the consideration of the guideposts—assuming, if I may, the understanding that this is not a matter of control or authority or power—would be a good thing, and, therefore, I would feel that the combination of the legislative and the administrative approach in this area would be to the good, and would support in principle something like H.R. 11916.

Representative REUSS. Thank you.

Turning to your very interesting survey team's visit to my home city of Milwaukee, Wis., within the last few weeks, I want to applaud you and your associates for that kind of initiative. We in Milwaukee are in the fortunate situation of having something like 2 percent unemployed, and I might say I welcome the problems of trying to solve the frictions and difficulty of 2 percent unemployment far more than I would trying to solve the difficulties of 7 or 8 percent unemployment.

However, we are never without problems, as you recognized. The upshot of your survey team's analysis seems to be that there is a shortage in some fields. You mentioned particularly machinists, who do so much of the work in Milwaukee. The conclusion of the survey team is that the overall survey warrants an immediate stepping up of available training facilities.

I am, of course, distressed because our Milwaukee vocational school which has done a wonderful job of training over the years has had to curtail its proposed training program this year, due to the unavailability of local funds.

What can we all do about this? It seems ironic, indeed, if the central problem is training or retraining, that somehow or other, State, local, and Federal Governments cannot seem to pull themselves together and provide this training.

Secretary WIRTZ. We have not had a chance yet, Mr. Reuss, to talk in detail with the group which made that study. We have it on our schedule for this week. I hope to be able to give you a fuller answer to that question then.

They have brought to our attention the various programs in Milwaukee which are directed toward meeting this problem: the MDTA program, the vocational education programs, and so forth. I do not know yet what the answer to that is and will welcome the opportunity to work with you on it.

It ought to mean in intensification of the MDTA programs, of the vocational education programs and very possibly of the on-the-job training programs in connection with the MDTA. If the situation is at it appears to be, we would hope to be able to work out at not too large an expense on a per-man basis, training programs in which the Government and the employer would participate.

We are particularly interested in that because interestingly enough the figures also show still 13,000 people unemployed in Milwaukee. It ought to be possible to do some kind of cooperative job which would mean that the Employment Service would participate in identifying those people, in trying to line up more completely their relationships with the prospective employers and perhaps in picking up part of the training expense involved. But I do not know more specifically yet what ought to be done there.

Representative REUSS. But I may count upon you and the Department to make some quite specific recommendations with a view to the Milwaukee situation, perhaps not for these hearings but in the near future?

Secretary WIRTZ. Yes, sir.

Representative REUSS. One more question: You talked about that leading topic of conversation in suburban circles, the maid problem. Could not a little organization do something about that, both in terms of minimum wages and standards which included time for transportation, and in the organization of some urban-suburban transport?

It does seem to me you could get special buses to where the ladies are downtown, and get them out to the ladies in the suburbs.

Secretary WIRTZ. That is, as you know, being done on a private basis to some extent by organizations such as Manpower, Inc. When it is done that way, the price per hour goes up from about \$1.25 an hour to about \$4 or \$5 an hour.

I do not mean this as a complete answer. We are working both with the migrant labor problem as a whole, in general, and with the domestic problem in cities to see what can be done about the transportation and other logistical problems of this part-time unemployment situation.

My observation is there are things that can be done along the line you are suggesting.

Representative REUSS. Of course, I suppose the big problem is that most of the people in the suburbs have had enough of crabgrass and

would like to move back into the city, and many people of the cities would like nothing better than a little garden plot near a suburban industrial park, where they could spend some of their leisure time. But that is beyond the immediate ability of your agency.

Thank you.

Secretary WIRTZ. I do not mean to minimize the point you are talking about. It may be the ultimate irony of the affluent society and of the well-educated society that when we reach that point at which we expected to turn our dirty work over to somebody else, nobody is going to want to do that dirty work. It may well work out along that line.

Representative REUSS. With that thought, I relinquish the balance of my time.

Chairman PATMAN. Mrs. Griffiths?

Mrs. GRIFFITHS. Thank you, Mr. Chairman.

Along those lines and in connection with Mr. Ross' answer, is that why the laundry workers are not being trained under the Manpower Training Act?

Secretary WIRTZ. They are being trained.

Mrs. GRIFFITHS. Not in Detroit. I would say that in their case they answer your problem, the laundries are downtown, so you are not going to have a large part of the problem you would have with domestics but the manpower retraining has never been implemented.

Secretary WIRTZ. Do you know the Detroit situation?

Mr. RUTTENBERG. I do not know that specifically, but we do have a project with the National Institute of Launderers for an on-the-job training program and that is being implemented in various places around the country but I am not familiar with what is happening in Detroit.

I will look into that.

Secretary WIRTZ. To be specific, there is a need for laundry workers and for some reason or other—

Mrs. GRIFFITHS. They have not been implemented, their excuse is, we do not have money, et cetera. The laundries are downtown and they do pay more than the minimum wage, I assumed because of your answer they do not pay much more.

I would like to ask you, to what extent do you feel that the mobility of labor is not depressed and the upgrading is not available because of benefits that are available in certain jobs, specifically pensions?

Secretary WIRTZ. You mean a company doesn't want to hire a man, let's say, 55 years old, because it will cause a problem as far as the pension plan is concerned?

Mrs. GRIFFITHS. What about the person who belongs to a craft union which says that if you go 25 miles beyond this destination you cannot draw your pension? The man is now 50, there is no chance to be employed in the area, and he does not want to go out because he has been paying into a pension for more than 30 years, or what about the person who worked for Sear, Roebuck, who is going to get this marvelous lump-sum payment?

Does this have any real effect in restraining the mobility of labor?

Secretary WIRTZ. I think it does. We have gone into that very carefully in connection with a Cabinet committee's report on pension and welfare plans.

There is some question about whether you can pinpoint that one factor as contributing to nonmobility. In my own judgment and based on that study I think there is only one answer to your question. That is that the present pension and welfare plans, to the extent particularly that they are not funded and to the extent to which they do not vest the benefits in the employees, do result in a limitation upon the mobility of labor.

Now, it is only part of a broader problem. Seniority plans or provisions also have that effect, and I think none of us would be inclined to tinker lightly with that, but in broad terms and in specific, too, I think it is clear that some of these institutional developments, some of them resulting from collective bargaining, do today limit the mobility of labor.

Most specifically I would advocate very strongly the vesting of the benefits of pension plans.

Mrs. GRIFFITHS. Thank you.

I would like to ask Mr. Ross—I think his statement is excellent—how many people are employed in the civilian workforce to maintain one man in Vietnam?

Mr. Ross. Do you mean how many are employed directly producing for Vietnam?

Mrs. GRIFFITHS. I know you said if the military requirements go up that you anticipate going from 76.6 million to 78 million in December. The employment will go up that much.

Can you pinpoint it? How many people do you employ for one person in Vietnam or do you—

Mr. Ross. We do not have any statistics of that type. We do have these projections of labor force, employment, unemployment for 1966, based upon the present military plans and draft inductions as we understand them, but we cannot pinpoint exactly how many are needed to support each soldier directly.

Mrs. GRIFFITHS. What percentage of the employment today is due to Vietnam? Of the total employment?

Mr. Ross. What percent?

Mrs. GRIFFITHS. Yes.

Mr. Ross. Is producing for Vietnam?

Mrs. GRIFFITHS. No; is due to Vietnam.

Mr. Ross. Well, Mrs. Griffiths, I think that is hard to answer, I would like to think about it and perhaps supply a written answer insofar as it can be answered.

Mrs. GRIFFITHS. Thank you.

(Information below filed by Department for record.)

There is no direct information on employment in private industry attributable to the Vietnam buildup. However, using the interindustry employment information, the BLS has developed estimates of the employment involved, directly or indirectly, in producing the goods and services purchased for national defense by the Department of Defense and Atomic Energy Commission. In 1965, this was about 2.6 million, or the equivalent of almost one job in private industry for every person in the Armed Forces.

The Council of Economic Advisers has estimated that defense expenditures would increase by about \$6 billion in calendar 1966, and that about 65 percent of this amount would be for costs other than compensation for the increased number of military and civilian personnel. Using a rough conversion of these expenditures into employment requirements in private industry, and taking

account of the fact that some part of total expenditures for the year 1965 was related to the Vietnam conflict, it is estimated that about half a million jobs in 1966 might be attributable to defense expenditures for Vietnam. This would amount to only seven-tenths of 1 percent of total employment in the private sector of the economy.

Mrs. GRIFFITHS. Now, I would like to ask you, Mr. Secretary, when a complaint is made on equal pay for equal work, does that come directly to you?

Secretary WIRTZ. It comes directly to the Department of Labor, is handled by the Wage, Hour, and Public Contracts Division, with the assistance of the Solicitor's Office.

Mrs. GRIFFITHS. What sort of arrangements do you have, or if you have any, with Mr. Roosevelt, on the Equal Opportunity Act to determine whether or not you have overlapping jurisdiction?

Secretary WIRTZ. Well, our jurisdiction as far as the Equal Pay Act is concerned is limited just to the pay.

Mrs. GRIFFITHS. I understand that perfectly, but what I wonder is, if the employee makes a complaint first to you and then Mr. Roosevelt, how many investigators are sent out?

Secretary WIRTZ. These problems come up in larger numbers in the civil rights area, and we are making every effort, and I think so far successfully, to see that the answer to your question is one investigator, and we have developed liaison arrangements with the committee.

I cannot say to you certainly that there that will always happen, because our wage and hour investigators go in on a spot check basis, sometimes without complaint, and there would be every possibility that they would move into a situation, would find a violation of the equal pay provisions of the 1963 act, and would start a proceeding there and it may be that there would be the coincidence of an approach by the committee.

But, I think the answer to your question is that so far there has been virtually no duplication.

Mrs. GRIFFITHS. What type of guidelines are you laying down on this, and are they written?

Secretary WIRTZ. They are; the regulation is published in the Federal Register.

Mrs. GRIFFITHS. In the Federal Register?

Secretary WIRTZ. Yes.

Mrs. GRIFFITHS. Thank you.

How many violations of the act have you found?

Secretary WIRTZ. I think that there have been about 500 complaints filed.

Chairman PATMAN. Mrs. Griffiths, would you yield to me, please, ma'am?

Our Committee on Banking and Currency has a bank merger bill up for consideration immediately after the House meets and we will be compelled to be there this afternoon.

I wonder if Senator Proxmire would like to take over the responsibility of the committee and continue on until this hearing is finished?

Senator PROXMIRE. I do have a few questions and whatever the chairman wishes on Commissioner Ross' statement, as I understand it, he began to deliver it—

Chairman PATMAN. But we have agreed that he will place it in the record and will not further read his statement. We will interrogate him about it. I think Mr. Curtis wants to ask some more questions and Mrs. Griffiths has not finished. I also have some questions.

Will it be all right, Mr. Secretary and Mr. Ross, if I submit those questions to you before you look over your transcript for correction, and you can then answer them in the record for me, please?

Secretary WIRTZ. We will be glad to do that.

Mr. CURTIS. Mr. Chairman, may we have the understanding, too. I want to be sure this is clear because it became a point with previous witnesses. Any time you wish to extend your answers in the record—

Chairman PATMAN. Or clarify your statements—

Mr. CURTIS. Even though we do not ask.

Chairman PATMAN (continuing). You may insert matter that is pertinent or material or relevant. We have that standing rule.

Mr. Proxmire, will you take over, please?

Secretary WIRTZ. Should I complete that answer there?

Mrs. GRIFFITHS. Yes.

Secretary WIRTZ. There have been 500 complaints as of December 31; there have been investigations in 400 of them; there has been found \$1 million in underpayment involving 3,500 workers. It is still a very preliminary record.

Mrs. GRIFFITHS. Do you activate your Wage and Hour Division only when a complaint has been made or do you have some other opportunity to work outside the complaints?

Secretary WIRTZ. We do work outside the complaint. The investigators—the wage and hour investigators—look into this matter in connection with any of their complaints, and beyond that, Mrs. Griffiths, we are now making a study of about 1,200 collective bargaining agreements.

Mrs. GRIFFITHS. You are checking them?

Secretary WIRTZ. Yes.

Mrs. GRIFFITHS. So you are seeing some of these recently negotiated, where some are 17 cents less per hour for women than men?

Secretary WIRTZ. There is a very complete report just submitted last week on this, I have summarized it in my overall report to the Congress.

There are 2,400 collective-bargaining agreements. We have found that in about 1,000 of them there are some provisions for different treatments for men and women, that does not mean that those are necessarily unequal provisions, but we are following up on that, and there has been submitted to the Congress within the last week a quite full report and the first stage of this survey of those 2,400 agreements, which I would be glad to suggest to you.

Mrs. GRIFFITHS. The only thing I ask, it has come to my attention that some of these distinctions are being made on the basis that, for instance, in Michigan a woman is not supposed to lift more than 35 pounds.

It is my understanding from women who work in shops that in fact no man lifts 35 pounds; that in case there is lifting to be done two or more people do it.

However, when a women applies for the job or she asks to be put into that level then she is forced to do all of the lifting. So that it doesn't work out quite fairly.



What opportunity do you have to check this?

Secretary WIRTZ. Obviously, the statement of facts you have given me would involve a violation of the act, I think.

Mrs. GRIFFITHS. How can you really check it, because it does not show up in the contracts?

For instance, I am informed that in a contract in an area where there is lifting to be done and the lifting is of a weight of about 65 pounds, first there is a forklift truck and secondly two men to lift it.

But, if a woman asks for the job, the forklift truck disappears and she lifts the whole thing. [Laughter.]

Secretary WIRTZ. Yes.

Mrs. GRIFFITHS. How can you stop it?

Secretary WIRTZ. There are two parts to the answer.

First, there are the State laws and the application of those is always a matter of importance. As far as we are concerned on the equal pay part of it if there is an equal pay case the procedure would be that we would on a complaint send an investigator in there to determine whether there was that.

If it does not involve a matter of pay, then you have occasion under Federal law as the Commission is concerned, and our jurisdiction would not extend there, but I think the short answer is, if there is such a specific case it should be brought to our attention.

Mrs. GRIFFITHS. I would like to congratulate you, Mr. Secretary, I think it is going to be a real rough world and you are going to have to help a lot of them.

Thank you.

Senator PROXMIRE. Congressman Scheuer?

Representative SCHEUER. I have enjoyed your stimulating testimony very much.

Mr. Secretary, you described in some detail your efforts to reduce unemployment among Negroes, among teenagers, among the hard-core unemployed, the long-term unemployed, the disadvantaged, all of whom one could apply the characteristics, the structurally unemployed, and you mentioned that as of now you felt that perhaps 85 or 90 percent of the credit would go to the private sector and perhaps 5 or 10 or 12 percent might go to Government action.

Considering the fact that we now have achieved something under a 4-percent unemployment rate, what economic and fiscal policies would you suggest further to reduce and hopefully to eliminate the problem of structural unemployment among these various disadvantaged, hard-core, long-term unemployed whom you have just discussed before; and if the cost of further fiscal and economic policies to attract this group in the mainstream of our employment would contain such inflationary implications and would be at an inflationary price which we would be unwilling to pay, what do you think the role of the Government should be to finish the job of energizing this last remaining group and compelling them in a productive employment in our economy?

Secretary WIRTZ. I believe, Mr. Scheuer, that we—I mean the Government here—when I have said “we” before I meant the Nation—the Government is probably moving as rapidly in this area right now

as it can, and my answer would be that there is not much more that can be done right now.

There are several restraining factors. I leave out the obvious one of the necessity of taking this Government program into account with all others and the budgetary considerations, but beyond that, there is, for example, the very acute shortage of people competent to do the counseling, the referral, guidance, and so on and so forth, that goes on here.

We are setting up training programs to train people to do our training, so there is a real limiting factor there.

There is also the factor of the desire of working with the local and the State authorities. You just cannot rush that too much, so my answer to your question would be that the present program does represent almost a maximum concentration of these problems at this point.

Now, within the programs there would be questions of whether you wanted to expand them. As I suppose I might personally, the Neighborhood Youth Corps program which has a particular quality of expeditiousness about it, we move very rapidly on that; and on the manpower development and training program, we are now shifting that from the traditional institutional programs over to the on-the-job training programs to meet the situation.

So, there are administrative changes, but if your question inquires as to legislative expansion of the program, I think we are doing all that we can do as of now.

Representative SCHEUER. May I ask one further question. The Automation Commission recommended among other things a major program of employment in the public sector, the public service jobs, to meet the needs of the limitations of this group, that has not responded to the normal stimuli of the market.

And such a program was also recommended by a group of about 15 Congressmen. It was contemplated that ultimately perhaps a million or more, upward of a million of these heretofore specially unemployed persons would be employed in the subprofessional or aide category after a period of compensative on-the-job training, in medical services, such as doctors aides, nurses aides, home visitation aides, and also in our educational system as teachers aides and recreational aides, in our urban program, cleanup, rehabilitation, cleanup and fix-up aides.

Do you have any reaction to this type of compensated public service employment which was designed, I believe, both by the Automation Commission and by this group of about 15 Congressmen, of which I am one, to serve as a sort of half-way house or a way station to ultimate employment in the private sector once these people have acquired certain work disciplines and work skills, work habits which up to now they have not had and which has prevented them from reacting to the normal stimuli to the private economic sector?

Secretary Wirtz. My reaction would be that that idea over a range of time should certainly be considered. It involves what is in effect an extension of the present program for labor youth corps and job corps for younger workers to the more mature workers.

It is reflected to some extent in the provision that Congress adopted last year, identified with Senator Nelson in his amendment to the OEO program.

It is also reflected in the present law too, as far as the fathers of children who are the beneficiaries of aid for dependent children are concerned.

So, we have some elements of that.

If this works out that the present programs will not get rid, and I mean get rid, of this group, than it seems to me the Automation Commission's suggestion of the Government as an employer of last resort, which is I think their phrase, has a good deal to commend it.

Having said all that, if the question is whether their present circumstances in terms of the employment-unemployment situation, in terms of the present state of the manpower program and in terms of the present budgetary competing demands, if the question is whether taking all of those into account more ought to be done right now in this area, my answer would be "No," for the immediate future.

Representative SCHEUER. Let us just take, and this is my last question, Mr. Chairman—let us take one perplexing problem of teenage Negro unemployment which I think ranges substantially about 20 percent.

Secretary WIRTZ. For the boys it's about 24 percent in January, and for the girls it is about 32 percent, not seasonally adjusted.

Representative SCHEUER. What do you propose as the answer to this kind of nonresponse to normal stimuli of job-market or perhaps pure unavailability of jobs for this group in the private sector?

Secretary WIRTZ. The Neighborhood Youth Corps and the Job Corps, when I mention Neighborhood Youth Corps first it is because of the special responsibilities we have there—those two programs seem to me the most immediately productive kind of approach to it. I was in Louisville last week and in East St. Louis, seeing the Neighborhood Youth Corps there, predominantly Negro there, that is not true of the country as a whole, but there is a high percentage.

I think those meet the most immediate problem.

Beyond that, there is one answer, that is we will not get one answer until the educational system gets rid of any distinction at all between white and nonwhite students, and what we do in the meantime is only a fill-in because until the Negro boy or girl comes to the world of work with as good equipment by way of education as the white boy or girl, there is going to be that difference, so my answer would be—well, I left out—first, I think the factor of discrimination is pretty much behind this as far as that group is concerned.

Today a well-trained Negro boy or girl is going to get a job, just without any question.

The second point, we can do some immediate things in terms of these training programs and then, thirdly, and in the longer run, it has to be education which measures up.

Representative SCHEUER. Thank you.

Senator PROXMIRE (presiding). Congressman Curtis?

Representative CURTIS. Thank you, Mr. Chairman.

I am sorry Mr. Bolling has left because he thinks that the double wing attack is being used against the administration with regard to this problem of what to do about inflation. He says if you do too little you are criticized and if you do too much you are also criticized.

I would observe that the main inflationary thrust results from the expenditure programs. It is my judgment that we, with proper ex-

penditure policy in relation to our revenues, do not have to have these inflationary forces so we do not have to have price controls by law or price controls that are voluntary, in quotes. If there is a choice between guns and butter I would argue I think we could afford both if we properly structure ourselves.

I think it is a possible choice of whether we want rancid butter.

We have a redundancy in programs and particularly in this area of training and retraining. We are flooding the engine. This is the main area, in case the administration is interested, where the thrust is. I would say this, if you create the inflationary forces through deficit spending and increase your deficit from \$3.9 to \$6.9 billion in this fiscal year of 1966, you might have to make more use of the wage-price guidelines. I would much prefer to see you come in forthrightly and get the power to do it legally and have government by law rather than by what I think has been going on—selecting particular areas, moving in on those areas, and applying these wage-price guidelines which have never been presented to the Congress itself.

Secretary WIRTZ. Mr. Chairman, I do not want to be presumptuous, but if the circumstances are such that these suggestions are in the form of questions, I would like an opportunity to come to them.

Representative CURTIS. Mr. Secretary, may I interrupt just to clarify the situation we are in.

Mr. Bolling made some remarks based on my observations. I was responding to him to correct the record. The record is open for you to make comments, but not—

Secretary WIRTZ. I thought your points were being addressed to me.

Representative CURTIS. Notably, the minority has little time to comment.

Mr. Secretary, you and the administration have been making speeches and discussing this and it is carried all over the country, so if you would bear a little bit with the statement that I am making in order to try to clarify the minority position I would appreciate it. I am taking the attack, if you choose to call it that, of the loyal opposition. Please bear with it and you will have an opportunity if you want to expound on it in the record, but I only have 10 minutes here now and I was simply trying to clarify the picture in light of Mr. Bolling's comments.

Now, I would like to go to some specifics here.

One, to Mr. Ross: I have your table 5 now, I guess that is what you were referring to, expiration dates of 306 specified agreements covering 5,000 workers or more which shows those contracts, wage contracts that are expiring in 1966 and then there are figures for 1967.

Is that the table you were referring to when I asked the question? I asked it of the Secretary in regard to the number of contracts that were going to be up for renewal in 1966.

Mr. Ross. Well, the table 5 to which you refer, Congressman Curtis, does show the major contracts and it indicates that it is a fairly light bargaining year.

Representative CURTIS. But you see, what I was after, comparing it to 1965 and I was going to ask you what are the figures for 1965.

We have a number of agreements in 1967, 107 out of these 306, and covering 2 million workers.

Now, what was that comparable figure in 1965?

You see what I was asking was, whether or not there were going to be fewer of these contracts up covering more workers than 1965. I sought to get further information, and the Secretary said it was in your tables, and if this is the table you are referring to, it does not give us any 1965 figures.

Mr. Ross. Congressman Curtis, my difficulty is that I have only been Commissioner for a couple of months and I was not observing it during 1965; may I put that in the record?

Representative CURTIS. Certainly.

Mr. Secretary, that is the point. Your statement is it was less—

Secretary WIRTZ. This is my statement?

Representative CURTIS. I will call your attention to the fact that in 1968, instead of 107, it will be only 75, and instead of 2 million workers covered for this group it will be only 1,200,000.

Now, is this a continuing decrease?

Secretary WIRTZ. Last year it was high, this year will be low, next year will be higher, both in terms of bargaining—

Representative CURTIS. Do you have any idea of what this figure is for 1965, comparable figures for 1965, roughly?

Secretary WIRTZ. What we are talking about, Mr. Curtis, is the steel settlement, it is the copper settlement, the aluminum settlement, the maritime settlements that were made during the year, and there were a number of others.

Representative CURTIS. That is why I made my remarks, to try to find out whether there is a smaller number of large collective agreements that are up in 1966 or is it really that there are more of these contracts covering more workers but not as many large ones up—

Secretary WIRTZ. Mr. Curtis, you and I can argue whether butter is rancid or not, but we cannot argue about the fact—

Representative CURTIS. I was trying to get information.

Secretary WIRTZ. I told you the fact is there were more last year and we will supply the specific figures for the record.

Representative CURTIS. And I am trying to find out if you have a preliminary rough figure so I could go on interrogating. If you don't want to assist in this interrogation—

Secretary WIRTZ. I want to assist.

Representative CURTIS. All I asked was could you direct me to the figures? I turned to the table you suggested and found no figures for 1965. I ask a simple question—if you have not got them, you are going to supply them for the record, but at this time do you have any rough figures I could relate it to?

Mr. Ross. I would make a guess, Congressman Curtis, that whereas the 1966 projection shows about 976,000 will be covered by the 93 expirations of major contracts, and 1967, as we have said, will be a big bargaining year with more than 2 million covered.

We will supply it, but so the conversation may proceed, my guess would be that in 1965 it was between 1½ and 2 million.

Secretary WIRTZ. It will be higher than that, Mr. Curtis. During the first 9 months for which figures are complete already and released—

Representative CURTIS. Is this 1965?

Secretary WIRTZ. I am talking about 1965. During the first 9 months, 2.2 million workers were covered by the major collective bargaining agreements. That will be most of them because most of them came in the first 9 months.

Representative CURTIS. That would be a comparable figure to the one we have here in table 5.

Secretary WIRTZ. Well, let me submit for the record the exact data you request.

Representative CURTIS. All right, that is what I was seeking.  
(Material subsequently filed follows:)

Table 5 of Mr. Ross' submission is limited to agreements with 5,000 or more workers each, whereas the 2.2 million who settled in the first 9 months of 1965 includes contracts affecting 1,000 or more workers each.

We have information on approximately 300 agreements covering 5,000 or more workers each. Together these account for more than 5 million workers. Of these, about 134, with approximately 1.6 million workers, expired during 1965. The comparable figure for 1966 is 93 agreements, with almost a million workers.

In addition to agreements that expired, others permitted reopenings during 1965 or 1966. If workers under these agreements that provide reopenings are included, the figure for 1965 would become 3 million and the 1966 figures would become 2.2 million.

The small total for 1968 stems from the fact that at the end of 1965 we did not have a complete picture of 1968 negotiations. In other words, the figure on the number of contracts that will be renegotiated in 1968 is limited to contracts now providing for expiration in 1968. The total for 1968 will be supplemented, for example, by 2-year contracts negotiated in 1966.

Comparable information is not available for small agreements. Since there are about 140,000 agreements in the United States, the total volume of agreement expirations is probably fairly stable from year to year. As measured by workers covered, however, it is likely that the figures discussed above for large agreements describe the year-to-year cycle.

Now Mr. Secretary, the Director of the Budget when I asked him about the increases in the consumer price index and wholesale price index, if I quote him correctly, and I think I do, responded that he felt that this was mainly in the agricultural sector and was a cyclical situation there and pointed to the fact that the industrial price index has been fairly constant.

I now direct this question to you. I said it has been in the industrial area that these incidents of application of the wage price guidelines have occurred and apparently have reached success, so that is really not an answer simply saying that the inflationary forces in the industrial area were met through the application of wage price guidelines.

Now, would you care to comment on this picture?

Secretary WIRTZ. I do not see the question that you have in mind specifically enough, Mr. Curtis.

Representative CURTIS. Well, the question is this: Whether or not the Consumer Price Index and the Wholesale Price Index, instead of increasing 2.2 points from December to December and 3.4 points, respectively, would have been considerably more if there had been a rise in the industrial price index but for the application of the wage price guidelines by the administration?

Secretary WIRTZ. I do not feel competent to answer that question in terms of prices. On wages I have some quite clear pictures, but it may be that this price information coming from the BLS will answer that.

Representative CURTIS. It is in the wage price guidelines. Would you say as far as the wage aspect of it is concerned there was no effort on the part of the Department of Labor to hold down the wage costs in these industrial areas?

Secretary WIRTZ. No. My answer on wages would be that application of the guideposts had a quite real and definable, identifiable effect on wage increases in restraining them.

I would point specifically and illustratively to the steel settlement. They were in what we consider to be the exact terms of the guidepost—3.2 percent. As far as the maritime industry, which we considered a large industry, the parties themselves adopted the 3.2.

This approach did have a real effect last year.

Representative CURTIS. Would it not be but for this application of the guidelines, the price index would have gone up higher than it actually did?

Secretary WIRTZ. On prices I am simply not well qualified. On wages I think I know the picture.

Representative CURTIS. I see, you are just raising the point that the wage increases would not necessarily be passed on in increased prices?

Secretary WIRTZ. No; if the question is whether there would have been larger price increases if there had been larger wage increases I would be relatively sure that there would have been; yes.

Representative CURTIS. Thank you, Mr. Chairman.

Senator PROXMIRE. I apologize for having to leave the room to go to the floor and I want to compliment Commissioner Ross on his statement; this is an excellent statement and I do wish I had more time to study it before the hearings.

It is an unusually detailed statement, 68 pages, and full of tables and charts and it is going to be a real gold mine. I am delighted to get this and it is such a helpful supplement to have this committee presented with the statistics as the Commissioner sees them and in this kind of detail.

Secretary Wirtz, while I was gone Congressman Reuss secured from you an indication that you would have available a special report on the Milwaukee situation as far as the shortage of labor is concerned.

Secretary WIRTZ. Yes.

Senator PROXMIRE. I am looking forward to that, I would appreciate it if you could make it available to both of us.

Secretary WIRTZ. Surely.

Senator PROXMIRE. The Council of Economic Advisers indicated that the administration is still assuming that the so-called full employment—or at least high-level, or maximum employment, they have changed the word now—is defined as 4 percent, and the so-called target is still 4 percent.

I questioned that because we are at 4 percent, you are predicting we are going through the target but they have not changed this for the purpose of fiscal analysis.

As you know, part of what the economists all over the country are working with is the so-called full employment surplus, or now they call it the high employment surplus, they calculate the drag on the economy, on the basis of some target figure and the target figure they have used for the last several years has been 4 percent unemployment.

Now they continue to do it, although I think you have made a very strong case for our moving ahead to 3½ percent instead of 4 percent.

My questions are these: No. 1, does the President assume, in his projection of a \$500 million cash surplus for the year, and a \$500 million deficit in the national income accounts budget—those two budgets that are the best indexes of the economy—a 4 percent level of unemployment or the 3½ percent you have predicted this morning?

Secretary WIRTZ. I will correct it for the record if it is different, but I think, Mr. Chairman, the assumption that went into those figures was one of an average unemployment level for the year of 3¾ percent, going down to—

Senator PROXMIRE. Three and one-half is what would happen if you went over to December?

Secretary WIRTZ. The annual average would be 3¾ percent.

Senator PROXMIRE. And I take it that you are making a presentation to the committee this morning for a recognition at least from the standpoint of congressional policy of a goal lower than 4 percent?

Secretary WIRTZ. Yes.

Senator PROXMIRE. You indicate that 3½ percent is within our grasp this year and you say you think it can go down to less than 3 percent?

Secretary WIRTZ. I do not think we should be content, if we are going to stick with these statistical figures, recognizing they can be of dubious validity, if accepting them, I do not think we could be content until we are down below 3 percent.

I would question, again, this averaging which includes adults and children and so on and so forth, we already are below 2 percent as far as married men are concerned; we are already below 3 percent as far as adult men are concerned; we are already at 3.8 as far as adult women are concerned, so the general averaging bothers me and I would rather go to the point of simply defining full employment in terms as the Full Employment Act originally did, in terms of complete opportunity for anybody who is ready and willing to work.

Senator PROXMIRE. I think it might be very helpful if you could give us an estimate of what this 3½ percent is likely to look like at the end of the year in terms of these breakdowns.

Will married men unemployment be below 1.8 percent, and what will the level be? Will the unemployment for women be at a substantially lower figure? Where are the gains going to be? I think this might help us in assessing the inflationary impact, to the extent there is any in the labor market.

Secretary WIRTZ. It would help us with this idea that we have to look at a number of problems instead of one.

We will do the best we can to estimate what 3½ percent unemployment at the end of the year would look like.

(The Department subsequently supplied the following:)

The estimate of 3½ percent unemployment for the end of 1966 translates into 2.7 million unemployed, seasonally adjusted; this would be about 400,000 less than in December 1965. The reduction would be about 150,000 each in the 14 to 19 year group and among adult men, and about 100,000 among adult women. As a result there would be about 1 million unemployed men and 850,000 each of unemployed women and teenagers. The number of married men unemployed would also drop by about 100,000 to approximately 600,000.



In the kind of labor demand situation we are anticipating, nonwhite unemployment would fall at a somewhat faster pace than that for whites, so that their ratio would be significantly less than double the white unemployment rate for the first time since the Korean period. White persons would constitute about 2.2 million of the unemployed and nonwhites about a half million.

We would expect that all of the improvement in unemployment would be among seekers of full-time jobs, with very little change among the part timers.

Senator PROXMIRE. European countries have had considerable experience with high employment and low unemployment. And their experience seems to suggest that there are inflationary pressures from a low level of unemployment, or at least they have had a far less favorable price stability record than we have had.

On the basis of your study and experience, particularly in Europe and Japan, does this modify your optimism that we can continue with stabilized prices and low level of unemployment?

Secretary WIRTZ. I do not know whether optimism is exactly the word I would choose, but my conclusions do take into account what has happened in those countries.

It takes account of what has happened to unit labor costs in those other industrial nations with which we compare ourselves, recognizes very real differences between ourself and the European situation; we have a good deal more flexibility of one kind or another to work with than they have there.

Senator PROXMIRE. Our flexibility has been in the labor area, though, has it not?

Secretary WIRTZ. Yes, but just for example, with our prediction that next year 300,000 people will come back into the work force who would otherwise stay out, we have quite a curb on there which they do not have, so my answer to your question would be that I do feel that confidence rather than optimism, that confidence I do feel it even in the light of the European situation.

Senator PROXMIRE. Has this wage price guidelines concept been used in other countries?

Secretary WIRTZ. Yes, in England they are going through a crisis relative to the problem you have put here, they are encountering real trouble in England with what they call their income policies which has some relationship to what we are talking about here, but it is a different policy and it is applied in a different employment situation, but in answer to your question, yes, they have experimented with it there and they have had trouble with it.

In the Netherlands they have experimented with a variety of somewhat more institutionalized restraints or influences and that has not worked very well, so that both the British and the Netherlands—the present British concern and the already established Netherlands experiences are on the side of justifying questions about this kind of approach.

Senator PROXMIRE. The wage-price guidelines—

Secretary WIRTZ. May I add, I am sorry to interrupt, but on the other hand in Sweden you have had just an almost model kind of voluntary, self-restraint. Obviously there are pressures on the Swedish economy which make that more necessary than perhaps here, but I should add it to my other listing.

I am sorry to interrupt.

Senator PROXMIRE. Does the President of the United States have more or less power because of the various psychological powers, the fact that we do have stockpiles, the tradition in our big corporations of sensitivity to public relations and so forth? In your judgment does he have power comparable to that of governmental leaders in other countries?

Secretary WIRTZ. I do not know how to make that comparison.

Senator PROXMIRE. So that it would seem—

Secretary WIRTZ. I was about to say, Senator Proxmire, that my own thought would be that the powers that are important are not those that are illustrated by the stockpiles and so forth, but rather very much along the lines of what Mr. Gullander said in a speech yesterday for the National Association of Manufacturers that the real asset here is the cooperation of the Government and the private community—and that, it seems to me, represents today as large an asset in terms of the Office of the Presidency as we have ever had because I think there is a confidence and a working relationship between the Presidency, the Congress, the business community and the labor community, which are the four elements Mr. Gullander mentioned beyond what we have ever had before.

And, that is a very, very important capital asset in this concept. Without it, I don't suppose it would work.

Senator PROXMIRE. Does that not depend to a great extent on their acceptance of the integrity of the guidelines themselves, that the figure is the best figure that competent people can select?

In this connection, I have had a chance to go through Commissioner Ross' statement and as I understand it, we have had a substantial increase in productivity, a much greater increase in this decade until last year when the increase was only 2.8 percent.

I was not able to find in Commissioner Ross's statement an estimate of what the productivity increase is likely to be this coming year.

Mr. Ross. Senator Proxmire, you will find it in my summary. Of course, as you know, it is a little bit of a risky estimate because it is so hard to know what the agricultural harvest is going to be.

Senator PROXMIRE. Yes.

Mr. Ross. Our belief is that overall productivity in the private economy will rise between 2.8 and 3 percent in this particular year.

Now, productivity increases do fluctuate quite a bit from year to year and the trend rate depends upon what period you pick for your trend.

Senator PROXMIRE. We can look forward to an even better increase in this?

Mr. Ross. Yes; I think for any long time period, whether you take the entire postwar period or say the past 5 years the rate is above this 2.8 or 3 percent that we predict for this year.

Senator PROXMIRE. Then there is no question that the wage-price guidelines as enunciated by the administration are at least mildly inflationary, in this sense, that if our productivity increase is less than 3 percent, if the wages are permitted to rise 3.2 percent, even assuming that all fringe benefits are included in that 3.2 percent, there is at least a small, some, but a small inflationary bias in the wage-price guidelines, is that not correct?

Secretary WIRTZ. I am glad you asked that. This gives me an opportunity to reply on a bipartisan basis in terms that could not be misunderstood.

Using the term "inflation" to cover that situation, I think inflation is a matter for very real national concern. I think it lessens our capacity to avoid it if we apply that kind of phraseology to the kind of slight upward movement which comes almost inevitably in a period of this kind.

Just to be specific by way of illustration, if we are going to move the low wages in the country, of which there are some, up to what we would all agree as amounts they ought to be moved to, that we would all agree ought to be done without concern about the productivity.

There are other good reasons for doing it, and it would have a slight upward effect. My point is, I think of it in connection with the migratory worker problem, in which I was immersed a good bit last year, I believe everybody is in favor of wiping out the conditions we find in the migratory labor situation.

If that should mean a slight increase in the wages and prices I do not believe the country calls that inflationary, but I think the important point is that we ought to distinguish between that flexibility including a slight upward movement which you properly say would be permissible within the guidelines, and on the other hand inflation which is a beast of a very different nature.

Senator PROXMIRE. I agree wholeheartedly with your response; the only difference is whether or not you can say a mildly inflationary, and I suppose you are right, a mild increase in prices would be a better description of it; at any rate, the fact is there will be a positive rather than a neutral, small positive rather than a neutral effect on the price level if these wage-price guidelines are respected.

Secretary WIRTZ. Yes.

Senator PROXMIRE. My time is up.

Representative CURTIS. The difficulty is getting the dialog moving. I do not blame you for not wanting to accept my rhetoric, but in the same way I should not be forced to accept the rhetoric that the administration has used.

So, now, getting to the rancid butter so you will have an opportunity to avoid that rhetoric and use something else, I made the point that I felt there was a great deal of redundancy in many of the expenditure programs of the administration, and particularly in this training area.

And one of the ways, in this field of job training and the structural problems of unemployment, to avoid redundancy is the development of the job vacancy statistics. This is why I have been so discouraged to find the administration taking so long in developing the job vacancy statistics.

It is a necessary item to avoid redundancy in training and retraining programs, would you not agree?

Secretary WIRTZ. Mr. Curtis, we have come to the Congress of the United States every year since I have been Secretary of Labor asking for the money to compile those statistics, and it is not the administration, as you said in your question, it is the Congress which has said, we do not want to give you any money for that matter.

Representative CURTIS. How much money are you talking about?  
Secretary WIRTZ. \$21½ million.

Representative CURTIS. Exactly. Now let me ask you this question, Mr. Secretary. If President Johnson and this administration believe, as I do, that this a key factor in moving into this area of structural and frictional unemployment, do you really mean that this \$21½ million which has not come through the Congress would not have come through?

In other words, if the administration had felt that it was as important as I do, and is the key to this thing, it would have been successful. The answer is obviously they do not. You do not agree?

Secretary WIRTZ. We do not agree with what?

Representative CURTIS. That this is the key to avoiding redundancy in our training and retraining programs to have jobs available statistics.

The fact that Congress did not give you the money—

Secretary WIRTZ. I do not know what it is you want from me. If there is any question about the importance of the jobs available statistics—

Representative CURTIS. Being compiled, it was, as I understand, required by law.

Secretary WIRTZ. I do not think you and I disagree at all.

Representative CURTIS. Let me say this: Going back, does President Johnson disagree that this is a vital thing?

Secretary WIRTZ. Well, it is a pretty firm practice for me not to try to answer that question, but I am sure my view reflects completely his.

Representative CURTIS. Your answer has been that the reason we have not moved forward in this vital area is because Congress, controlled by the Democratic Party if you want to be specific, has not given this money—\$21½ million—and this is the vital area in which to move forward. This is the answer of the administration, that, well, Congress did not give us the money?

Secretary WIRTZ. That is not the answer, it is the fact and if the question is, whether every effort has been made to achieve that the answer is "Yes."

Representative CURTIS. All I can say is that having had a great deal to do with the drafting and writing and passing of the Manpower Training Act, and I have just rechecked it to be sure that we did require developing job vacancy data in there as I thought we did, that the jobs available statistics be updated—

Secretary WIRTZ. They should be.

Representative CURTIS. And here it is 1966 and we are still in the experimental stage and this is the amount of money needed. I think the case on record is pretty well made.

Let me move to another point on it.

To have a proper jobs available statistic you would agree that it was necessary to update the Dictionary of Skills, would you not, or would you?

In other words, how are you going to develop a national statistic that is broken down as to what kind of jobs are going begging if we do not have nomenclature to describe the skills that are needed. So I am asking whether a basic feature of the jobs available statistic is getting the Dictionary of Skills updated.

Secretary WIRTZ. My impression, Mr. Curtis, is that that matter has been taken care of, that there is that updating in the last dictionary, but I think the most constructive thing to do is simply take your question as a suggestion that we ought to check to be sure on that.

Mr. Ross. May I add, Congressman Curis, that I believe a new dictionary of occupational titles with some very imaginative new concepts of classifying and describing jobs is now in the course of publication.

Representative CURTIS. I am happy to state, Mr. Commissioner and Mr. Secretary, it has been completed. The third edition is out. I have had it for a month. It is a two-volume document and I am most pleased that it is here.

Secretary WIRTZ. I thought your question was about improvements in that document which, of course, I know you have; we sent it to you.

Representative CURTIS. Since January 16, I have asked the Department of Labor to give me the second edition so I could compare the third edition to see how well it was done. The second edition, to my regret, is dated 1949. We were that out of date.

Now, again getting back to the point, how do we avoid redundancy in training programs, apprenticeship training and so forth, without developing jobs available statistics?

How can you develop the jobs available statistics without updating the dictionary of skills?

It just seems to me you cannot do it.

I would make this one constructive criticism, I think the Dictionary of Skills ought to be a looseleaf document because this business of skills and job descriptions is constantly changing, particularly in a period of great automation.

Now, this relates to various programs. I just jotted them down here. I have done it before, noting Federal programs that are directing attention to this great important area of training and retraining to combat structural unemployment.

Let me say this, that I have never denied that you can get roast pork by burning the barn down; in other words, those who think you can solve unemployment by just increasing aggregate demand are not wrong. Sure, you can overheat the economy, you can certainly improve the ability to move into the technological unemployment area, but I would suggest there are much better ways of getting roast pork.

Now, let me ask Commissioner Ross one question.

I notice that in your statement you say:

Up to the present, manpower shortages have been only spotty and have been subject to considerable exaggeration.

On what basis do you make that statement if we have not done other than just got a few pilot plans on the jobs available statistics?

Mr. Ross. Before answering that may I say that a companion document to the Dictionary of Occupational Titles is the Occupational Outlook Handbook, and I am sure you are familiar with that.

The new edition of that is just coming out and, of course, will be sent to members of this committee.

On the statement about shortages, the comment on exaggeration referred to some widespread stories in the press suggesting a general

labor shortage in the sense of exhaustion or near exhaustion of manpower reserves.

Despite the absence of job vacancy statistics, which I am very anxious to get, I think we do have considerable evidence that we do not have or are we imminently approaching a general exhaustion of manpower shortages.

For example, employment has been increasing hundreds of thousands per month, and I think in months to come employment will continue to increase.

Of course, if manpower reserves were exhausted then the employment increase could not be had.

Secondly, the advance in overtime hours is a pretty good indicator, and the average workweek is only about two-tenths of an hour higher than it was last year.

Thirdly, as you know, labor turnover rates are a pretty good indicator, the quit rate has gone up in the last few months which, of course, does show some tightening of the job market but it is by no means what it was, for example, during the Korean war.

We find that the shortages appear to be located in certain areas and jobs.

For example, while, as Secretary Wirtz said, around the Great Lakes area region you will find most cities like Cleveland, Chicago, Detroit, Milwaukee, Minneapolis and so forth, with rates of 2 to 3 percent—am I being too prolix?

Representative CURTIS. No; not at all. However, my time is up.

Mr. Ross. I was going to say in San Diego, Scranton, and some of the Massachusetts textile towns, other places that are mentioned in the report, the unemployment rates are 5 or 6 percent or higher, so that obviously it is not nationwide.

Now the skills appear to be in three major categories: First, the professions—engineers, scientists, economists, and physicians in particular; secondly, skilled metal tradesmen and some construction crafts—of course, the construction situation tends to be localized; and thirdly, the point which I have already mentioned, some of the essential but low-paid occupations such as those in the nonprofessional hospital and rest home jobs, restaurants, laundering, and so on.

Representative CURTIS. I will come back to that.

Senator PROXMIRE. I would like to ask the Secretary for the record—do not bother to answer now, you can answer in writing when you get a chance to see the transcript of your testimony—what attempts are being made to coordinate manpower retraining activities with other redevelopment policies; for example, those under the Public Works and Economic Development Act of 1965, directed at “redevelopment areas”?

The second question is data—data suggest that increasingly the problem of unemployment is concentrated, from a geographic standpoint, in nonmetropolitan, nonagricultural sectors of the economy.

What special efforts are being made to reach the manpower retraining needs of nonmetropolitan areas?

(The following material was later received from the Department:)

In response to Senator Proxmire's request for a statement on the attempts being made to coordinate manpower training activities with other redevelopment

activities as, for example, under the Public Works and Economic Development Act of 1965, particularly with respect to efforts being made to meet the retraining needs of nonmetropolitan areas, we submit the following:

The redevelopment area training program was transferred to section 241 of MDTA, under the 1965 amendments to MDTA, effective July 1, 1965. Sections 16 and 17 of the Area Redevelopment Act, under which the program was previously authorized, were repealed. The effect of this action was to extend to residents of redevelopment areas the more liberal provisions of the MDTA respecting duration of training and payment of allowances and other benefits while retraining the broader eligibility of applicants and other desirable features of ARA.

In language similar to that included under ARA, training needs of unemployed and underemployed residents of redevelopment areas are determined by the Secretary of Labor, in consultation with the Secretary of Commerce. Redevelopment areas are designated by the Secretary of Commerce in accordance with criteria set forth in the Public Works and Economic Development Act, and he is responsible for advising this Department, and other agencies, regarding their designation.

Under ARA, State employment offices were notified of pending loan applications for new plants, or other economic activities, by the area economic development agency, training proposals were required to conform to the area's overall economic development, as attested by the authorized area redevelopment official. Similar procedures will continue. In addition, however, more advance planning to anticipate manpower needs created by economic development activities will be accomplished by procedures outlined in the proposed regulations to implement section 241. The regulations, which are required to be issued jointly by the Secretaries of Labor and Commerce, will provide that the Department of Labor be notified of "plans, projects, or studies and related activities which are relevant to the immediate or long-range economic development of a redevelopment area, including, where possible, an estimate of the amount and kind of employment to be created." This should make it possible for this Department to do more effective planning with the Department of Commerce and the States to anticipate future manpower needs, to expedite training programs so that trained workers will be available as they are needed, and to assure that priority is given to training which will most effectively aid economic development.

Some of the designated areas are, as the committee knows, entirely nonmetropolitan. In addition as we also point out in our answer to question 15, the Departments of Agriculture, Labor, and HEW have jointly developed, approved, and funded a "concerted services" pilot program in the rural areas of three States—Arkansas, Minnesota, and New Mexico. This pilot project was established to explore ways of getting the resources of the various Federal programs into rural areas which often lack the community agencies and organizations to identify available programs and to initiate the action necessary to obtain financial and other assistance to meet their problems.

Senator PROXMIRE. And then I would like to ask Commissioner Ross for the record to give us his views on the capacity of the Consumer Price Index to measure qualitative changes.

This has been something, as you know, that economists always debate and discuss but they are never very firm or exact in whether or not we are being fooled by this increase in the Consumer Price Index, because it may or may not adequately reflect quality improvements.

Mr. Ross. Yes, sir.

Senator PROXMIRE. And then I would ask you if you care to do so now, if not, do it in writing, your anticipation of price movements.

You say in your statement that you would not expect the Consumer Price Index to show as much increase in 1966 as most other countries had last year.

The preceding sentence indicates that means you would not expect it to go above  $2\frac{1}{2}$  or 3 percent. That is what I conclude because you

give a range of from 2 to 10 percent but most countries, at least the modal average, is 2½ or 3 percent.

Is that correct conclusion?

Mr. Ross. I believe your inference is correct. I would not expect it to go above 2½ or 3 percent.

Senator PROXMIRE. If you would give us a breakdown, I would not press you too hard, your estimate for the consumer prices, wholesale prices, and the GNP inflator.

Mr. Ross. Yes.

Senator PROXMIRE. If you care to comment on this, if you feel you can give it off the top of your head, fine. If you prefer to put it in writing, fine.

Mr. Ross. I think anything precise I would prefer to put in writing. I will comment qualitatively. I would say in the consumer field, while we do expect some increase in food prices, particularly meat, especially in the first half of the year, I do not think they will increase as greatly as they did in 1965 and as you know, Senator, the meat increase contributed a considerable percentage to the rise of the total Consumer Price Index.

In the field of consumer durables I believe there are grounds for optimism because of the efficient new capacity coming into play, because of the high profits in those industries, and because of the good product supplies as well as, of course, the willingness to cooperate with the President's appeal for restraint.

I think the major problem will probably come in consumer services and there we have deterioration of quality in many cases, we have labor supply and other problems, but I would prefer to be specific in a written submission.

Senator PROXMIRE. Thank you very much.

(The following material was subsequently filed:)

#### 1. PRICE OUTLOOK FOR 1966

We expect prices of consumer services to show a larger increase during 1966 than the 2.7-percent advance of last year. The most significant price rises probably will be in the areas of medical care, personal care, recreation, and various types of repair services. There are likely to be substantial wage increases in the industries producing these services which, together with other cost increases, will force prices up. Rents probably will rise more than their 1-percent increase of 1965, but less than prices of other consumer services.

Food prices appear destined to go up still further, largely because of continued increases in meat and poultry prices, plus a faster advance in prices of cereals and bakery products and restaurant meals. Clothing, footwear, and gasoline are likely to show a larger advance in 1966 than last year because of strong demand and cost increases. Consumer durable goods prices have been declining since 1959, but it is not clear that the trend will continue downward. Home purchase prices are likely to rise more sharply because of higher construction and land costs. Active demand for household durables, and higher prices of metals, reduce the likelihood of further price cuts. Recent increases in hardwood prices will affect furniture prices.

At the wholesale level, price increases are likely to be much more prevalent and larger among industrial commodities during 1966 than they were last year. On the other hand, farm and food prices probably will rise at a slower pace than they did in 1965.

Strong worldwide demand can be expected to put continuing upward pressure on prices of basic materials such as metals, rubber, paper, lumber, fats and oils, hides, petroleum, and natural fibers. Higher costs of raw materials, together



with increases in other costs, in turn are likely to bring sharper wholesale price advances in an expanding market for metal products, machinery, apparel, and other finished goods.

The implicit GNP-deflator will reflect not only these increases in consumer and wholesale prices, but in addition, sharper advances in construction costs than those which took place in 1965, and further increases in prices paid by governments for goods and services. Construction cost increases are likely to exceed the 4 percent of 1965, reflecting substantial increases in wages of building trades workers, and higher materials prices. Prices paid by governments for goods and services probably will rise by 3 percent or more.

## 2. THE PROBLEM OF MEASURING QUALITY CHANGES

The Bureau of Labor Statistics is acutely aware of the measurement problems arising from quality changes in consumer goods and services, and makes every effort to adjust for changes in quality of product that are measurable. Its pricing procedures and processing techniques are specifically designed to offset the effect of quality change in measuring price change. Nevertheless, some residual effects of quality change on quoted prices undoubtedly do affect the movement of the Consumer Price Index either upward or downward from time to time. But unmeasured improvements in some areas are offset to some extent by unmeasured deterioration in others.

Even if one accepts the conclusion that quality of goods and services available to consumers has been steadily improving, it should not be immediately concluded that the CPI is biased upward. The interaction of quality change with the index mechanics for making price comparisons must be taken into consideration. Varying procedures are followed for the comparison of prices when products change, depending on the market situation, the nature of the change in the product, and the amount and kind of information that can be obtained. Therefore, a detailed examination and evaluation of the many decisions made when new varieties are substituted for older varieties in the index list, and a qualitative determination of the difference in qualities for the two varieties involved in each decision would be required before the existence of bias could be established, since each decision has an impact on the final index.

In order to insure that comparable items are priced from month to month, the principles of specification pricing are used to collect data for the CPI. Because of the difficulties inherent in the development of complete descriptions, specifications are supplemented by other aids to quality recognition, such as informative materials from manufacturers and lists of brands illustrative of the quality described. In addition, field representatives are given thorough training in the recognition of goods and services before pricing is undertaken. Items which satisfy the specification are presumed to be equivalent, or nearly equivalent, in quality.

In the outlet selected for pricing, the field representative finds the volume selling item satisfying the specification and reports the price for the same item as long as it represents a significant volume of sales. When the item is no longer available or another one has clearly become the volume seller, a substitution is made. If the substitute item falls within the range stated in the specification, prices are generally compared directly, ignoring minor changes, since the specification encompasses items of equivalent quality. Many of the goods and services priced for the CPI remain practically unchanged in quality over a year or more. Minor alterations of one form or another may take place but these do not affect the CPI until or unless they change the article or service enough that the altered quality falls outside the stated range in the specification.

Varying practices are employed for comparing prices when the new item falls outside the specification range. When enough information is available so that the total difference in price can be separated into that due to quality difference and that due to price change, the prices are compared directly after adjustment to an equivalent quality basis, whether the new item was within or outside the specification range. In the absence of cost differences due to quality, the new item generally is linked in at the former index level. This method requires prices for both qualities for at least one date. The old quality measures price change up to the date of introduction and the new variety from that date forward. This method assumes that the full difference in price on the date for which prices on both varieties are available is the value of the quality difference.

In some cases, the use of linking procedures may introduce a bias in the index because the market differential may overestimate or underestimate the value of change in quality. If the price difference is greater than the value of basic quality improvements, then the index would be too low. On the other hand, the price differential between the old and new varieties may be reduced as a result of economies achieved in the production process. In this case, the price difference does not make adequate allowance for quality improvement, and the index is too high.

The complete disappearance of one quality or variety before a new one appears presents one of the most difficult problems in price measurement. Items which have regular model changes, such as appliances and automobiles, fall into this category. If new models were consistently linked in, using the lower end-of-season prices for the old model, a constantly declining price trend would result since most real price changes coincide with new model introduction. Thus, quality appraisals must be made.

In the case of new automobiles, which carry a heavy weight in the CPI, more elaborate procedures have been developed than for other items. They begin with selection of the new model which is most nearly equivalent to the previously priced model. Detailed feature-by-feature comparisons are then made for the new and the old models. The next step is to adjust the prices for the effects of quality differences. These adjustments are based on manufacturers' production costs for the changes which BLS considers improvements or deteriorations in quality. Changes involving the inclusion or exclusion of certain accessories or equipment as standard features for the new models are easiest to handle because the market has established their values. Market prices for factory installed options are used to adjust for features that were extra cost in 1 year, but are included in the list price in another. Thus, any difference in price which occurs when equipment or accessories are made standard, or vice versa, is reflected in the index as a change in price for a car with the same equipment in 2 years.

Evaluating changes in the basic automobile itself is much more difficult. In recent years, however, the automobile manufacturers have provided a considerable amount of information relating to quality changes and the Bureau has been able to make adjustments for all significant changes. Manufacturers' costs of changes adjusted to retail price levels are used as an estimate of the value of a quality change.

For some items in the index, specification pricing in the usual sense cannot be employed. Rent comparisons from one period to the next are made on identical dwellings. This is considered the best means of insuring comparability of prices despite the obvious flaw that dwelling units depreciate with age. For home purchase and used cars, price comparisons are made on the basis of actual transaction data. For these items, identification of quality is difficult and the system of identical units used for rents is not feasible. Therefore, in order to control quality insofar as possible, transaction prices are stratified by as many significant characteristics as the data available permit before they are reduced to an average price basis.

Due to the diversity of procedures followed, evaluation of the net effect of all quality and product changes on the total CPI is an intricate and ponderous task, and virtually an impossible one. Hence, the BLS is in no position to deny or affirm that there is currently an upward bias in the CPI, and least of all to assign a numerical magnitude to it. However, indications are that procedures followed in the calculation of the index do not involve systematic biases in either direction. If there were a bias in the index, and if it could be measured, calculation procedures would be established to eliminate the bias.

The items that get the most public attention as contributing to the upward bias in the index are consumer durables such as new automobiles and appliances. List prices for many of these goods have risen somewhat, but improvements in quality have exceeded the increase in list prices. As previously stated, the BLS adjusts the quoted prices, insofar as possible, for quality changes. As a result, the price indexes for new automobiles have declined since 1959, and the index for electric refrigerators is lower than it was in 1940, in spite of the fact that list prices obviously are appreciably higher now.

Emphasis on problem areas, however, should not obscure the fact that for some CPI items, there is a question as to whether quality has been maintained. Increased fares for public transportation, for example, have seldom been accom-

panied by improved service. Curtailed schedules and increased travel time are characteristic of public transportation in many cities. The dissatisfaction expressed on maintenance and repairs of automobiles, household appliances, quality of workmanship for home repairs, etc., has been the subject of vigorous complaints by consumers. To date, the Bureau has not found any way of taking such intangible quality deterioration into account in the CPI. Thus, for some items, the index does not reflect enough price increase. At the same time, there are large sectors of the index that have not been affected by quality changes in either direction. Many food items, such as fresh beef and pork, apples, oranges, flour, sugar, and eggs are essentially the same quality as they have been for many years. Haircuts and heating fuels are also the same quality as they were 5 or 10 years ago. Thus, there are a number of items which, in total, have an important weight in the Consumer Price Index but for which quality change offers no significant problems.

Considerable progress has been made by BLS over the years at estimating quality differences for price change measurement purposes. Nevertheless, the Bureau is constantly trying to improve and refine its present methods because problems of measuring the effect of quality changes in price indexes is a continuing one. Progress in increasing the precision of the measures of quality valuation will take time and there will always be some imperfections. However, substantial advances in developing appropriate techniques undoubtedly can be made, if adequate resources for work in this area are available.

This will require (1) a larger staff of commodity experts than the BLS now has, (2) more data on changes in characteristics of commodities and services over time and the effect of these changes on price levels and price change, and (3) the exploration of alternate methods of valuing quality changes and the practicability of reducing them to routine use in current calculations.

The first and foremost need is sufficient staff, and of high enough caliber, to provide the expert judgments about quality differentials which are required. There are additional procedures and new techniques that will be helpful for making quality valuations but there is no perfect technique. In the final analysis, the decisions rest upon judgment, and our confidence in these judgments will depend upon the adequacy of the staff, and the amount of data available for making these judgments.

The staff should be large enough so that each staff member can specialize sufficiently to keep abreast of changes in the market relating to the particular items in his field. Only when the Bureau acquires this kind of specialization will it be able to get and evaluate the information needed for handling quality changes as well as the uses now being made of the price indexes require. At present, such a staff is not available. For example, medical care is only a part-time responsibility of one staff member. If adequate staff were available, the Bureau could obtain information on changes being developed in particular product lines through visits to the manufacturers. Arrangements could be made to obtain the information necessary for evaluating new products versus old, or one current product versus another. A staff as specialized as the Bureau needs for this purpose could talk on equal terms with producers and would be capable of making independent judgments on the basis of information supplied and would not have to depend upon information volunteered. Outside consultants could also be engaged when necessary.

With additional field resources, it would be possible periodically to develop cross section data from retail outlets in a sample of cities for items that present difficult price measurement problems. These studies would be in addition to cross section data that might be acquired through staff visits to manufacturers. They would provide a picture of the retail market for specific items at a point in time—the varieties available, their prices and their characteristics. Such information would provide a basis for the valuation of specific product characteristics as evidenced through market price differentials. It is particularly needed now because, to gain other advantages, the BLS recently broadened specification ranges so that they often encompass items having greatly different prices. Successive subdivisions of varieties by characteristics for each item provide knowledge of how quality changes are introduced and help to indicate the method of adjusting prices for quality differences of greatest potential usefulness over time. Experimentation with this procedure, using secondary source data, shows promise particularly for items that are offered with and without specific features. These studies would also provide an important source

of information for classifying product characteristics to improve the content of specifications.

Systematic data accumulated by cross section studies would also provide the basis for testing alternate procedures for estimating values for product changes. Sometimes it has been suggested that this be done by means of regression analyses, and this is a possibility that can be investigated further. However, adequate cross section data supplemented by cost information secured from manufacturers may provide a more direct and preferred technique.

In some areas of the index, improvement in the measurement of quality change requires changes in the statistical basis for the price comparison. The price changes for home purchase and for used cars depend on transaction data received from secondary sources—FHA data in the case of housing, a private organization in the case of used cars. The data and the procedures followed to maintain comparability from period to period, leave much to be desired. With additional resources, the BLS could attempt direct collection of data to measure price change for these components that would more directly control quality comparability.

Senator PROXMIRE. Congressman Curtis?

Representative CURTIS. Thank you, Mr. Chairman.

I am glad you explained your use of the word "exaggeration" in reference to the manpower shortages because I feel that the administration on the other hand has been understating the problems of our labor shortage.

There is much in your paper, Mr. Commissioner, that is excellent and bears right on this point.

One of the pragmatic tests that have been developed in recent years because we have not had the jobs available statistics, of course, has been the help wanted index.

I have developed another one I have used myself pragmatically, which is going through the various vocational schools in my community. I went through one in December, for example, and I asked each of the instructors if they were placing their people. And the answer in all the schools is they cannot supply the market.

I said, do you have a lack of students? No, it is not the lack of students, but the lack of the young people being willing to stick with the program and to go on through, so on that pragmatic test it seems to me that there is a shortage.

I happen to have an individual situation of a young Negro lad I was interested in who graduated from one of the machinist training programs who has had four jobs offered to him in four of the leading companies right in St. Louis.

So, I think that this is an area that deserves a great deal more attention.

Now, in getting back to the redundancy. One of the big structural shifts, and I do not have the up-to-date figures but I remember I had them for a 10-year period, occurs in agricultural employment which declined about 42 percent, I think the period was 1950-60. But any period would show a similar range, while service employment increased around 43 percent.

A great deal of what we have identified, I think improperly, as a Negro problem is a population shift from rural to urban areas. The Negro, because he was a rural worker, has been caught up in what is a very major structural shift in the society, which leads me to point out one of the areas that I have been worried about for years.

Our 1917 Federal vocational educational program which was heavily oriented to agricultural skills, I would still argue, has never been restructured to meet these new problems. It thereby is creating tremendous redundancy and costing considerable money and yet not getting at our problems.

I helped to author and get through the extension in this program to include practical nurses. Incidentally, this is an area the vocational schools said they just cannot meet the demand. They are not even approximating it.

Mr. Secretary, when you and the labor leaders testified before the Ways and Means Committee on the unemployment insurance program where we are concerned directly with the long-term unemployed, no mention was made of the Manpower Development and Training Act and how it fitted into that particular program. I thought that the MDTA is what could meet the problems of the long-term unemployed; get them trained or retrained. We needed to reverse what we had in the Federal-State unemployment system where a person would be removed from unemployment insurance rolls if he went to retraining.

Now, I am happy to say that most of the States have turned around and reversed their position. But there was no attempt to direct the committee's attention to the way these two programs fit together let alone the Federal vocational education program. In fact, apprenticeship training administered in the Department of Labor is still not geared in with vocational education in the Department of Health, Education, and Welfare. This all creates redundancy—I go back to the main point—without a dictionary of skills and without jobs available statistics, how any of these programs can work without duplicating and conflicting with each other is hard to see.

Recently, the poverty programs and the Job Corps have started to move into this same area. The administration has recommended amending this year the trade adjustment compensations and retraining programs which were never geared in with either unemployment insurance programs or the Manpower Development and Training Act.

Fortunately, as I say, the trade adjustment program never did operate so it did not create damage; but again, it points up this great redundancy existing in our educational and training programs.

I am making these statements, so if you care you may respond in the record or afterward, because I am trying to save my time.

Secretary WIRTZ. I will insist on it; if you are interested in the facts then there is a good deal the committee should be advised on.

If you are not, I don't have anything further to say.

Representative CURTIS. That is hardly a fair statement, Mr. Secretary, I am asking the questions—

Secretary WIRTZ. I had not heard the question, I had been waiting.

Representative CURTIS. I am asking the questions and making the statements, of course, for you to respond to.

Secretary WIRTZ. I welcome that opportunity.

Representative CURTIS. Of course, here you have not yet had an opportunity, although I have written many letters to you on these subjects. I have had you before me before and I have asked about the same line of questions and I still do not seem to get the facts.

(The Department's response to the foregoing, subsequently supplied, follows:)

The various federally assisted manpower programs and the problems associated with their administration at both the Federal and State levels have pointed up the necessity for coordination of these programs to achieve ultimate success of State and community manpower plans. I, along with other Federal administrators of these programs, am constantly aware of the necessity of avoiding duplication in these various manpower development activities. I would like to give you some examples of the concerted effort we have made and are making to deal with this problem:

During recent months, the Department of Labor, HEW, and OEO have jointly approved, funded, and administered a combination of community action and experimental and demonstration programs in several cities.

The Departments of Agriculture, Labor, and HEW have jointly developed, approved, and funded a concerted services pilot program in the rural areas of three States—Arkansas, Minnesota, and New Mexico. The pilot project was established to explore ways of getting the resources of the various Federal programs into rural areas which often lack the community agencies and organizations to identify available programs and to initiate the action necessary to obtain financial and other assistance to meet their problems.

The Departments of Commerce and Labor and the Office of Economic Opportunity have established a permanent task force ready to join with State and local officials and other community leaders in immediate interagency action programs whenever large-scale layoffs occur.

Recognizing the added advantages that can accrue from an intergovernmental agency approach to expediting and coordinating all federally supported manpower programs, our Manpower Administration has established a task force to serve as city coordinators for its own manpower programs for 21 of the largest cities. The city coordinators are responsible for insuring that programs now operating are being utilized effectively, determining what additional resources are available and how they can be directed to solving employment and training problems of the unemployed in the area, coordinating the several Manpower Administration programs to assure that they complement and supplement each other.

Despite the foregoing and other efforts to bring more concerted Federal resources to bear on the problems of unemployment, training, employment discrimination, and poverty, the need is still evident for continuing improvement of coordination of federally supported manpower programs. The President's task force on manpower has been studying problems of interagency cooperation and is expected to issue its report and recommendations shortly. In the meantime, the Departments of Labor and HEW are jointly preparing guidelines for strengthening and expanding State and local manpower coordinating committees; establishing them where they do not now exist, and perfecting those presently in operation, to insure effective use of the several agencies concerned.

Representative CURTIS. Now, these are allegations, I am trying to point them out so you can respond. I am going to mention another large area where there is considerable amount of vocational education done by the Military Establishment. Because it has a uniform put on it, it has not been identified as vocational training. Yet there are studies asking young people who have gone into the labor market where they got their training. There is an interesting percentage figure of those who get trained in the military.

Now, this led me and some of my colleague to introduce a bill in the House to create a committee, a select committee, composed of members of the Armed Services Committee and members of the Labor and Education Committee to study the whole draft program, military manpower utilization, and training.

The administration took this study away from the Congress—again, these are my words and the Department of Defense made this study,

apparently not coordinating it with the Department of Labor. If this is not a fact, you can correct me on that. But at any rate, a report was finally made around March or April which has still not been made public.

I have been trying to get a hold of it to find out what is in it. My estimates are that we are spending probably \$2 to \$3 billion a year in vocational type training in the Military Establishment, but we are not coordinating it with these other programs that I have mentioned here and there are others still that I have not mentioned.

Now, that is the broad base on which I have made this statement that I felt that there was great redundancy in these programs. In fact, what we have done, and I use another figure of speech, is flooded the engine.

Now, I do want you to supply whatever you want for the record but I want to give you the opportunity to respond to these general observations I have made if you care to.

(The Secretary's response, later supplied, follows:)

We have found that, basically, there has been adequate coordination between the training programs conducted by the military establishment and programs which are sponsored by the Federal Government in cooperation with the States. The military establishment has many vexing training problems which is understandable when one considers the vast amount of complex electronic and other equipment presently in use. Even a military inductee with a high level of skill development suitable for the civilian economy must receive a certain amount of training, retraining or familiarization training to enable him to adapt that same basic skill to military requirements. Conversely one who acquires his basic skill in the military establishment frequently must have a certain kind and amount of training to enable him to adapt his skill to civilian requirements after he leaves the military. The point is that developed skill is a resource required by both the civilian and the military—frequently in competition with each other—and training performed by both enrich this common resource.

Secretary WIRTZ. Yes, there is something I would like to say about it.

First, I would like to recall, as you have, the previous opportunities you and I have had to discuss this general area and they have all been dominated by a complete respect on my part for your contribution to this whole training and so forth program.

Representation CURTIS. I appreciate that. Then would you concede to me that I am interested in the facts, Mr. Secretary?

Secretary WIRTZ. I beg your pardon?

Representative CURTIS. Would you then concede to me—you suggested I maybe did not want the facts—that I am interested in getting the facts?

Secretary WIRTZ. Any reaction I have is based just on the discussion this morning.

I feel a natural concern in what I consider to be a determination of the antipoverty and education and training program as rancid butter.

I have thought anybody who talks about the difference between guns and butter underestimates the worth of peace in the world and also our capacity to do them so I think it would be most unfortunate—

Representative CURTIS. So we agree on that, our society can afford both.

Secretary WIRTZ. Can afford to fight for peace in the world and for these things at home.

So, when we identify something without knowing what it is as rancid butter I think we do ourselves a disservice.

Representative CURTIS. I will repeat, I was referring to these redundant programs not being productive and getting the results. Rancid butter is something that is not digestible and not usable.

Secretary WIRTZ. That is right. On the point of redundancy, on the various things we have mentioned, the point about the continued relationship of vocational education to agricultural labor is a point with which I am familiar and then beyond that I would hope that the record could at least include this general statement.

It is my considered impression, considered conclusion at this point, that with the amendments which have been made by the Congress in the Manpower Development and Training Act, with the work of the Council on Economic Opportunity which brings together the various agencies in the antipoverty cause; the President's Committee on Manpower, of which I am chairman, and is an interdepartmental committee; with the experience of the last year or two, there is, Mr. Curtis, no redundancy so far as I know.

The facts as they are.

Now, that is a pretty broad statement and I would have to take account of the frictional difficulties of developing a new program.

But I call attention to the fact that in the first year of the anti-poverty program as administered by the Office of Economic Opportunity, its benefits were brought directly into the lives of 20 million and—

Representative CURTIS. Mr. Secretary, I must say, that is not responsive to my question. I was relating to a series of programs that were federally administered, and saying that they were all directed towards the same thing.

I happen to feel very strongly that what we do need to do is train and retrain and concentrate efforts on this and any program that is directed to this can be productive.

The thrust of my question is whether or not there is redundancy, whether these various programs are coordinated to work with each other. Not that each one might not be, and I could pick out any one and say to you that I can show you where good is accomplished by it. So my question, which relates to the redundancy aspect, is along this line rather than whether individually each program can do some good.

Secretary WIRTZ. It would be easier to reply to a point about redundancy in terms of specifics which have not been suggested, except for the one on the relationship of vocational education to the agricultural movement.

Representative CURTIS. Let me interrupt again then just to point out the others because you must have missed them.

Secretary WIRTZ. No, you interrupted my summary of them.

The others to which I know you referred were the matters of the relationship between the vocational education in the military training program. That has been a matter of considerable attention.

Representative CURTIS. And then the other was unemployment insurance in relation to manpower training.

Secretary WIRTZ. And on that, Mr. Curtis, the facts are simply wrong. It was considered a very real link before the Ways and Means



Committee; it is a matter of proper relationship, it is taken into account in the legislative proposals which were made and we will disagree about the facts as to whether there has been consideration of that.

(Material on this point, appearing below, was submitted for the record:)

The unemployment insurance bill (H.R. 8282) takes account of the need for manpower training for the long-term unemployed by providing that (1) benefits may not be denied an individual by reason of the fact that he is in training with the approval of the Secretary of Labor; (2) an individual refusing training to which he is referred by the Secretary shall be disqualified from receiving benefits for a period of 6 weeks; and (3) an individual failing to attend training shall be disqualified for the period of his failure.

In addition, the bill contains a provision that compensation shall not be denied by a State to an otherwise eligible individual for any week because he is in training, provided the State agency has approved such training.

Representative CURRIS. All I can say is your prepared statement to the Ways and Means Committee had no remarks about it, and under my interrogation you responded to questions on it.

Secretary WIRTZ. We went into extensive details.

Representative CURRIS. There is a big difference between the administration coming up with their prepared statement which they have given to the press, and permitting a Congressman to interrogate, and obtain responses such as you give in matters that were not in the statement when I raise the question. But I think it is a fair point to say that the prepared statement does not refer to it, that there probably has not been this kind of consideration given to it.

I am not drawing the conclusion that there has not been consideration at all, but I think the assumption is there.

There are other specifics I related to, though I will only give you one specific.

One was the proposal of the administration to change the trade adjustment training program. My point is that we had not geared that at all in with the Manpower Development Training Act.

In fact, I felt that this really would have created great damage, if it ever worked at all. But the present administration and the Presidential message has proposed that this thing be altered without any reference again to the Manpower Training Act.

So, I think you will find that I tried to tick off about six or seven specifics where I felt there was redundancy.

Secretary WIRTZ. The point with respect to the relationship of manpower training to the unemployment insurance program. I think you have perhaps forgotten that not only the statement but also the President's legislative proposal included a provision on that which would eliminate the present situation in a good many States to which you have referred.

That was covered in the legislative proposal, Mr. Curtis.

But the real question is whether there are, the broad question is whether there are today overlappings, duplications, as far as these training programs are concerned. And I say I don't know what detail or degree of detail you are interested in but it would be helpful if the record were to include the extent to which this has been, I think, simply eliminated.

It is hard to answer, it is hard to prove a negative.

Representative CURTIS. Let me take the one, relate this to a specific.

In the military manpower study and the draft which was sent over in the Department of Defense under Secretary McNamara, was the Department of Labor represented and did it do work on this study?

Do you have a copy of that report?

Secretary WIRTZ. I do not. Do you, Mr. Rутtenberg? Mr. Rутtenberg, the Manpower Administrator, advises me we worked with them in the preparation of that report.

Representative CURTIS. Do you have a copy of the report, Mr. Rутtenberg?

Mr. RUTTENBERG. Copies are available, yes, sir.

Representative CURTIS. When was a copy first available to the Department of Labor?

Mr. RUTTENBERG. I could not give you the exact date, Congressman.

Representative CURTIS. I am trying to find the exact date because I have been unable to get a copy. I read every once in a while in the press beginning around March or April 1965 that such a report was available, but has not been released and I was wondering whether the Department of Defense released it to the Labor Department.

Are you certain that they have released it to the Department of Labor?

Mr. RUTTENBERG. We have copies of the report. They are not available to the public, though.

Representative CURTIS. Do you happen to know why the policy is being followed of not making these reports available to the public, or to the Congress?

Mr. RUTTENBERG. That is not a question for me to respond to.

Representative CURTIS. I asked whether you knew why. If you don't know, or if it is a question that you do not want to answer, that's all right, but it is a perfectly proper question for someone trying to find out why a study that relates to this problem of manpower training which is an acute problem right now with the increased needs of the military for manpower, has not been made public.

Does the Department of Labor think it should be public information?

Secretary WIRTZ. There will be inquiry into that; I am not familiar with the particular point. We will be glad to advise you to the best of our ability.

Representative CURTIS. I am not trying to press you to answer things that probably you cannot, but I think that you can see the interest in it.

Secretary WIRTZ. Yes.

(Clarification of the above, later supplied, follows:)

As promised, I have looked into the matter of the study referred to by Congressman Curtis. It appears that DOD, some 2 years ago, undertook a study of all their training programs includes some which the Congressman might consider comparable to vocational training and retraining manpower. I am advised that the study was never completed and the intended report did not get beyond the preliminary draft stage. If the Congressman or the committee desires more information on this matter it would appear appropriate to address inquiries to Department of Defense rather than to Department of Labor.

Representative CURTIS. That is all I wanted to question on, Mr. Chairman.

Let me ask, though, on the specifics, if you would supply for the record your comment where you feel there has been coordination, as you say, and what the plans there are for coordination. This is a continuing thing, I think you will agree. What are your plans and the structure that you seek to achieve in coordination, for example, between vocational education in HEW and apprenticeship training in your shop.

Also, the structure you may have built up, maybe your interagency group that works together. That kind of data I would be very happy to receive.

Secretary WIRTZ. All right.

(No additional material had been received for the record relative to the foregoing up to the time of printing.)

Senator PROXMIRE. This concludes this morning's hearing.

The committee will meet tomorrow, Wednesday, in room 1202, New Senate Office Building. Our witness will be Mr. Nathaniel Goldfinger, director of economic research for the AFL-CIO, standing in for Mr. Walter Reuther, who, because of an accident, will not be able to be here; and Mr. Elisha Gray, chairman of the board of the Whirlpool Corp.

I want to thank you, Mr. Secretary. You have been extremely patient and in my judgment very, very responsive and helpful.

These are two excellent statements and I think they go a long way toward giving us an understanding of how hopeful and promising the future can be.

Thank you.

Secretary WIRTZ. Thank you very much, Mr. Chairman.

(Whereupon, at 1:05 p.m., the hearing was recessed to reconvene at 10 a.m., on Wednesday, February 9, 1966.)