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JANUARY 1965 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

EIGHTY-NINTH CONGRESS

FIRST SESSION

PART 4

INVITED COMMENTS

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JANUARY 1965 ECONOMIC REPORT OF THE PRESIDENT

The letter appearing below was sent to the following organizations: American Bankers Association, American Farm Bureau Federation, American Federation of Labor and Congress of Industrial Organizations, Chamber of Commerce of the United States of America, Committee for Economic Development, Consumers Union, Federal Statistics Users' Conference, Independent Bankers Association, Life Insurance Association of America, Machinery & Allied Products Institute, National Association of Manufacturers, National Association of Mutual Savings Banks, National Farmers Union, National Federation of Independent Unions, National Grange, National League of Insured Savings Associations, Railway Labor Executives Association, United Mine Workers of America, United Savings & Loan League. These organizations were invited to submit their views or comments on the text and recommendations contained in the 1965 Economic Report of the President. Eleven organizations submitted statements and their views were considered by the Joint Economic Committee in the preparation of its report on the President's Economic Report.

FEBRUARY 12, 1965.

DEAR MR. ————: Since our schedule of hearings on the 1965 Economic Report of the President has had to be shortened, the Joint Economic Committee is calling upon a number of leaders of banking, business, labor, agriculture, and consumer organizations for written statements containing economic facts and counsel for consideration in the preparation of its report.

We would appreciate having your comments on the materials and recommendations contained in the 1965 Economic Report of the President, including the annual report of the Council of Economic Advisers, a copy of which is enclosed.

In order that we may have ample time for consideration of these comments, written statements should be received by March 1, 1965. We will need 20 copies for distribution to the committee members and the staff.

Such comments as you care to give us will be made available to the public in a printed volume of the invited statements.

Sincerely yours,

WRIGHT PATMAN, *Chairman*.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

By Walter P. Reuther, Vice President, AFL–CIO; Chairman of the AFL–CIO Economic Policy Committee, and President, UAW

The American economy has made progress during the past 4 years. It has demonstrated its capacity to respond to the kind of economic stimulus which results from constructive Government policies. Unfortunately, the stimulus supplied has not yet been sufficiently massive to move the economy forward toward full employment and full production nearly as rapidly as it should be moving.

The progress which has been made stems directly from the basic changes in policy and approach which were brought in by the Kennedy and Johnson administrations. Past policies of indecision and drift, which led to economic stagnation and recurrent recession, have been replaced by recognition of Government's responsibility to give positive and constructive leadership in the management of our economic affairs. Past blindness to the needs of the neediest has been replaced with a compassionate and active concern for the plight of the underprivileged and disadvantaged in our society.

The consequence of this change has been a significant revival of economic activity. We have entered upon a period of business expansion which has already lasted longer than any other in our recent peacetime history and which, if properly nurtured, need not come to an end in the foreseeable future. Since the peak of the last preceding business cycle, in the second quarter of 1960, our gross national product, seasonally adjusted and expressed in constant dollars, has grown at an average rate of 3.8 percent per year, half as fast again as the 2.5-percent annual rate which was the average over the two preceding business cycles—but still substantially short of its full potentiality.

Official unemployment, which stood at 5.3 percent in the second quarter 1960, and rose to a calamitous 7 percent in second quarter 1961, was reduced to 5 percent in fourth quarter 1964, and to a 7-year monthly low of 4.8 percent in January 1965. But 4.8 percent is still far too high, and even that level was not continued into February. What is more, there is grave reason to doubt that even the 5-percent level of February can be maintained.

NO CAUSE FOR COMPLACENCY

In short, we have made significant progress, but not nearly enough. The performance of the American economy fell far short of the goals of a truly Great Society in 1964. The record levels of GNP and other measures of economic activity achieved last year should not be allowed to obscure that fact. As the Council of Economic Advisers points out, such records are "* * * no cause for complacency. In a growing economy it should be a matter of course to set new records month by month and quarter by quarter; to be meaningful, economic achievements must be gaged against capabilities and objectives."

In spite of our years of expansion, the objectives by which our economic performance must be gaged, including the objectives of the Employment Act of 1946—maximum employment, production, and purchasing power—remained unrealized in 1964. A full 12 percent of the productive capacity of our manufacturing industries lay idle last year. They were producing 12 percent less than they were capable of producing to meet the needs of the American people. In fact, they were operating even 4 percent below "the preferred rate"—the level regarded by management as preferable from a narrow financial standpoint.

While all of this productive capacity lay idle, an average of 3.9 million workers—5.2 percent of the civilian labor force—were seeking jobs, but unable to find them; an additional 2.5 million who were working short hours or part time wanted to work full time; and by the Council's estimate, which we think unduly low, 1 million more would have entered the labor market if jobs had been available. Combining all types of unemployment, we find that the true measure of idle manpower in 1964, a year of unprecedented prosperity, was close to 7.5 percent.

But even adjustment of the official overall unemployment rate to allow for hidden unemployment does not tell the whole story. Concealed behind the overall average is the fact that unemployment in 1964 still approached depression levels for certain groups in our society.

In every single year since 1955, the official unemployment rate among nonwhites has been more than twice as high as among whites, and 1964 was no exception. The overall rate for nonwhite workers in 1964 amounted to 9.8 percent compared to 4.6 percent for white workers.

Throughout the record prosperity of 1964, teenage unemployment was higher than in 1958, the peak year of overall unemployment in the postwar period. In 1958, it amounted to 14.4 percent; in 1964 it was 14.7 percent.

And for Negro teenagers, the victims of a double disability, unemployment remained at catastrophic levels in 1964. Despite the general economic recovery, it amounted to 28.7 percent, seasonally adjusted, in the third quarter of last year—higher than the Negro teenage unemployment rate in 1958 and higher even than the overall rate of unemployment suffered by the Nation during the darkest days of the depression in 1933.

OUTLOOK IS FOR SLOWER GROWTH AND HIGHER UNEMPLOYMENT

In spite of all the new production records, the year 1964 left the Nation with a legacy of unemployment and idle capacity which cannot be tolerated. Yet, instead of moving more rapidly to eradicate this unhappy legacy, we appear to be moving into a period of slower economic growth and higher unemployment.

In 1964, our GNP, benefiting from a tax cut of $12 to $13 billion, rose 4.6 percent in real terms. In 1965, according to the general consensus among economists, GNP will grow less rapidly.

The consensus falls within a range of $650 to $660 billion compared with the CEA prediction of $655 to $665 billion for GNP in 1965.

Even the Council's prediction, however, represents a slowdown in the rate of growth. The $37.4 billion increase in GNP represented by the midpoint of CEA's relatively optimistic projection will be $1.3 billion less than the $38.7 billion increase of 1964 in current dollars, and will yield only a 4.1-percent rate of real growth in 1965 compared with 4.6 percent in 1964 (assuming the same rate of increase in prices). This will be barely enough to offset the expected productivity advance and the increase in the labor force. In such an event, unemployment will still average close to 5.2 percent—about the same as in 1964. If the less optimistic projections are realized and GNP in 1965 comes closer to the lower limit of the range of forecasts, last year's progress in reducing unemployment will be reversed, and the unemployment rate for the year will return to the vicinity of the 5.7 percent experienced in 1963.

Unemployment for 1965 as a whole is not only likely to be at least as high as it was last year, but there is every indication that it will be worse toward the end of the year than it is now. In January, the rate was 4.8 percent, and in February 5 percent, and the Bureau of Labor Statistics has pointed out that there has been no consistent trend since July 1964, when it was also 5 percent. It is reasonable to expect, therefore, that it will not change abruptly from this level. This means, however, that if unemployment averages close to 5.2 percent for the year as a whole, as a formula developed by the Council indicates it will if the Council's forecast of GNP is accurate, it will inevitably be higher than 5.2 percent by the end of the year. This can hardly be called progress; it is retrogression, pure and simple.

Imbalances in the Private Economy

Behind this intractably high rate of unemployment, and the persistent underutilization of plant and equipment which accompanies it, lie serious distortions in the private sector which have neither been corrected nor fully offset by Government policy. One of the major distortions is the failure of workers' buying power to keep pace with their productivity. The gap between what the average worker produces with an hour of work and what he can buy with what he earns for that hour has been steadily widening over the past 8 years, as the following table illustrates:

Real employee compensation and productivity per man-hour in the private economy, 1956–64

[1956=100]

Year	Output per man-hour [1]	Real compensation per man-hour [1]
1956	100.0	100.0
1957	103.5	102.4
1958	106.1	103.2
1959	109.9	107.2
1960	112.0	109.4
1961	116.0	111.8
1962	121.2	114.8
1963	124.6	117.1
1964	128.3	119.9

[1] Based on hours paid.

Source: Computed from data of Council of Economic Advisers and Bureau of Labor Statistics.

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Between 1956 and 1964, productivity increased by 28.3 percent, an average rate of increase of 3.2 percent per year. During the same period, real employee compensation (which includes wages, salaries, and fringe benefits, adjusted for changes in prices) increased by only 19.9 percent, or by an average of 2.3 percent per year. Real employee compensation would have had to increase just about half as fast again as it did merely in order to have kept pace with the rate of productivity advance; by 1964 it would have had to be 7.1 percent higher than it actually was.

Clearly, if employee compensation had kept pace with the rate of productivity advance, there would have been a substantially faster increase in consumer purchasing power, a consequent stimulus to demand, and a significant reduction in the level of unemployment.

DISPARITY IN LABOR AND NONLABOR INCOME

The failure of real employee compensation to keep pace with productivity resulted in a growing disparity in income distribution as between labor and nonlabor incomes. As the following table shows, in the past 4 years, from the peak of the previous business cycle in 1960 to the latest quarter for which data are available, various forms of nonlabor income have risen far faster than labor income—in some cases more than twice as fast.

Relative increase in selected incomes from property and from employment, 1960–64

[Dollars in billions]

	2d quarter, 1960	3d quarter, 1964	Percent increase
Income from employment:			
Total wages and salaries plus other labor income	$283.2	$348.7	23.1
Corporate employee compensation	184.4	221.8	20.3
Income from property:			
Personal interest income	25.5	37.9	48.6
Dividends	14.4	20.0	38.9
Corporate retained earnings plus capital consumption allowances	33.8	45.8	35.5

NOTE.—All data seasonally adjusted at annual rates.

Source: Survey of Current Business, Economic Indicators.

During this period total wages, salaries, and other labor income increased by 23.1 percent, and compensation of employees of corporations (including fringe benefits) rose by 20.3 percent. In the same period, total personal interest income increased 48.6 percent, and dividends rose 38.9 percent. Even after payment of increased dividends, and in spite of the diversion of a large share of profits to reserves through increased depreciation allowances, undistributed profits of corporations also increased. When depreciation and other capital consumption allowances are added to undistributed profits, the amount flowing into corporate treasuries after payment of taxes and dividends increased by 35.5 percent.

The imbalance, especially with respect to recipients of dividend income, would be even greater if we took into account the value of capital gains, reflecting in large part the appreciation in stock prices as a result both in plowed-back profits and of increased dividend payments.

IMBALANCE IN FAMILY INCOMES GROWING

Dividends and personal interest are paid largely to wealthy individuals and families who have no pressing needs on which to spend increased income. Wages and salaries go mainly to those with low or moderate incomes. The imbalance between these two sources is reflected in disparities of family income. In 1962, latest available data from the Survey of Current Business indicate approximately 45 percent of consumer units (families and unrelated individuals) at the bottom of the income scale shared the same aggregate income (about $82 billion) as the 5 percent at the top. But this division gave the approximately 26 million consumer units in the lower 45 percent average incomes of about $3,150 per year, while the 2.9 million in the top 5 percent averaged over $28,000 per year.

What is more, the share of those at the bottom has been slowly decreasing. Between 1952 and 1959, the share of the bottom 40 percent fell from 16.3 percent to 15.5 percent of all family personal income, and has remained at that level since.

To correct such imbalances, we need increases, not in already inflated profits and dividends, but in the wages which provide the incomes of most low- and moderate-income families.

CORPORATE CASH EXCEEDS CORPORATE NEED

In theory, the income which wealthy individuals receive in excess of their need or desire to spend is invested in one form or another. In recent years, however, investment opportunities for individuals have been affected by the fact that the corporate sector itself has income in excess of its investment needs. In 1964, for the fourth year in a row, profits plus depreciation allowances retained in nonfinancial corporate treasuries totaled more than corporate investment in plant and equipment, despite a 27.3-percent rise in such investment since 1960. The cumulative total of the excess is $8 billion. For many companies, finding a profitable outlet for the hoard of cash which has piled up in their treasuries has become a serious problem.

As a result of these imbalances, too much income is being funneled into the hands of those who tend to save rather than to spend, and this tendency toward saving has not been matched by offsetting increases in investment.

As the Council points out, since 1958, business fixed investment has represented only about 9 percent of our national output, compared to 11 percent and more in the early postwar years, and the Council does not expect it to rise again to that earlier level "for the remainder of this decade."

A similar conclusion is reached in a recent Brookings Institution study. Economist Bert Hickman found that private demand failed to adjust sufficiently to maintain a full employment growth rate after the cutback in defense spending in 1953 because, following an initial spurt, investment in plant and equipment could not be sustained at previous levels.

What is more, Hickman maintains, with technological changes requiring less capital per unit of output, the weakness in business fixed investment is likely to continue throughout this decade even at high levels of economic activity. He points out:

"The weight of empirical evidence suggests that not much can be done to raise business fixed investment through an easy money policy; and a similar conclusion is reached with regard to a cut in direct corporate income tax." (Brookings Research Report, No. 28.)

However, Hickman concludes, an increase in consumption stimulated by a tax cut or a "sufficiently rapid expansion of Government expenditures at given tax rates" could offset the decline in the ratio of fixed investment to GNP and produce full employment.

FAILURE OF GOVERNMENT PROGRAMS TO OFFSET IMBALANCES IN THE PRIVATE SECTOR

Unfortunately, for more than a decade, Government policies have failed to stimulate enough consumption or to produce enough public spending to offset the gaps in the private sector. This was true in 1964 in spite of the record tax cut. It will be true this year as well. And it may be even more true in 1966.

Whether fiscal policy is moving in an expansionary or restrictive direction can be determined, as the Council points out, by changes in the full-employment surplus (that is, in the excess, at full-employment levels, of revenues over expenditures on a national income accounts basis). The larger the full-employment surplus at any given time, "the more restrictive is fiscal policy" says the Council.

From 1963 to 1964, the full-employment surplus, as measured by the Council, decreased from $10.5 billion to approximately $3 billion. While it is likely to decrease further in 1965, it will not drop as fast as in 1964. Hence, the new stimulus given to the economy by fiscal policy will be less than last year with the result that the rate of expansion will slow.

The present rate of expansion is attributable to the second stage of the tax cut enacted in 1964, the high volume of auto sales, and heavy accumulation of steel inventories. The effect of the tax cut is relatively small (because the withholding rate remains unchanged from last year) and will be partially offset this spring when taxpayers make up for underwithholding in 1964. Auto sales are probably at unsustainable rates; the accumulation of steel inventories must necessarily come to an end in a few months; homebuilding is leveling off; and there is danger of tightening on the monetary front in a misguided effort to reduce the balance-of-payments deficit.

It is undoubtedly with these factors in mind that the administration has proposed a small increase in public spending, excise tax cuts, and retroactive increases in social security benefits to provide additional stimulus in the second half of the year. But, nevertheless, as previously indicated, the official GNP projection for the year as a whole points to an unemployment rate at the end of the year higher than at present.

Unemployment threatens to go still higher in the first half of 1966 when the full-employment surplus will once again increase as a result of higher social security taxes which will offset to a significant extent the limited stimulus scheduled for the latter part of this year. Thus, in the face of high and rising levels of unemployment, which clearly call for expansionary programs, fiscal policy will move from inadequate stimulus to actual restriction.

Even members of the business community have felt compelled to call attention to the "curious gap between the Council's thinking and the President's recommendations" which such fiscal policy reveals. The Council, says the Morgan Guaranty Survey of February 1965:

"* * * dwells at length on the fact that the economy is still operating some distance below the Advisers' estimate of full potential. It cites evidence that the rate of growth in potential output has accelerated. This implies that the shortfall of actual output below potenial will tend to widen unless Government provides a vigorous prod.

"Members of the Council judge, moreover, that the economy could operate at a 4-percent unemployment rate * * * without substantial strains on either labor supplies or plant capacity, which is another way of saying that inflationary pressures would not be generated.

"Curiously, after this statement of need and feasibility, the Council's report avoids recommending action calculated to close the gap which it has found to exist. It merely details the administration's tax and spending proposals and offers the judgment that they will help to carry gross national product in 1965 to the vicinity of $660 billion.

"That figure implies almost as large a gap in 1965 between actual and potential output as the Council estimates to have existed in 1964. It further implies, over the year as a whole, no major progress in reducing the unemployment rate. 'The expected increase in the labor force,' the Council observes, 'is nearly as large as the prospective gain in jobs.' "

Although we disagree with the Survey's specific prescription for this curious state of affairs, we think its general conclusion is eminently justified. It observes:

"The Council's analysis, if translated directly into a program, presumably would call for a considerably larger dose of fiscal stimulus than the budget contains."

IS OUR COMMITMENT TO FULL EMPLOYMENT BEING ABANDONED?

The failure of the proposed budget to provide a "considerably larger dose of fiscal stimulus" raises serious questions about this Nation's commitment to full employment. That commitment has been on the statute books since 1946. Yet, in practice, we have not had unemployment even as low as 3 percent since 1953. And, in recent years, there have been disturbing indications that our full-employment goal has become blurred and attenuated.

In 1962, the first Economic Report of the Kennedy administration was very explicit about our full-employment goals. The President's report said:

"We cannot afford to settle for any prescribed level of unemployment. But for working purposes we view a 4-percent unemployment rate as a temporary target. *It can be achieved in 1963*, if appropriate fiscal, monetary, and other policies are used. The achievable rate can be lowered still further by effective policies to help the labor force acquire the skills and mobility appropriate to a changing economy." [Emphasis added.]

Clearly, in 1962, the 4-percent rate—which by no defensible criteria could be regarded as full employment—was a temporary goal, and the target date for its achievement was not some distant point in the future but only 1 year away.

In 1963, the CEA's annual report referred to the 4-percent figure again as an interim target. It made it quite clear that it was unacceptable as a final goal. But this time it mentioned no target date for its achievement. The report for that year stated:

"Success in a combined policy of strengthening demand and adapting manpower supplies to evolving needs would enable us to achieve an interim objective of 4-percent unemployment and permit us to push beyond it in a setting of reasonable price stability * * *. However, an unemployment rate of 4 percent is an unacceptable target. Therefore, we must expand the various programs that would assist us in pushing below it."

In the two following reports, the Council reaffirmed 4 percent as an interim target, but once again it left its achievement for some indefinite or distant point in the future. In fact, the 1965 report contains the disturbing implication that 4 percent by 1970 would be acceptable to the Council. The report says:

"Between now and 1970, about 1.5 million new jobs a year will be needed to absorb the growing labor force and to reduce unemployment to a 4-percent level."

The Council does add rather weakly that effective policies can provide more jobs and reduce unemployment, but it has failed to recommend the policies required to do so. Furthermore, in neither the 1964 nor the 1965 report did the Council offer a clear, ringing statement declaring that 4 percent is unacceptable as a final goal.

Apparently this process of attrition has now been carried one step further. We were appalled by a comment in the statement presented to this committee by the Chairman of the Council of Economic Advisers on February 19. We earnestly hope it was not intended to mean what it seems to imply. After noting that the Council expects GNP in 1965 to be within a range of $655 to $665 billion, the statement said:

"At the top of the range, we would still be below our potential output throughout the year, but production and incomes would advance even more rapidly than in 1964. *That rate of advance could prove to be too rapid and might call for restraining measures during the course of the year.*" [Emphasis added.]

According to the equation developed by the Council and referred to previously, a $665 billion GNP in 1965 would result in an unemployment rate of 4.9 percent. Thus, the quoted statement envisions the possible application of "restraining measures" if unemployment in 1965 should fall below 5 percent. In other words, it would seem that the unacceptably high "interim" goal of 4-percent unemployment has been abandoned by the Council and a 5-percent rate substituted for it.

This, we submit, goes directly contrary to the purposes of the Employment Act to promote "maximum employment." A situation where 5 percent of the Nation's labor force—1 out of every 20 workers—is unemployed cannot by any stretch of the imagination be said to represent "maximum employment," particularly when we have before us the example of other advanced, industrialized economies which are prospering and growing rapidly with unemployment rates as low as 0.5 percent.

European countries such as France, Germany, and Sweden have set high employment goals and they have not permitted exaggerated fears of unbalanced budgets, inflation, and balance-of-payment deficits to stand in the way of their achievement. Furthermore, such countries, a leading American student of the subject, Prof. Richard Gordon, notes:

"* * * have raised their sights over the last decade. Rates of unemployment that were considered satisfactory a decade or more ago are now considered to be unacceptably high. One can say that a ratchet effect has been at work. The longer unemployment has remained at levels of 3 or 2 percent or less, the stronger has become the resolve not to permit a return to unemployment levels of 4 or 5 percent or more that once were considered satisfactory or at least acceptable. And the longer overall unemployment has remained at a very low level, the stronger has become the resolve to eliminate remaining pockets of above-average unemployment * * *."

Professor Gordon goes on to say:

"By European standards, American employment policy is reactionary. No advanced economy in Western Europe gives as low priority to the full employment objectives, or interprets it as loosely, as does the United States * * * probably no country in Western Europe, not even Germany, attaches as much importance to price stability as does the United States * * * only a few countries like England and the Netherlands, whose dependence on foreign trade is far greater than that of the United States, give the balance-of-payments objective the priority that it holds on this side of the Atlantic."

We hope this committee will remind the Council in the sharpest terms that it was created by, functions under, and is required by law to carry out the purposes of, the Employment Act. That act is not an anti-inflation or balance-of-payments act. If pursuit of the employment goal of the act should show signs of having adverse effects upon price stability or the balance of payments, there are methods that can be used to treat those ills directly. But the Employment Act—unless and until Congress legislates otherwise—specifically requires vigorous application of such therapy as may be needed to cure the disease of unemployment and restore full production.

THERE ARE BETTER WAYS TO SOLVE THE BALANCE-OF-PAYMENTS PROBLEMS

There is no reason why this Nation should settle for less than full employment. Subordinating that all-important objective to other considerations ignores both the real causes of our difficulties and the variety of methods available for dealing with other problems without sacrificing our employment goals.

An idea which currently occupies a prominent place in American economic folklore is the notion that the real cause of our balance-of-payments difficulties is that American goods are being priced out of foreign markets. An integral part of the myth is that we are unable to compete abroad because American wages are too high, and therefore wage increases should be curbed.

The claim that we cannot compete abroad simply is not true. Our balance of trade, as distinguished from our balance of payments, has shown a consistently large surplus over the years. Last year our commercial exports alone (excluding sales financed by the Government) were 28 percent higher than they were in 1960 and the surplus of such exports over imports was $3.7 billion compared to $2.8 billion in 1960.

Based upon similar facts, the July 1964 issue of Management Record, published by the National Industrial Conference Board, a management-sponsored research organization, concludes:

"One thing is clear about the gap in the U.S. balance of payments—it is not the normal textbook deficit. We are not dealing with a conventional picture of lower cost foreign goods displacing ours both here and abroad in the way familiar in the history of inflation, when countries struggle with rising imports, sluggish exports, and mounting trade deficits."

CAPITAL EXPORTS POSE MAJOR PROBLEM

Nevertheless, the myth of our inability to compete because of high wages is still being used to deny labor a fair share of the fruits of the Nation's increasing productivity. Moreover, the very people who peddle this myth are themselves responsible, in large part, for the difficulties which they have attributed to American workers. In its latest report, the Council of Economic Advisers notes that, despite the overall improvements in our balance of payments in recent years—

"* * * the decline in the deficit has been less rapid than had been hoped in 1961.' *The principal reason has been the relatively large rise in private capital outflow* * * * the overall magnitude of capital outflows by mid-1963 had become clear cause for concern." (Emphasis added.)

During the first half of 1963, such outflows had reached $5.5 billion. And in 1964 as a whole they rose to about $6 billion—a sum 62 percent greater than our surplus on commercial exports during the same year.

Capital exports, which have recently constituted a major source of such outflows, provide a most striking illustration of business hypocrisy. At a time when business has insisted that labor restrain its demands in order to keep prices down and prevent further deterioration in our balance of payments, businessmen and bankers have been sending billions of dollars out of the country. Between 1959 and 1961, a period when there was great concern over the balance-of-payments deficit, the Ford Motor Co., for example, used well over a half billion dollars of its excess funds to buy out private stockholders in its British and Canadian subsidiaries.

More recently, the same people who have been calling upon workers to make sacrifices in order to stem the flow of dollars abroad have themselves struck a massive blow at the U.S. balance-of-payments position. During the past few weeks, newspapers and weekly magazines have carried report after report telling of the shipment abroad of huge amounts of American capital in order to escape the controls on capital exports which they feared President Johnson might propose in his balance-of-payments message. According to one banker's estimate, the amount of capital exported by corporations in the 6 weeks prior to the President's message was close to $2 billion.

The gap between the concern expressed by American businessmen over the balance of payments and their actions is illustrated by the following quotations:

"* * * there also are rumors of companies rushing to beat the new program by funneling dollars abroad. A Midwestern capital goods company concedes: 'Last week we were sending dollars overseas as a hedge against Johnson's action—a half-million here, a half-million there.'" (Business Week, Feb. 20, 1965.)

"A number of bankers * * * pointed out that in a rush to beat the voluntary controls, U.S. banks have probably already exceeded 1965's proposed limit of $500 million in new foreign loans." (Time magazine, Feb. 26, 1965.)

"Much of the new drain can be traced to American corporations, which are motivated by fears of controls over the movement of capital. Washington may not have to hold down direct corporate investment, but, ironically, the outflow that has taken place may force it to reconsider its policy.

"The extent of this outflow is hard to measure. One New York banker described it as 'colossal.' Another said it was 'far bigger than the usual outflow that occurs at this time of year.'" (New York Times, Feb. 7, 1965.)

"Uncertain over what new strictness the President might propose, nervous American corporations in the past week quietly shipped an estimated $700 to $800 million in new investment abroad, only aggravating a deficit which last year totaled more than $3 billion." (Newsweek, Feb. 22, 1965.)

"* * * many corporations transferred funds abroad to subsidiaries prior to the administration's call for restraint. One banker estimates that something close to $2 billion was shipped out of the country by corporations in the first 6 weeks of 1965." (Business Week, Feb. 27, 1965.)

CONGRESS SHOULD INVESTIGATE

These acts of economic sabotage indicate clearly that bankers and businessmen do not recognize any obligation to put the national interest before their own desires for profit. They cannot be relied upon, therefore, to respond to appeals for voluntary restraint. The only effective solution is the establishment of effective machinery to prevent repetition of such actions that undermine the Nation's economic security. There can no longer be any doubt that the United States must follow other industrialized nations in adopting legislation to control the export of capital. Such legislation, in addition to alleviating the balance-of-payments problem, would make it possible to divert the movement of capital to some degree to the developing countries which need it rather than to advanced nations which do not need it and which are becoming increasingly uneasy over growing control of their industries by U.S. corporations.

In order to determine the precise nature of the controls required, Congress should launch immediately a full-scale investigation of the details of the sabotage of the national interest by bankers and businessmen in the weeks preceding the President's message on the balance of payments.

In addition, consideration should be given to changes in the present tax provisions in order to penalize corporations that do not promptly repatriate foreign earnings from developed countries. Such penalties must be coupled with capital export controls to prevent business from immediately reexporting funds repatriated in order to avoid the penalties.

Other measures which should be considered include the elimination of the 25-percent gold reserve requirement behind Federal Reserve notes as well as deposits. This would assure foreign holders of U.S. dollars that the full gold reserves of the country were available to support the dollar, and they would be less apt to exchange dollars for gold.

In addition, the administration should press vigorously forward with its efforts, in cooperation with other countries, to develop more effective international monetary mechanisms which will help countries with external balance-of-payments problems and internal unemployment problems to solve the former without forcing them to adopt deflationary policies which would aggravate the latter.

"TIGHT MONEY" CAMPAIGN MUST BE OPPOSED

In addition, every effort must be made to prevent deflationary action on the monetary policy front. The campaign in favor of tighter money and higher interest rates mounted by financial interests in recent months must be vigorously resisted.

There was no need or justification for the Federal Reserve Board's action in raising the discount rate from 3 to 4 percent last year. It had no effect upon the balance-of-payments problem which was the excuse given for it. And it would be dangerous, and possibly disastrous, to tighten money and credit at a time when the economy is moving into a period of slower growth and the continuance of the current recovery hangs in the balance.

Excessive monetary restraint contributed to the recessions of the fifties. It must not be allowed to undermine the current expansion as well. In the final analysis, no method of dealing with the current balance-of-payments situation can be regarded as acceptable if it slows economic growth and imposes hardships upon those least responsible for the problem.

On the contrary, solution of the balance-of-payments problem requires the encouragement rather than the restraint of economic growth. With its powerful impact on innovation and productivity, its downward effect on unit labor costs, and its attraction for capital investment, a rapidly growing domestic economy can have a positive effect on the balance of payments. In fact, as the OECD's 1963 analysis of the U.S. economy points out, "a strong domestic economy is a condition for a solution of the balance-of-payments problem * * *."

THERE ARE BETTER WAYS TO DEAL WITH THE THREAT OF INFLATION

Still something more is needed, however, to free American policy from the chains which have been imposed upon it by the fear of rising prices and a growing deficit in international payments. A modern economy, containing broad sectors in which competition cannot be relied upon to restrain the abuse of corporate pricing power, needs an active price policy to reconcile full employment and price stability. A recent OECD pamphlet, "Policies for Prices, Profits, and Other Nonwage Incomes" (July 1964), notes that a number of countries have been moving toward such a policy. It observes that, while price controls have generally been rejected as—

"* * * a permanent solution, this does not mean that governments must appear indifferent or helpless with respect to the behavior of prices. It may well be possible to find means whereby governments can insure that they are well informed about price and cost developments, and that industry is aware that the government—and ultimately public opinion—is actively interested in the behavior of prices."

Steps to that end are now being taken by the British Government, for example, with the full endorsement of business and labor. A joint statement of intent was signed last December by representatives of the Government, unions, and management, the latter including representatives of the Federation of British Industries, the British Employers' Confederation, the National Association of British Manufacturers, and the Association of British Chambers of Commerce. In the statement, management and unions pledged themselves—

"To cooperate with the Government in endeavoring, in the face of practical problems, to give effective shape to the machinery that the Government intends to establish for the following purposes:

(i) To keep under review the general movement of prices and of money incomes of all kinds;

(ii) To examine particular cases in order to advise whether or not the behavior of prices or of wages, salaries, or other money incomes is in the national interest as defined by the Government after consultation with management and unions."

On the basis of this understanding, the Government announced that it would set up a price and wage review body which would, in the words of the statement:

"* * * keep a continuous watch on the general movement of prices and of money incomes of all kinds. * * * They will also use their fiscal powers or other appropriate means to correct any excessive growth in aggregate profits as compared with the growth of total wages and salaries, after allowing for short-term fluctuations."

At its last convention, the AFL-CIO urged that the spotlight of public attention be focused on "the pricing policies of the dominant corporations in major administrative price industries." A resolution approved by the convention declared:

"Only the Federal Government * * * can adequately focus public attention on the facts of the cost-price-profit-investment policies of these corporations, in an attempt to curtail administrative price abuses."

My own union, the UAW, has suggested a specific technique to deal with the problem. We have urged the appointment of an Administered Price Board which would be empowered to hold public hearings when a corporation controlling a sufficient proportion of the market for a key product, and thus possessing administered pricing powers, proposed to raise prices. Such corporations would be required to give advance notice of their intention to raise prices and they would be obligated to appear before the Board in a public hearing and to furnish any pertinent facts required by the Board. Unions would also be subject to the hearings procedure if their demands were alleged to be the basis of a proposed price increase. After such hearings, the Board would issue a report and the corporation would then be free to raise prices and the union to press its demands. But their decision to do so would have to be made with the knowledge that the public had facts with which to judge their action.

We in the labor movement urge such action because we are opposed to inflation; because we believe that an informed public opinion can be a restraining influence on administered price abuse; and because we are determined that the abuse of corporate pricing power shall not be used as an excuse for imposing either a negative wage policy upon American workers or a restrictive fiscal and monetary policy upon the American people.

WE CANNOT SETTLE FOR LESS THAN FULL EMPLOYMENT

It is unnecessary to compromise our full employment goals for the sake of other objectives. We can reduce unemployment in this country to the absolute minimum compatible with a free economy. That minimum, as the Western European countries have demonstrated, is far below our present unemployment rate. Such countries have not only succeeded in reducing unemployment to lower and lower levels, but, as Professor Gordon points out, they have been constantly revising their goals and aiming for still lower levels than they have already achieved.

There is no reason why we should be satisfied with less. If we are determined to do so, we can match European achievements in reducing unemployment and, at the same time, avoid inflation and a drain on our gold holdings.

Failure to do so results in an intolerable loss. By operating at a 5.2-percent level of unemployment in 1965, we will produce $66 billion less in goods and services than we would have if we had adopted policies which would enable us to operate at a 3-percent rate—which is still higher than European rates. (The $66 billion estimate is based on two assumptions: (*a*) that the labor force would be larger with a 3-percent unemployment rate because additional people enter the labor market when jobs are more plentiful and (*b*) that productivity would be higher as the economy operated closer to capacity.)

Not even America can afford such a staggering loss. This loss represents the margin between making up the great deficits in the public sector and in the war against poverty on the one hand, and continuing to live with such deficits on the other hand.

According to a recent study by the Social Security Administration, 50 million Americans "live within the bleak circle of poverty or at least hover around its edge." For these 50 million human beings to have a standard of living which provides only 30 cents per meal per person and a minimum for other bare necessities, their yearly incomes would have to be increased by about $20 billion—an amount equal to less than a third of the estimated loss we will incur this year by our failure to use our resources more fully.

But making up their personal income deficit would not alone lift 50 million Americans out of degradation or provide the 22 million children among them with a future offering real promise of personal fulfillment. We must spend additional billions in order to eliminate the great social deficits of our society and to improve the quality of American life generally. And in doing so we will make an impact on poverty as well, for the war against poverty cannot be waged to a successful conclusion in congested cities filled with slums which physically and spiritually assault human dignity, in overcrowded schools staffed by underpaid teachers, or with health facilities that fall far short of the real needs of the American people.

To raise the incomes of the poor significantly above their present levels, to deal effectively with poverty in the public sector, and to do all of the other things necessary to improve the quality of American life and to build a truly Great Society, we must make use of the full potential of our powerful productive system. Studies are no longer enough, commissions and task forces are no longer enough, pilot programs are no longer enough, and even "beginnings" are no longer enough—not even the impressive collection of beginnings which this administration has proposed.

The aspirations of the millions of deprived Americans have understandably reached a level which can no longer be satisfied with beginnings. The deep agitation stirring in our Negro communities is a case in point. Laws and court decisions have given new hope to Negroes, but they are no substitute for the massive economic programs required to make equality a reality. Legal progress cannot erase the fact that in a number of important respects the relative position of Negroes has grown worse in the past decade. From 1952 to 1963, the median income of nonwhite families and individuals increased by $920. During the same period, however, the median income of white families and individuals increased by $2,132. The result was that the median income of nonwhite families dropped from 54 percent of that of white families in 1952 to 50 percent in 1963.

In 1955, the unemployment rate among Negro teenagers was 14.2 percent, about 1½ times as high as the unemployment rate of white teenagers. In 1964, the rate for Negro teenagers rose to 25.9 percent, or almost twice the rate for white teenagers.

Unless such trends are reversed, the hopes created by the progress made on the civil rights front could well turn into alienation, bitterness, and frustration more intense than anything thus far encountered. In an article in the November 1964 issue of the Quarterly Journal of Economics on the "Decline in the Relative Income of Negro Men," an Ohio State University professor, Allen Batchelder, concludes that if—

"The trends of the sixties * * * remain the trends of the fifties * * * there will be an economic justification for the 'fire next time'."

THREE PERCENT BY 1968

Recognizing the urgency of unemployment, poverty, and other pressing social and economic problems, the Senate Subcommittee on Manpower and Employment, headed by Senator Clark, last year proposed the adoption of policies which would reduce unemployment to 3 percent by 1968. We believe that the target proposed by the subcommittee is both realistic and necessary. This Nation should not settle for 4 percent in 1970 or even 4 percent in 1968. We must set our sights on the fulfillment of our commitment to full employment within a reasonable period of time.

Such a timetable, of course, means that the prospect of some 1.4 million additional jobs this year, if GNP rises to $660 billion, is not good enough. It means that the 1.5 million new jobs a year which the Council says will be needed to bring unemployment down to 4 percent by 1970 is not good enough. Instead, 3 percent by 1968 means that employment must rise by an average of 2 million per year in the period from 1965 through 1968.

In spite of all the arguments that current unemployment is largely a structural problem, employment can rise at that pace if our economy grows rapidly enough. There is no denying that structural unemployment exists and that special measures are required to deal with it. However, much of what now appears to be structural unemployment would clearly dissolve if overall demand were sufficient.

Under such conditions, workers readily respond to the opportunities made available to them and employers adjust to the conditions they face in the labor market. Workers tend to move in large numbers from areas of relatively high unemployment to others where job opportunities are plentiful. (Detroit, in the years of rapid growth in auto plant employment, was populated in large part by families from Appalachia.) Motivation is strengthened both for adult workers to undertake voluntary retraining and for potential dropouts to continue their education. Employers, in turn, abandon such unreasonable hiring standards as the requirement of high school diplomas for employment in materials handling jobs. They adapt jobs to the qualifications of the workers available. They vastly increase their own training activities and in some cases even finance the relocation of workers recruited in other areas. They give up, perforce, discrimination in hiring and promotion against Negroes, older workers, and women. They locate their new plants, other things being approximately equal, in areas of relative labor surplus. All this was proved both in World War II and again during the fighting in Korea.

Can we possibly hope to attain a rate of growth rapid enough to achieve full employment by 1968? During the current business cycle the annual growth in real output from the second quarter of 1960, the peak of the previous expansion, to the fourth quarter of 1964, has been only 3.8 percent. However, despite its length the current expansion does not represent the limit of American economic achievement. The length of the current recovery is in fact more impressive than its strength. By comparison, the first postwar business cycle was far more vigorous. From its peak in the fourth quarter of 1948 to the following peak in the second quarter of 1953, output rose at an annual rate of 5.2 percent.

It is often argued that the far more impressive performance of the earlier period occurred only because of the stimulus provided by the Korean war and the backlog of unsatisfied demand created by World War II. However, that argument completely misses the point that demand, including sufficient Government spending, can bring about full employment. Moreover, it overlooks the fact that we are currently engaged in a war and that we still have an enormous backlog of unsatisfied needs. We are engaged in a war on the poverty which still defaces so much of American life—a poverty which represents billions and billions of dollars of unsatisfied needs in both the private and public sectors.

These unsatisfied needs can be transformed into effective demand. As President Johnson has pointed out, our economic policy tools have become "more refined" and we have a growing consensus regarding the need for using those tools "to keep the economy moving ahead." Our progress in economic understanding plus the existence of idle resources side by side with unmet needs provide what the Clark committee has called, a rare opportunity for the exercise of imaginative public policies.

THE WAR AGAINST POVERTY

The greatest and most urgent unmet needs are those of the victims of poverty. Their needs provide a test of our economic resourcefulness and an opportunity to bring idle manpower and idle facilities together in the service of the less fortunate of our fellow citizens.

Thanks to the efforts last year of President Johnson and the Congress, the Nation is now committed to war against poverty. The enactment of the Economic Opportunity Act was the opening gun and we welcome the President's proposal to greatly increase the funds to be devoted to prosecution of that war.

The effort under the Economic Opportunity Act, as the Council of Economic Advisers notes, is directed "particularly at helping the children of the poor." The education, training, and work experience programs provided under the act constitute an arsenal of weapons that will be highly useful in the ultimate achievement of final victory in the war against poverty.

But none of those weapons was devised to attack directly and immediately with the central fact about poverty—that, by definition, the poor are poor because their incomes are too low. To deal with this obvious truism in ways which would bring immediate help to those who need help now we must provide:

Adequate incomes for those too old, too young, too ill, or too encumbered by household and family responsibilities to earn such incomes for themselves.

Jobs—and, until jobs become available, adequate unemployment compensation—for those able to work but unable to find employment.

Decent wages for all who are working.

In short, immediate succor for the victims of poverty requires action in three areas—transfer payments, full-employment policy, and minimum wage legislation. With determined and effective action in these areas, we can wipe out the poverty that afflicts tens of millions of our people now while we proceed to immunize the younger generation—through education, training, and work experience—against poverty in the future.

The increases in high-velocity purchasing power generated by comprehensive and adequate transfer payments programs and by decent minimum wages will translate the needs of most of the poor into effective demand and thus help both to create the jobs needed by those impoverished by unemployment and to move the Nation toward full employment.

Programs for Prosperity

THE NEED TO PLAN

The task of restoring full employment and full production, and enabling all Americans to share in the better life which this achievement will make possible, requires an arsenal of weapons—spending and taxing policies, monetary policies, price policies, and many others which have a role in helping to influence the speed and direction of economic developments. But the necessary policies and the programs which flow from them cannot be established on a bits-and-pieces, hit-or-miss basis. To be successful, they require systematic evaluation of the economy's needs and resources, establishment of priorities, and coordination of programs so that they strengthen and support one another. Should fiscal policy at any given time emphasize tax cuts or spending programs, for example? What taxes should be cut, and in what areas of public need should spending programs concentrate? What are the best measures to deal with problems such as the balance of payments without interfering with other goals? What stimulus will best encourage investment without reducing demand in other sectors? These and a host of similar questions require democratic planning if we are to find answers which will insure that we make the best use of our resources to meet our most pressing needs and stimulate optimum growth.

Other nations of the democratic world have come to recognize the need for and the benefits of economic planning, and some of them are using it to maintain full employment and achieve rates of economic growth far superior to those which we have achieved even in our best peacetime periods. Even our own Federal Government recognizes the desirability and the need for planning as far as other levels of government are concerned.

Under the Housing Act, for example, the Government pays part of the cost of urban planning, and makes grants for urban renewal contingent on the development of community plans. Before the Appalachia bill was even enacted, an Appalachian Planning Committee had been appointed to do the groundwork for a wide variety of programs, and the Appalachian Regional Commission which will continue its work has been instructed to develop an economic program for the area, to coordinate projects, and to encourage formation of local development districts which will function as local planning agencies. Community planning is a prerequisite for financial assistance under the Area Redevelopment Act, and agencies for planning and coordination are being established across the Nation to carry out community action programs which are at the core of the administration's war against poverty.

Planning is required under these programs because it is recognized that, without planning, much of the effort and resources devoted to restoring and developing the economy of a community or a region can be frittered away in uncoordinated and sometimes conflicting projects. But, if that is true at the community or regional level, it is far more true at the national level, where the problems to be faced are far vaster and more complex, and the consequences of ineffectiveness and waste are far more serious. It is a curious anomaly while lower levels of government are required to plan under the above programs, there is no national plan into which the programs themselves can be integrated.

It is peculiar, also, that in our programs of assistance to developing countries, we insist that the recipients draw up national development plans, while we avoid and even seem to fear the same kind of planning in our own country.

Recognizing that national planning is essential to the solution of the major problems facing the Nation, a resolution adopted at the last AFL–CIO convention declared:

"Experience has shown that we cannot rely upon the blind forces of the marketplace for full employment, full production, and effective use of our resources to meet our most urgent national needs. Other advanced free and democratic industrial nations have found that they can achieve their economic and social objectives only through a rational national economic planning process involving the democratic participation of all segments of their populations together with government. We urge the creation in the United States of a National Planning Agency, which through similar democratic mechanisms will evaluate our resources and our needs and establish priorities in the application of resources to the meeting of needs."

CONSENSUS ON PRIORITIES

While we lack the machinery for economic planning that would facilitate democratic formulation of a consensus as to national priorities and the detailed means to achieve them, there has developed nevertheless what appears to be a general consensus as to certain broad national priorities. One is full employment—to which we committed ourselves as a nation nearly 19 years ago. Another is improvement in the quality of American life. A third is victory in the war against poverty.

We are fortunate that these priorities are not in conflict but, on the contrary, are mutually supporting and mutually reinforcing. Major improvements in the quality of American life are attainable only through greatly increased public spending, and the amounts required to be spent for this purpose are more than sufficient to supply the increase in demand needed to support full employment. The most serious social deficits which impair the quality of our lives are in such fields as education, health, and housing, all of which have direct bearing on the war against poverty.

Government's role in achieving these national priorities is not confined, however, to what it can do through increased spending. Although our priority goals cannot be reached without more Government spending, there is much that Government can do to speed the attainment of those goals through legislation that does not affect the size of the Federal budget. Specific programs in both categories are considered below.

PROGRAMS THAT AFFECT THE BUDGET

Programs that are essential to meet the needs of the American people must not be sacrificed or postponed merely because they involve increasing the budget, particularly at a time when the economy needs the growth-inducing stimulus of a more expansionary budget. It is particularly unfortunate that spending programs for the coming year should have been held down simply because of the shibboleth of a round number. There is nothing magic about the figure of $100 billion. If the needs of the economy dictate spending programs of $101 billion, $110 billion, or $120 billion, those are the amounts we should be prepared to spend. In an expanding economy—even one expanding less rapidly than it should—with a growing population, both the needs to be met and the resources with which to meet them increase from year to year, and the budget of Government spending through which many of those needs are met must expand with them. It must be subject to no artificial limits.

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Since World War II we have been starving the public sector of the economy, in terms of real outlays per capita for civilian needs. Excluding the costs of Government attributable to past wars (largely interest on the public debt), present and future defense needs, and, more recently, the space program, Federal expenditures per person in dollars of constant buying power have declined sharply. In fiscal 1947, these expenditures in the administrative budget were equal (in 1964 dollars) to $287 per person. The corresponding expenditures proposed for fiscal 1946, also in 1964 dollars, equals $155 per person—little more than half that of 1947. The public pennypinching of earlier years is now costing us dearly in unmet needs and persistent unemployment.

The programs outlined below illustrate how a positive fiscal policy can be used to improve the quality of life for all to help eliminate poverty, and to create jobs needed for full employment. Their adoption will help to remedy the neglect of the past.

Public facilities

Among the programs designed to make this country a better place in which to live for all Americans as well as for people living in poverty are those which require an increase in expenditures on public facilities. These would create tens of thousands of new jobs for new entrants into the labor force and for those in poverty who are able and qualified to work but unable to find work; would restore the economic base of deteriorating areas; would provide the housing, health, education, child care, and other services that are so essential in the war against poverty; and would make living more tolerable for all Americans.

As Congressman Blatnik pointed out when he introduced his public works bill:

"The backlog of needed local public works is staggering * * * the fact is that our present stock of community facilities is less adequate than it was 25 years ago when we had the benefit of the intensive public works programs of the thirties."

President Johnson has recognized the need for assistance to communities in adding to the stock of such facilities through the inclusion of $100 million for this purpose in the proposed housing bill. That is a step in the right direction, but many much longer steps are needed. We urge the enactment of Congressman Blatnik's public works bill authorizing the expenditure of $2 billion annually to help finance needed public works and community facilities.

Education

The President recognizes the crucial bearing of education on the Nation's future. He has submitted to the Congress a program which properly gives heavy emphasis to meeting the educational needs of children victimized by poverty, ranging from preschool programs for culturally deprived children to a greatly expanded college scholarship program. He has acknowledged his awareness that the expenditures proposed in his bill fall short of fully meeting Federal responsibilities in the field of education by promising greater spending for this purpose in the future.

While recognizing all the political, religious, and emotional obstacles in the way of more adequate Federal provision for education than has been proposed by the administration, we believe that every effort must be to advance more rapidly on all fronts toward the President's goal of "full educational opportunity." The years that young people spend in school can never be retraced; and what they miss now in educational opportunity will be reflected in loss to them and to the Nation for as long as they live.

Although the President has properly put particular emphasis on the need of better educational facilities in poor neighborhoods, there are vast inadequacies to be met throughout our school system. By 1970, to take care of an increase of more than 4 million pupils, to eliminate overcrowding and to replace the firetraps, the quonset huts, and the buildings of pre-World War I vintage, we need approximately 1 million public elementary and secondary classrooms. Instead of the average of 70,000 per year, which according to the Department of Health, Education, and Welfare we have been building, we need over 150,000 per year. In addition, between now and 1970 we need to increase the capacity of our colleges by about 50 percent.

In addition, we urge that more funds be appropriated to raise the salaries of teachers, both because the importance of their responsibilities and the skills required to do their job deserve more adequate rewards, and because it is important that we attract to the teaching profession the most competent people available.

Health facilities

Our shortage of health facilities leaves still another gaping hole in the Great Society. According to the U.S. Public Health Service, we need well over 1 million nursing homes and hospital beds. We also need more than 4,500 health centers for diagnosis and treatment of such diseases as cancer, mental health, and tuberculosis, for the rehabilitation of the handicapped, and for the provision of such services as immunization, maternal and child health care, and the control of communicable diseases.

In addition, any program to provide the buildings and equipment we need for adequate health services must have a counterpart in the training of additional personnel, from nurses and technicians to medical specialists, in order to staff them.

President Johnson has put before Congress a number of proposals to help fill present gaps. These include provision of long-term, low-interest loans for facilities of comprehensive medical care plans; grants to cover the initial cost of personnel to staff community mental health centers offering comprehensive services; increased grants and scholarships to train doctors, dentists, nurses, and medical technicians; establishment of regional medical complexes to make modern medical care more accessible through better organization and coordination; improved health services for children, both through expansion of existing services and through a new program which would provide concentrated and comprehensive medical care services to children in low-income areas; and improved standards of medical care for needy citizens.

These are some of the programs that are essential to accomplish the objectives stated by the President—that the advance of medical knowledge leave none behind, and that the best of health care be accessible to all Americans, regardless of age or geography or economic status. Congress should give them high priority.

Housing

President Johnson has also revealed an awareness of the need for action in the field of housing. His message indicates a willingness to try new approaches, including rent supplements for families in lower and moderate income brackets and the use of public housing funds to rehabilitate existing housing and to lease housing for low income families.

However, current proposals still fall far short of meeting the Nation's needs in this vital area. Almost 30 percent of the Nation's housing was either structurally unsound, lacking in essential plumbing facilities, or overcrowded, according to the 1960 U.S. Housing Census. For the most part the people living in such inadequate housing cannot escape through the private housing market. Charles Abrams, author of "Man's Struggle for Shelter in an Urbanizing World," points out that even with Government insurance programs, private builders have built only for families in the top 40 to 50 percent of the income structure.

But neither can the inhabitants of substandard dwellings escape through our presently inadequate public programs. In the most recent 6-year period, 1959–64, we produced 135,200 low-cost public housing units, almost exactly as many units as the 1949 Housing Act authorized for 1 year. And the program outlined in the budget calls for 35,000 units per year for the next 4 years—enough, as Andrew Hacker observed in the New York Times magazine of March 22, 1964, "for 1 out of every 80 families now living in a slum."

In view of such pressing need, we urge the Federal Government to go beyond present proposals. Among other things, we urge it to provide sufficient funds for the construction of at least 125,000 low-rent public housing units per year for the next 4 years.

Urban renewal

President Johnson declared in his message on housing: "The problems of the city, * * * are, in large measure, the problems of American society itself. They call for a vision, a breadth of approach, a magnitude of effort which we have not yet brought to bear on the American city."

The President's recommendations for dealing with urban problems reveal a great deal of the vision and breadth of approach for which he called. They are revealed in his recognition of the gravity of the problem, the Federal Government's responsibility to assist in its solution, and the fact that urban problems go beyond geographical boundaries and require extensive planning. They are also revealed in his proposals for a Department of Housing and Urban Development for regional representatives to assist in the development of local plans, for an Institute of Urban Development for the training of local officials and the encouragement of research, and for assistance in construction of multipurpose neighborhood centers and new suburbs and towns.

Awareness of the problems of American cities must be supported by realistic and adequately financed programs. An effective, overall attack on urban decay must provide for the extension and long-term funding of efforts now being made under the existing urban renewal program to clear slums and rejuvenate the deteriorating areas of more than 700 communities. As the AFL-CIO recently urged with regard to this program:

"* * * There should be a $4 billion increase in capital grant authorization over a 4-year period; an increase in the Federal share to three-fourths of net project costs; an increase in relocation payments to families up to a limit of at least $500; and rent supplementations up to 5 years for displaced needy families."

In addition, the promise of urban redevelopment cannot be realized without billions of dollars of Federal assistance for education, health, housing, roads and streets, mass transportation and other programs.

Beautifying America

A battery of programs which addresses itself to the need for raising the quality of life in America is spelled out in President Johnson's special message to Congress on natural beauty. A nation with the vast resources which America has at its disposal can well afford to devote a portion of those resources, some of which have remained idle and unproductive, to programs for enhancing the beauty of our environment, increasing its recreational facilities, making its highways safe and pleasant, reducing both water and air pollution and controlling pesticides and other potentially harmful substances. As the Executive Council of the AFL–CIO indicated in its statement on March 1, such programs, with their "stress on the beauty and wholesomeness of our surroundings," deserve:

"* * * an essential place on the agenda of public and private actions that must be taken to realize the Great Society, since such a society must sustain the spirit as well as concern itself with the material well-being of its citizens."

Public assistance

As indicated earlier, the war on poverty must be fought with a vast arsenal of weapons. Some of these have no direct impact on the budget and are, therefore, discussed later. However, one in particular deserves substantially more financial support from the Federal Government than it has received thus far. This is the battery of programs to assist the aged and the disabled not eligible for social security payments, those whose family responsibilities prevent them from working, and young people in low-income families.

It is ironical that, in a society characterized by some as "a welfare state," the average payment for a recipient of aid to families with dependent children was about $8 per week (including payments for medical care), that only about 4 to 4.5 million out of 15.6 million needy children received such aid in 1963, and that more money is spent in the Nation as a whole on alcoholic beverages and tobacco than on all forms of welfare—both public and private.

A recent study by the Upjohn Institute notes that:

"In some States no welfare aid of any kind is available to employable persons; as far as public responsibility goes, the unemployed may starve. In other States the welfare aid that is available is not adequate even for subsistence as that term is generally understood by welfare agencies."

In view of the inadequate payments, the wide gaps in coverage, the unnecessarily rigid eligibility restrictions and the cumbersomeness so characteristic of present public assistance programs, we urge the establishment of a nationally financed and administered system of general assistance which will provide a minimum income to the needy and the disadvantaged of our Nation. As part of such an effort, both the Federal surplus commodity program and the food stamp program should be expanded and made available to all with incomes below the poverty level.

* * * * * * *

In addition to the above programs, there are three other areas of Government action which affect the budget and are not as easily categorized, but which do have important roles in building full employment at home and meeting our obligations to the rest of the world. These are the areas of manpower policy, tax policy, and foreign aid.

Manpower programs

Manpower programs are usually considered as tools for dealing with problems of structural unemployment—training of workers who lack salable skills, relocation of workers from areas of labor surplus, rehabilitation of distressed communities, and improvement of employment services to facilitate bringing the right worker to the right job. Since 1961, the Government has shown a growing awareness of the need for such programs, and President Johnson's budget contains provisions for continuing to expand them.

As we have pointed out in a previous section, many of the situations now viewed as problems of structural unemployment would disappear of their own accord in a climate of full employment. Nevertheless, partly because of the problems we have inherited from past years of neglect, and partly because of the rapid changes in the specifics of demand for labor in a period of rapid technological change, we will continue to need more extensive and better organized manpower programs than we have yet developed.

We will need, for example, more and better retraining programs. Based on the experience of Sweden, where retraining is used not merely to deal with existing unemployment but to forestall it, to upgrade workers already employed and to attract additional workers, such as housewives, into the labor force, we should be prepared to retrain, through public programs, at least 1 percent of the labor force each year.

We need to provide adequate financial assistance to the unemployed who enter these programs—adequate allowances for those in training programs, for example, more closely related to normal earnings than to present grossly inadequate unemployment insurance benefits; and we need to go beyond inadequate pilot projects to develop a whole new program which will meet in full the reasonable costs of unemployed workers and their families moving to new communities to take up jobs.

We still need a truly national public employment service, with expanded testing and counseling facilities, and with machinery which will require employers to list with the public employment service (except where alternative union-management arrangements have been made) all job vacancies other than those to be filled by promotion or recall.

Perhaps we would be prepared to devote substantially more money and resources to manpower programs if we would learn to look at them as Sweden does—not merely as programs to help those so unfortunate as to be unemployed, but as investments designed to pay for themselves many times over by increasing the productive capacity of the economy. In a full employment economy such as Sweden's, where every man-hour of labor is precious, it is easy to recognize that every time an unemployed worker is restored to work, every time a person outside the labor force is assisted to become a worker, every time an employed worker is upgraded to a higher level of skill and productivity, there is a measurable gain for the economy as a whole. Such investments in human beings are not only morally imperative, but in an economy which has a job for every available worker they are economically imperative as well.

Tax reduction

In 1964, taxes were reduced by more than $12 billion at 1964 income levels. The measure gave larger reductions to individuals in the upper income brackets than to those in the lower brackets. In fact, millions of Americans received no direct benefits at all because they did not have enough income to be taxed.

Both economic progress and social justice now require that major emphasis be given to spending programs rather than general tax cuts. Expenditures of the kinds indicated above would benefit the public in general and yield a double dividend for the poor; they would create the kinds of public facilities which the poor need so badly and substantially increase jobs as well, including jobs for unskilled workers.

However, with tax revenues rising rapidly as economic growth occurs, further tax cuts will be possible even with massive increases in spending. Such cuts should clearly be concentrated in the lower income brackets. It is shameful that Federal income tax revenues are still collected from people who are poor, by the Government's definition. Needless to say, with such people also paying Federal excise taxes (as well as regressive State and local property and sales taxes), the excises which are reduced this year should be those which place the greatest burden upon low and moderate income groups.

Foreign aid

The war against poverty cannot be confined within the geographical boundaries of the United States. As a matter of self-interest as well as humanitarian concern, we must continue to provide increasing amounts of aid to developing countries for years to come. As we indicated in our statement to this committee last year:

"Without such aid, world peace and stability would be in even more danger than it currently is and the United States would have to divert an even greater proportion of its resources to the production of weapons of destruction. With such aid, we can assist in the development of viable economies which can eventually afford to purchase more of our goods and engage in mutually advantageous trade in a peaceful world."

Also with such aid, we can put at least part of our unused resources to work creating jobs for our own people as we produce goods for the poverty-stricken people of other lands.

PROGRAMS NOT AFFECTING THE BUDGET

Social security

High on the list of those programs which can be undertaken without significantly affecting the budget is adequate provision for the aged and disabled under OASDI. A social security system realistically geared to the needs of those dependent on it will be an essential weapon in the war on poverty, as well as an important source of increased stimulus to the economy.

The most immediate step must be speedy passage of the King-Anderson bill to provide health benefits for the aged under social security. The narrow, selfish interests served by the entrenched leadership of the American Medical Association have for too many years succeeded in blocking passage of this measure, which will help to protect our senior citizens against an economic threat to which they are particularly vulnerable, and will do so with dignity and without the degrading pauperization of a means test. The administration and the House Ways and Means Committee are to be congratulated on their efforts to promote speedy passage of the bill.

Protection against the financial burden of illness is only one necessary step, however, toward meeting the needs of the aged. Pension benefits themselves are far too low. For those without other source of income, retirement on a social security pension is condemnation to an old age of grinding poverty. As of December 1964, the average primary pension was $77.57, and for a married couple was estimated at about $135 a month—or $930 and $1,620 respectively per year.

These amounts fall 47 and 34 percent respectively below the "poverty lines" established for nonfarm individuals and couples over age 65 in a recent Social Security Administration study on poverty, based on the minimum incomes needed to provide adequate nutrition and other necessities on a permanent basis.

They even fall substantially below the budget proposed for "temporary or emergency use when funds are low." Studies of OASDI beneficiaries show that at this level, on a permanent basis, the great majority of pensioners cannot meet their basic nutritional needs.

Yet the average pension is insufficient even to support this starvation budget. And 5.2 million men and women past the age of 65, now reported by SSA as living in poverty, are forced today to exist on less than that budget.

Another 1.6 million of the poor, found by SSA to have been unable to work because of illness or disability, probably include many of the 900,000 recipients of disability insurance benefits who, if they have no other income, must also live far below the poverty level.

An increase of 7 percent in OASDI benefits is proposed for later this year. While any improvement is to be welcomed, this is far too little to meet the need of those whose present incomes fall so much further below the poverty line. And unless benefits are raised to at least the minimum required to provide the necessities of life, the misery of our aged and disabled poor will continue. For them there is no other hope of escape from poverty.

Establishment of social security benefits at adequate levels will not affect the Federal budget to the extent that they continue to come from separate funds financed by payroll taxes. However, to insure that social security taxes do not constitute too heavy a drain on the incomes of lower paid workers, we believe that, to finance adequate benefit levels, the United States should follow the example of other countries which provide for Government contributions out of general revenues in addition to the contributions by workers and employers.

A positive wage policy

While a massive assault on poverty and increased spending to meet our unmet public needs are essential tools in the restoration of full employment, the major element in total demand, as the Council points out, is consumer spending. And consumer spending depends in major part on wage and salary income. A basic instrument of economic growth, therefore, is a positive, dynamic, and expansionary wage policy. The facts of our economic situation today make such a policy not only feasible but highly necessary.

As has been shown above, for several years now productivity has risen substantially faster than the buying power of employee compensation, thus reducing workers' spending relative to output and contributing to the lag in consumer demand. At the same time, soaring profits and increased depreciation allowances have channeled more income into the hands of individuals and the treasuries of corporations than was required to match investment opportunities, while at the same time assuring that wage increases in excess of productivity advance can be financed out of excessive profits and need not lead to price increases.

The combination of these factors ought to have led directly to the enunciation of a positive wage policy, designed to furnish worker-consumers with more buying power and to help establish a more balanced distribution as between labor and nonlabor shares in the national income.

The Council's policy is negative.—Unfortunately, far from enunciating any such positive wage policy, far even from adopting a completely neutral position and leaving wages to be worked out through the pressure of opposing forces at the collective bargaining table, the Council of Economic Advisers, as in previous years, has recommended a wage policy which is dangerously negative in character.

The Council continues to present its so-called price-wage "guideposts," in terms of dollar wages, without taking into account the effect of price increases on their buying power. Application of the guideposts in this manner would mean a continued broadening of the gap between workers' ability to produce and their ability to consume.

To support this policy, the Council argues that the Consumer Price Index and the "implicit deflator" for gross national product, overstate the actual increases in prices. The Council declares it is:

"* * * doubtful that the actual purchasing power of the dollar changed perceptibly in the period 1961–64."

As related to comparisons of wages with productivity, this can only be described as an attempt at statistical sleight-of-hand. For in its comparisons of employee compensation with productivity, the Council uses dollar compensation figures unadjusted for price changes, but the data from which its productivity figures have been computed are data adjusted for price increases by the very GNP deflator, which, the Council suggests, is not to be believed.

The Council cannot have it both ways. If the price indexes do have any validity, then the appropriate indexes must be used to deflate both the productivity data and compensation, so that the real value of output can be compared with the real buying power of compensation. If they do not have any validity, then productivity data must be developed on the basis of the dollar value of output for comparison with the dollar amounts of compensation.

And whichever way it is done, the data will then show that since 1960, and indeed since 1956, employee compensation per man-hour has been lagging seriously behind productivity.

"Guideposts" should not be mechanically applied.—In any case, the importance of the guideposts is overstressed. What the economy needs today is not emphasis on "guideposts" which, in spite of all the Council's qualifications, tend to be rigidly and mechanically applied, but recognition of the fact that our economy is badly off balance. With insufficient demand holding back growth, and with labor income lagging so far behind both productivity and nonlabor income, the imbalance calls for a current policy of real wage increases somewhat in excess of the anticipated rate of productivity advance.

Such a policy would not be in conflict with the principle behind the Council's guideposts. The Council said 3 years ago, in its first introduction of the guidepost principle:

"The proportions in which labor and nonlabor incomes share the product of industry have not been immutable throughout American history, nor can they be expected to stand forever where they are today. *It is desirable that labor and management should bargain explicitly about the distribution of the income of particular firms or industries.* It is, however, undesirable that they should bargain implicitly about the general price level." [Emphasis added.]

Minimum Wage

It is shocking to consider that in the 1960's it is possible for a man to be steadily employed at a full-time job and still not earn sufficient wages to provide his family with adequate food together with the other necessities of life. Yet for 2 million American families this is the tragic truth.

The SSA analysis of poverty, previously referred to, states:

"That a man risks poverty for his family when he does not or cannot work all the time might be expected, but to end the year with so inadequate an income, even when he has worked all week every week, must make his efforts seem hopeless.

"Yet, with minimum wage provisions guaranteeing an annual income of only $2,600, and many workers entitled to not even this amount, it should not be surprising that in 1963 there were 2 million families in poverty despite the fact that the head never was out of a job * * *."

In this regard, as in so many others, the plight of the Negro worker is far worse than that of the white. Condemned often by lack of educational opportunity, as well as by discrimination at the hiring gate, to accept the lowest paid jobs, over 25 percent of all nonwhite families with full-time working heads were poor, compared with 5 percent of white families. The Negro in particular needs the protection of a minimum wage law which will guarantee him a fair return for his labor.

Most cruelly exploited, of course, are those who are denied any protection under the Fair Labor Standards Act. The Bureau of Labor Statistics reports that in hospitals, hotels and motels, eating and drinking places, laundries, and in retail trade, there were in 1962 and 1963 over 3.5 million workers earning less than $1.25 an hour, and 40 percent of these, 1.4 million, earned less than $1 an hour. In addition, there are more than a million migrant workers, not covered by the act, whose rates of pay condemn them and their children to perpetual poverty.

President Johnson has recommended extensions of coverage which will bring under the minimum wage law some of the workers now lacking that protection. We, too, favor extension of coverage; but on a much broader basis than the administration is apparently inclined to propose. We shall not rest content until the laws of this country assure that every man and woman who works for another is entitled to a fair rate of pay for his or her labors.

This goal will not be met, however, merely by extension of coverage of the present minimum wage provisions. The AFL–CIO has recommended, and we repeat that recommendation now, that the minimum wage be increased to $2 per hour. For a fully employed worker that would provide an annual income of $4,160. This compares with the $4,005 estimated by SSA as necessary to provide a low-cost budget for a nonfarm family of four.

Double time for overtime

To require some workers to work excessive hours while others are unable to find work at all is morally indefensible and economically illogical. The 50-percent premium penalty on overtime work was written into the Fair Labor Standards Act in 1938 in order to remedy just that anomaly. It was effective at the time, but over the years it has become less effective. Various fringe benefits costs have been added to the wage package which vary with the number of workers employed rather than the number of hours worked, and to which the overtime premium does not apply. Combined with other costs related to expansion of employment, such as training of new workers and paperwork, this has meant that it is frequently cheaper for an employer to schedule overtime at a 50-percent premium than to increase employment.

Legislation designed to make the penalty premium once again effective by raising it to 100 percent was proposed last year by President Johnson but was rejected by Congress. Since then, excessive overtime has been setting new records.

Testifying on last year's proposal, Labor Secretary Willard Wirtz pointed out that all overtime worked in 1963 in industries covered by the Fair Labor Standards Act represented the equivalent of 1,250,000 full-time jobs. But overtime was even higher in 1964—up in manufacturing, for example, from 2.8 hours per worker per week to 3.1 hours. The increase in manufacturing alone would add the equivalent of another 100,000 full-time jobs to Secretary Wirtz' total.

And overtime is still increasing. The Labor Department's Monthly Report on the Labor Force for January 1965 reported that on a seasonally adjusted basis, the factory workweek in January was at the highest level for any month since World War II. The workweek included an average of 3.3 hours of overtime, a record for the month since the overtime measurements began in 1956.

Figures on average overtime hours give no concept of the grinding pressures that excessive overtime can exert on the individuals who have to suffer it. In testimony on the Overtime Penalty Pay Act last year, UAW Vice President Leonard Woodcock submitted data on individual auto assembly plants in which heavy overtime was worked consistently, week in and week out, over a period of 19 months, except for a relatively few weeks associated with model changes or with unavailability of materials or parts. The commonest schedule was a backbreaking 58 hours of work per week, repeated for as many as 12 and 14 consecutive weeks. In one plant, overtime scheduled over a period of 29 consecutive weeks averaged over 15 hours per week.

Continued toleration of such excesses, especially side by side with high unemployment, is immoral and inhuman. We urge Congress to curb them by enacting the 100-percent premium penalty at this session, applicable immediately to all industries covered by the Fair Labor Standards Act.

Reduction in standard hours

In addition to discouraging excessive overtime, still more jobs can be created by reducing the standard workweek. We would like to see full employment at 40 hours per week, but we choose a reduction in hours as the preferable alternative to continuing high unemployment. At its most recent convention in November 1963, therefore, the AFL-CIO adopted a resolution reaffirming its goal of "amending the Fair Labor Standards Act to provide for a standard 35-hour workweek without reduction in take-home pay" and calling upon Congress to conduct an examination in depth of methods for achieving such a reduction in hours through Federal legislation. "The primary goal is stable, full employment," the resolution said. "With that goal in view," it went on, "Congress should also explore automatic and flexible adjustment of the basic statutory workweek without loss of pay to maintain full employment in the face of continuing technological change and fluctuations in demand."

National action on unemployment insurance

The President's budget states that proposed unemployment compensation legislation:

"* * * will include improvements to (1) extend coverage of the system; (2) establish Federal standards relating to duration and level of benefits; (3) strengthen financing; and (4) establish a new, separate Federal system of extended benefits for workers who have been in the labor force for a long time."

The need for Federal action in this field is emphasized by a recent BES analysis of State legislation, for the most part indicating changes between December 1961 and December 1963 in the degree of protection provided. In almost every respect it found that State systems were becoming less liberal and more restrictive, rather than the reverse.

In this period, the maximum weekly benefit amount, expressed as a percentage of the average weekly covered wage, increased in 12 States but declined in 34. An original goal of the unemployment insurance system was to provide benefits equal to about half of weekly earnings. By 1963, only 5 percent of workers lived in States with maximum benefits equal to 50 percent or more of average covered earnings, and no State provided average benefits at that level.

Duration is inadequate. In 1963, one unemployed worker in four exhausted his benefit rights, and over half of those who did so had drawn less than 26 weeks; almost one-fifth had received less than 15 weeks.

Coverage is insufficient. In 1963, about 23 percent of all employed wage and salary workers in the economy were not covered by an unemployment insurance program, and in 1964, on the average, 55 percent of those unemployed were not covered, including those who had exhausted benefits.

In two States, Ohio and Wyoming, legislation passed in 1963 actually discourages unemployed workers from seeking work outside their own State by reducing their benefits if they leave the State.

America today does not have an "unemployment insurance system," but a hodgepodge of widely disparate State systems whose only common factor is their inadequacy.

Only a national unemployment insurance system will provide a complete remedy against present disparities and inequities, but pending such a development we need immediate legislation to establish minimum Federal standards for all States, assuring adequate benefit amounts, uniform duration up to 52 weeks, reasonable eligibility requirements and disqualification provisions and the broadest possible extension of coverage. The legislation should provide a reasonable period for States to conform to the standards, but in the interim should provide immediate Federal supplementation up to those standards, financed by a small increase in the Federal unemployment insurance payroll tax.

Improvement in our unemployment insurance provision through Federal legislation has been urged repeatedly on Congress, not only by Presidents Johnson and Kennedy but by President Eisenhower before them. It is far past time that Congress responded with constructive and effective legislation.

Conclusion

We agree with President Johnson's emphasis in the manpower report on unemployment as "the No. 1 problem." We agree with his statement that:

"In the Great Society, all men must have the self-respect and the economic security that flow from full use of their talents."

We believe that the programs best suited to achieve full employment include, with top priority, those which are directly aimed at eliminating poverty and improving the quality of life for all Americans, and the material means to achieve those goals can be produced only in a full-employment economy. Our success in solving virtually every domestic problem that we face today hinges upon our ability to make full use of our productive resources and to find suitable, well-rewarded work for every man and woman who is willing to work. This belief was summed up in a statement issued by the AFL–CIO Executive Council on March 2, 1965:

"* * * we have * * * offered our views on the national economy; on consumer problems; on the health needs of the people; on housing and urban affairs; on mental health; on education in all its aspects; on poverty; on civil rights and civil liberties, and on the major issues of international concern to all Americans. These are among the questions that need to be answered before the best of the world's societies today can become the truly Great Society of tomorrow.

"Each of the matters we considered was dealt with, primarily, in its own context, and, we think, properly so.

"Take education. The idea that every child should have an absolute opportunity to get all the education he wants and can use, no matter what his background, his origins, or how much money he has, is a basic goal of the labor movement. So is a system of training and retraining workers, a constant effort to prepare, to accommodate, to upgrade those whose past opportunities were deficient.

"Take civil rights. We want the 1964 act, for which we fought so hard, enforced to the utmost; and we shall seek and support such other legislation as is needed, to insure that the disgraceful denial of American citizens' right to vote, as is now the case in Selma, Ala., is not repeated.

"Take poverty. The labor movement fired the first shot in the war on poverty on the day the first trade union was organized, and we have never relaxed, nor will we relax, our efforts to wipe out poverty. We are for every realistic measure to open the doors of opportunity to the poor and to help them over the threshold.

"Yet, as we look back over the actions we have taken and the recommendations we have made, one theme emerges.

"All the measures we have proposed or supported, in all these many areas of American life, depend for their success upon a full employment economy, with jobs at good wages for all.

"It is true that racial discrimination has been a barrier to millions of qualified Americans. But if these barriers were swept away overnight, the opportunities would still be too few.

"It is true that lack of education and lack of usable skills have forced millions of Americans onto the unemployment rolls. It is also true that the unskilled, or inadequately skilled, comprise the largest proportion of the jobless. Yet, if those deficiencies were overcome overnight, there still wouldn't be enough jobs to go around.

"Yes, discrimination must be wiped out. Education and training must be vastly broadened. Manpower policies must be so organized as to mobilize and use to the utmost the talents of young and old alike. But as long as jobseekers outnumber jobs by so wide a margin, no real solution is possible.

"This executive council has been saying this, one way or another, for nearly 10 years. But the validity of the point emerges with special clarity now, as we meet in a period of general and long-prevailing affluence, after some 5 years of rapid economic growth, when profits and wages are higher than ever—and despite all this, 5 percent of the labor force is unemployed and 20 percent of the American people live in poverty.

"In short, what we have been saying during the council meeting comes down to the single issue of jobs at good wages for all. The rest of our program is necessary, of course; but without that one underlying requisite the United States could find itself with the best educated, best trained body of unemployed workers in the history of the world.

"That is not nearly good enough. It is not good enough for America, and it is not good enough to meet the obligations of America to its own people and to the world.

"And that we don't intend shall happen. We have set our sights on the goal of full employment in America and we will not stop until there is a job for every American worker able and willing to work.

"Any lesser goal would be unworthy of America."

CHAMBER OF COMMERCE OF THE UNITED STATES

BY CARL H. MADDEN, DIRECTOR OF ECONOMIC RESEARCH

The opportunity is welcomed to submit written comments on the Economic Report of the President and the Council of Economic Advisers, even though testimony is not possible. As previously, the reports are highly useful and of excellent quality. They contain much helpful economic analysis and information. The appendix tables are convenient and valuable sources of historical data.

The document provides a rationale linking political and economic policy for a wide range of issues. It gives support for economic measures related to production and employment. Comments directed to both of these aspects of the report of most value to the Joint Economic Committee are those regarding the economic outlook, monetary fiscal policy, balance of payments, and issues of the Great Society.

ECONOMIC OUTLOOK

With the economy operating at a high pitch of activity after 4 full years of expansion, the issue of continued stable advance becomes even more important. The gain this year foreseen by the Council, of about 6 percent to a range of $655 to $665 billion for the GNP, is about in line with the judgment of business economists. Whether the economy avoids imbalances and surges that lead to later downturns is complicated by developments in steel inventory stockpiling and in fiscal implications of the 1966 budget.

Planned Federal fiscal stimuli, amounting by some estimates to nearly a $6 billion annual rate in the second half of calendar 1965, combined with expectations for spending by consumers, business, and Government, raise some questions of price stability and sustainability of the advance. Recent credit growth and a workweek of 41.4 hours in manufacturing, longest since World War II, indicate the height of economic activity. Second half increases in Federal spending, proposed excise tax cuts possibly exceeding the President's recommended $1.75 billion level, and increased social security benefits will give a marked stimulus to the economy after midyear. If steel negotiations, now clouded by the confused election results in the steel unions, lead to escalation of wage costs, price stability may well be ended.

Basic strength of production other than steel and autos during earlier business cycles is evidenced by a First National City Bank analysis (FNCB Monthly Letter, February 1965, p. 14). However, for the first half of 1966, fiscal implications of the Federal budget are quite reversed. Further increases in Federal spending and personal income tax refunds are more than offset by increases in social security taxes. This depressive effect of Federal fiscal policy increases the uncertainty as to whether the advance in business will be sustainable in early 1966.

Meanwhile, this year it is less clear than last year that the economy has the manpower and industrial capacity to meet a speedup in demand at stable prices. The confidence of the Council, based upon the concept of potential output, may not give adequate weight to bottlenecks, uneconomic physical capacity, or job vacancy rates in relation to unemployment. Even Professor Galbraith has pointed out before this committee the significance in today's business climate of structural rather than demand-deficient unemployment. Wage price inflexibilities continue to exert particularly unfavorable effects on employment of unskilled and semiskilled workers.

FINANCIAL POLICY OF EXPANSION

The question whether the "quiet economic revolution" was primarily fiscal or monetary is still unsettled. Julius Shiskin (Business Cycle Developments, February 1965) analyzes key economic indicators during cycles and points out it has been an absence of stop-go policies, both fiscal and monetary, that has smoothed the way for the current advance. A practically constant annual cash deficit of $4 to $5 billion combined with a steady rate of change in the money supply contrast with stop-go policies of earlier postwar advances.

Effectiveness of the monetary fiscal policy mix during the current expansion is widely recognized. Broad and early support of the tax cut by the business community sought the cut as a spur to investment, a first step away from wartime tax levels, a needed step toward a balanced tax structure, and a stimulus to consumer and business confidence. Important also to the climate of the tax cut was the fiscal 1965 budget and its emphasis on economy. As the expansion continued, the naive demand-deficiency thesis of tax cut proponents in Government gradually gave way to more solidly based arguments. Grim predictions of officials that delay of the tax cut would hasten economic decline died away. Meanwhile, monetary expansion continued month after month with little interruption.

The truth has been driven home that incentive to private enterprise can yield growth dividends which make real welfare gains possible. This truth is even more important now that the 1966 expansionary Federal budget proposes cash expenditures of $127 billion and a major expansion of Federal welfare expenditures.

BALANCE OF PAYMENTS

The most important problem facing the economy in 1965 is the balance of payments, which raises both policy and technical issues for the Joint Economic Committee. After 4 years of defensive measures and ingenious financial arrangements to meliorate the payments situation and gain time, it is now clear that very little progress has been made in achieving external balance. The problem in a nutshell is that steady surpluses on goods and services account have been insufficient to cover deficits on other transactions, notably Government defense and aid grants, and initially, private investments abroad. The seriousness of the problem stems from the breakdown of international cooperation marked by the proposals of General de Gaulle, the necessity for reducing the gold cover, the lack of agreement here and abroad concerning future international monetary arrangements, and the consequent threat to, if not demise of, the "evolutionary" policy of international monetary cooperation pursued in recent years.

The issue before this committee is whether recent proposals to deal with the balance-of-payments problem are adequate and appropriate as policy measures for a leading exponent of freer international trade and payments, and the leading world currency country.

Doubts have been raised by two witnesses before the committee, Professors Saulnier and Galbraith. Professor Saulnier (February 25, 1965) gave strong reasons for questioning the technical strategy of present balance-of-payments policy. He pointed out that in attacking the payments problem in a literal, item-by-item way, the strong tendency is to " * * * acknowledge the net dollar outflows associated with foreign military expenditures and economic aid, second, to express despair over doing anything to reduce them, and then to turn to private capital outflows as the place to find the required solutions."

Professor Saulnier demonstrated, using the Government-sponsored Brookings study, The U.S. Balance of Payments in 1968, that private captal outflows are a plus, not a minus, in the payments accounts; and that the private capital outflows generate substantial amounts of exports. Therefore, it is highly questionable whether restraint of private investment (voluntary or mandatory) will in fact improve the payments balance. Indeed, the possibility cannot be ignored that reducing private foreign investment may induce deficits in the future.

Professor Galbraith, in his own way, expressed doubts of the workability and equity of voluntary private investment restraints. That he went on to argue for a capital issues committee or other forms of exchange control of capital movements illustrates a grave danger in the policy orientation of selective, voluntary financial controls.

The drift, in other words, of current policy thinking is toward a technically deficient remedy which also reduces the scope of private enterprise. It is difficult to overemphasize the gravity of policy drift toward capital controls. First, Professor Galbraith's proposal illustrates an historical tendency for voluntary controls to become compulsory. Second, a damper on private investment abroad can have repercussions to reduce world trade not only through its economic effects but through its impact on the climate of cooperation among nations. Third, restriction on private capital outflow injects the Government directly into a very large and vital sector of the economy, increasing the degree of Government intervention and influence on economic activity. Fourth, the reduction of private investment abroad reduces the unmeasured but important foreign aid contribution of private investment.

Left unanswered by current policy is the question whether payment balance achieved through voluntary capital controls is in fact payments equilibrium. Even if the pluses and minuses of the bookkeeping indicate a reduced deficit, what is the meaning of the reduction? What is the likelihood that, once controls are lifted, the balance would disappear? What assurance is there that foreign capital markets now hamstrung by restriction would be any more effective and attractive than now, compared to the unparalleled resources of the U.S. capital market?

Item by item, the possibility of further reductions in the payments drain of military and foreign aid should be explored. Without minimizing or derogating defense and aid agency efforts to reduce net drains of current programs, the issue is whether military and aid burdens might not be further reduced. Foreign policy implications are of course involved. But we must continue to negotiate more sharing of European defense and foreign aid needs.

While not widely understood, private capital investment abroad, like foreign aid, stimulates American exports. Capital investment in some part, indeed, is foreign aid, with many favorable secondary effects involved—increased management skills, respect for and competence in private production for the market, and appreciation of the values of private enterprise. The Commerce Department has estimated that in 1963 foreign affiliates of U.S. industrial corporations bought "at least" $5 billion of goods from this country. These exports are an almost immediate favorable effect of American business investment in these affiliates. Not only that, but the return flow of interest and dividend income from our foreign investments, both direct and indirect, has been rising steadily. In his testimony, Professor Saulnier estimated a "net induced (favorable) trade effect for 1964 of U.S. private direct investment abroad" of $1.8 billion in addition to the $4.8 billion of private foreign investment income last year.

Before the administration moves to curb the flow of business capital abroad, it should vigorously increase its effort to persuade our allies to share more equitably our foreign military and aid-grant expenditures. It should also intensify its efforts to reduce tariffs and other barriers to trade, including export subsidies involving discriminatory freight rate differentials, tax rebates, and long-term credit guarantees. In addition, further revision of U.S. tax schedules should be undertaken to stimulate both domestic and foreign investment.

It is heartening that the President's Economic Report states: "Monetary policy must be free of arbitrary restriction. It must be prepared to move quickly * * * if an outflow of liquid funds should unexpectedly worsen our balance of payments." However, monetary policy may be used for longer run payments objectives. This requires narrowing the spread between United States and higher foreign interest rates. Monetary policy acts through, not on, markets; it has positive as well as negative influence on the payments accounts; it helps in holding domestic costs and prices down; and it acts impersonally rather than by official or voluntary discretion. Selective controls essentially attack symptoms rather than causes.

Doctrinaire concern for the impact of higher interest rates on domestic growth means a loss of flexibility of thought over a wide range of domestic and international areas. International monetary cooperation is today lessened by events abroad, and after 4 years of uninterrupted growth the economy is operating at a high level. The financial policy mix of one era need not apply to another. Psychological spillover effects of perpetually easy money cannot be ignored. Rapid credit expansion and assurance that rates of interest will not rise invite market counterstrategy of cost and price rises, shifts into equities, and possible excesses that destroy balanced advance. Extremism on interest-rate policy is two-directional. Too low interest rates may be as dangerous as too high rates.

No one wishes to see economic growth ended or unemployment not reduced to lower levels. The issue is not objectives but methods of attaining objectives. The threat of cyclical instability derives from imbalances during expansion which later work out into excesses that breed downturns. After many years, the criterion for full employment remains ill-formulated, and a slavish reading of aggregate national unemployment rates can itself be misleading. Professor Galbraith's emphases on structural unemployment, and, indeed, the concern of the Council in recent years on this point, both testify to this fact.

FISCAL POLICY

Fiscal policy is also a tool that can be used to deal with the balance of payments. In contrast to the fiscal 1965 budget, the budget for fiscal 1966 is expansionist. Requests in the fiscal 1966 budget for new spending authority (new obligational authority) from the Congress amount to $112.4 billion, including $6 billion put in as supplementary spending requests for fiscal 1965. The cash consolidated budget total comes to $127.4 billions of spending. New legislative requests for welfare spending are admittedly only a start on new programs. Leveling off of defense and space outlays do not offset new spending. And historically expenditures are underestimated and revenues overestimated in Federal budgeting.

The chance that Congress might cut excise taxes more than $1.75 billion and that many new legislative proposals will pass into law raises the prospect of a major change in psychology concerning cost and price rises at home and a major revaluation of expectations about the dollar on the part of foreign dollar holders.

The balance of payments reflects the relative costs, prices, and income links between the United States and the rest of the world. Large dollar holdings abroad give foreigners power to maintain or deduce international confidence in the dollar's purchasing power. Any foreign nation, seeking its own national objectives is, indeed, free to try to persuade trading partners to shift their dollar holdings. These are all elements of the present international climate that cannot be ignored.

Expansionist monetary policy and fiscal policy during recent years have produced steady economic growth with no appreciable progress toward payments balance. If the mixture of yesterday becomes the rigid formula for tomorrow, the threat is unexpected trouble.

Fiscal policy may be used to stimulate private demand through reducing wartime corporate income tax rates to levels more in accord with practice abroad. Reduced corporate tax rates increase profitability and may offset small moves upward in interest rates resulting from cautious and prudent use of monetary policy to discourage investment abroad and entice foreign capital to the United States. Unfavorable domestic income tax rates encourage our capital outflow. The Nation should use all fiscal policy techniques consistent with freedom of enterprise and technical effectiveness to promote economic growth.

Yet the business community has steadily resisted massive public works programs or secular expansion of Federal spending as business cycle solutions. Ever since the genesis of the Employment Act, business has rejected what George Terborgh aptly called "the bogey of economic maturity."

Events have proved stagnationists wrong on many technical counts. They were wrong about the depression after World War II, the leveling of population, the ending of mass regional migration, and the decline of investment-promoting innovation. They did not foresee the impact of the scientific revolution or the advent of the space age. They proclaimed virtues of centralized planning from which Eastern European economists are now turning away.

It is therefore regrettable to note overtones in the Council's report of a neostagnationist outlook. For example, "over the next few years, private demand will need the support of expansionary fiscal policies if we are to attain full employment and realize our growing potential".[1]

ISSUES OF THE GREAT SOCIETY

As in other years, the Council's report contains chapters that have great value in providing perspective on major elements of economic policy and giving them a framework allowing unified and rational evaluation. Chapters on "Strengthening the Efficiency and Flexibility of the Economy" and "Some Economic Tasks of the Great Society" this year perform this function. Comment on these chapters, like that on economic outlook and policy, is provided to highlight issues and questions in the spirit of rational evaluation.

"Our goal," says the Council, "is a free society, where men and women control their own destinies, where they decide for themselves where and how to spend their lives, their incomes, their time—free from governmental or private coercion."

Emphasis on the need to increase the flexibility and efficiency of the market economy is valuable as a contribution to the goal of freedom from coercion. Certainly, more flexibility in our labor force and markets is a goal worth striving for; likewise improved regulation, strengthening of competition, speedy application of civilian technology, and efficiency in Government. Here as in many other areas, there is little quarrel with objectives.

Yet specific proposals to implement these goals reflect repetition of familiar and oft-argued expansion of Government activity into private economic life. Thus we see repeated calls for packaging and labeling controls, regulation of terms of credit disclosure, expansion of the role of the U.S. Employment Service in the hiring process, Federal operation and funding of technical services for industry, Federal credit and a major influence on industrial development in "lagging" regions, and Federal planning and coordination experiments in supply of power.

This is no place to detail arguments against some of these conventional interventionist schemes. Generally, some of them imply that most businesses regularly engage in deceptive practices, that most consumers lack intelligence or knowledge to protect their own interests, and that therefore Government regulation—with all its dangers of redtape, stultifying rules, and entrenched administrative interests—is to be preferred. This doctrinaire and conspiratorial theory of business-consumer relations seems the opposite of a spirit of business-government cooperation or freedom from coercion.

Likewise, expansion of the U.S. Employment Service, with its inherent monopolistic possibilities of domination of a sizable portion

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[1] See 1965 Economic Report of the President, p. 96.

of the labor market, is offered as a way of increasing the flexibility of the labor market. Even in countries with compulsory registration of job vacancies it is widely recognized that private hiring is more effective and quicker. Yet the U.S. Employment Service moves into the college placement field, the professional field, and other fields. And it proposes to collect job vacancy data in each major labor market apparently to enforce its service by a monopoly of job vacancy information. Here, again, it is not clear how such a move represents government-business cooperation or freedom from coercion.

The Council acknowledges many weaknesses of area redevelopment in a refreshing discussion.[2] The scale of assistance has been too small, aid has been too widely dispersed, and some areas chosen were beyond help. Presumably, therefore, counties beyond help will be left to their own devices in the future. The Federal Government will assist larger depressed areas. To paraphrase a well-known author, all depressed areas are equal, but some are more equal than others.

The Council in chapter 4 lays out some economic tasks of the Great Society. In doing so, it hopes for an end to "tired slogans,"[3] which, indeed, is devoutly to be wished. In general the chapter deals with urban problems, rural problems, and poverty. Despite the lack of close relations of some of these issues to the objectives of the Employment Act, the Council's discussion is helpful to all those who wish to explore economic advocacy of coming Federal proposals.

Yet, the last chapter of the Council's report, dealing with the Great Society, is in many ways the most disappointing. It would be unfair to say that the chapter merely establishes that the United States is an urban society, that urban areas have problems, that social investment in education is justified, that health is a good thing and poverty is a bad thing. It is, however, fair to say that the chapter is lacking in the penetration, clarity, and degree of analytical connectedness of earlier discussions.

The chapter does assert, in the beginning, a growing Federal role in urban problems, in education, in health care, in reducing poverty, and in achieving equality of opportunity. Again, reducing urban problems, increasing education, improving health, reducing poverty, and achieving equality of opportunity are familiar goals of the people of the United States. The chapter hardly addresses the issue, much less makes the case, for Federal drives toward solving these problems which have been with us in one form or another for so long.

Indeed, on the one hand, there is left the impression from the concluding section on perspectives that we may find ourselves appreciably better off in the year 2000 if only we maintain the rate of productivity advance of the last 17 years. Given such productivity gains and unchanged working hours and labor participation rates, the Council estimates average family income will reach $18,000.

The curious inconsistency is that on the other hand it is suggested that if, somehow, the Federal Government's role increases, its fiscal policies are expansionary, its regulatory powers are increased, its intervention in the economy tolerated in foreign trade, retail trade, and credit granting—and if we maintain our productivity only at that of the last 17 years—we shall achieve the objective of a free (great) society.

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[2] Ibid., p. 140.
[3] Ibid., p. 145.

COMMITTEE FOR ECONOMIC DEVELOPMENT

By T. O. Yntema, Chairman, Research and Policy Committee

We appreciate this opportunity to present the views of the Committee for Economic Development on the 1965 Economic Report of the President and the Annual Report of the Council of Economic Advisers. We regard this annual review as highly important and have, I believe, an uninterrupted record of annual statements to the Joint Economic Committee since the review was established.

I regret, therefore, that we are unable to respond as we have in previous years. The Research and Policy Committee of CED now has work underway on many of the most important issues raised by the Economic Report. We hope that when these studies are completed, during this year and next, they will be helpful to your committee. However, it is not possible at this time for me to anticipate the outcome of our work.

Perhaps it will be useful for me to indicate what we think some of the relevant questions are.

1. The Economic Report expresses great confidence in the Government's ability to achieve and maintain high employment and rapid economic growth by the use of its fiscal policy. The CED has advocated the use of fiscal policy for these ends in many statements over the past 20 years. We developed the idea of balancing the budget at high employment, suggested advance planning for a temporary tax cut if needed, and recommended in December 1962 a tax reduction of approximately the size that was subsequently enacted. But there is a question whether we have adequate knowledge and decision-making machinery to do the things that are now apparently expected of fiscal policy. The technical difficulty of forecasting what fiscal actions are needed is compounded by the necessity of making forecasts in a political environment. We have also been impressed by the difficulty of carrying any consistent fiscal policy through the decentralized processes of government. Basically, the questions are how to improve information, how to choose the safest course when information is, as it often will be, insufficient, and how to get responsible decisions.

2. The Council's report describes fiscal policy as "a versatile kit of tools." This is probably correct. But we are concerned whether fiscal policy is sufficiently versatile, given the present almost exclusive reliance of the Federal tax structure on individual and corporate income taxes. These taxes cannot be raised without adverse effects on economic incentives and, except in dire emergency, without interminable argument about the relative burdens on a large variety of differently situated taxpayers. They can be reduced with less difficulty, but still not easily because of the struggle over distribution, and only with great uncertainty about being able to raise them again. This problem raises

the question of the possible role in the Federal tax system of a broad-based, low-rate general business receipts tax or consumption tax, which could have powerful effects on revenue without much effect on incentives or on income distribution.

3. The Council's report assigns what will surely seem to some students too minor a role to monetary policy as an explanation of past economic behavior and as an instrument of the future. Also, within the field of monetary policy, attention is focused on the supply of liquid assets and the flow of credit rather than on the supply of money. As you know, the premises underlying this emphasis are by no means settled in scientific discussion, and they have major policy implications.

4. We have now had several years of reiteration of guidelines for wage and price behavior by the President and the Council. However, it still remains unclear whether "guideline" policy is, or can be, an effective means of reconciling high employment and price stability, and at what cost.

5. In its discussion of "Competition and Regulation for a Flexible Market Economy," the Council is, I believe, appropriately open-minded about the kind of business structure that is best for America—more open-minded than the law and the courts seem to be. However, it is surprising that a discussion under this heading does not mention the existence of strong labor unions as a problem for a presumably competitive economy. The fact that there is no consensus and a paucity of constructive ideas on what to do about the problem is not a reason for ignoring it.

6. Events subsequent to its publication suggest that the Economic Report may have underestimated the seriousness of the problem of the international monetary system, for the United States and for the world. There seems to be no good, or even agreed upon, system for adjusting balance-of-payments deficits, in the hard cases, or for financing them while they last.

7. We have now embarked upon the expansion of many present Federal expenditure programs and introduction of new ones for a number of purposes. No one will dispute that the purposes are worthy and perhaps few will dispute that they are proper concerns of government. But the efficiency questions remain. How do we know that proposed programs will make a worthwhile contribution to their intended objectives, or that past programs have done so? This question is hardly raised. Yet it becomes more important as the size of programs increases, as decisions concentrate in Washington far from the affected persons as a taxpayer concern is diluted by the multiplicity of programs. Probably we shall never find a satisfactory objective way to answer this question for all programs, but we should be able to do better.

I hope that these questions, and others they may suggest, will be helpful to the Joint Economic Committee. Your committee has the opportunity to throw light on many of them. We shall try to do so also, within the limits of our resources, and of course any work we do will be available to your committee.

FEDERAL STATISTICS USERS' CONFERENCE

The Federal Statistics Users' Conference appreciates this opportunity to comment on the statistical materials which provide much of the information upon which the President's Economic Report and the report of his Council of Economic Advisers is based.

For a period spanning almost two decades, the Joint Economic Committee has expressed a continuing concern about the adequacy of Federal statistical information used in making policy decisions.

In the late forties it identified the major gaps then existing in Federal statistics. In the fifties the committee sought to avert the worst consequences of the decision to eliminate the economic censuses and, when they were reinstated, began a continuing program of examining major parts of the Federal statistics program in detail. In the course of its examination the committee encouraged nongovernmental users of Federal statistics to join together to discover and define their common interests for information from Federal statistical sources. The Federal Statistics Users' Conference is the result of that encouragement.

Over the past 10 years, the committee has, at various times, scrutinized the Federal Government's statistics relating to—

Consumer anticipations and business intentions.
Commercial agriculture.
Prices.
Employment and unemployment.
The impact of Federal Government activities on the economy.

The committee spurred the Federal Government into paying more attention to the long-range planning of its statistics programs; it has stimulated economy and reduction in paperwork by encouraging more effective use of existing administrative records for informational purposes; and it pushed and persuaded Federal agencies to provide more adequate geographic detail in the statistical information they produce.

As users of Federal statistics we wish to express our gratitude to the committee for encouraging users to formulate their common needs for information, for listening to user views on these common needs, and for the effective contributions you have made in translating these expressions into the substantial improvements which have taken place in Federal statistics over the last several years.

Many of the recent improvements in Federal statistics stemmed from generalized awareness of inadequacies in existing information rather than from the imperatives of immediate policy decisionmaking. This awareness is now reinforced by specific demands for information which Congress has written into the law of the land. For example:

The Federal-Aid Highway Act of 1962 requires each urban area of 50,000 or more population to have in being by July 1, 1965, a continu-

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ous, comprehensive, urban transportation planning process in order to be eligible for Federal-aid highway funds.

The planning process requires each of the urban areas to develop information on a wide variety of subjects, including population, employment by industry, per capita income, and income-consumption patterns.

Title I of the Economic Opportunity Act provides that funds for implementing the purposes of the title shall be allotted among the States as follows:

> One-third on the basis of the relation between the number of full-time students enrolled in institutions of higher learning in each State to the number of full-time students enrolled in institutions of higher learning in all the States.
>
> One-third on the basis of the relationship between the number of high school graduates in each State to the number of high school graduates in all the States.
>
> One-third on the basis of relationship between the number of related children living in families with annual incomes under $3,000 to the number of related children under 18 living in families with annual incomes of under $3,000 in all the States.

Title II of the Economic Opportunity Act provides that funds shall be distributed among the States as follows:

> One-third on the basis of the annual average number of unemployed persons in a State to the annual average number of unemployed persons in all the States.
>
> One-third on the basis of ratio between the number of related children under 18 years of age living in families with annual incomes of under $1,000 in a State to the number of related children under 18 years of age living in families with incomes under $1,000 in all the States.

Section 205(c) of the act also provides that in considering the incidence of poverty in an area of a community, the Director of the Office of Economic Opportunity "shall consider information available with respect to such factors as: the concentration of low-income families, particularly those with children; the extent of persistent unemployment and underemployment; the number and proportion of persons receiving cash or other assistance on a needs basis from public agencies or private organizations; the number of migrant or transient low-income families; school dropout rates, military service rejection rates, and other evidences of low educational attainment; the incidence of disease, disability, and infant mortality; housing conditions; adequacy of community facilities and services; and the incidence of crime and juvenile delinquency." Section 207 allows the Director to use up to 15 percent of community action program money to conduct or make grants or contracts for research, training, and demonstrations.

Section 210 provides that the Director shall establish criteria for distribution of assistance as between urban and rural areas. In developing these criteria, he shall consider relative numbers of low-income families, particularly those receiving cash or other assistance on a needs basis from public or private agencies; school dropouts; adults with less than an eighth grade education; persons rejected for military service; persons living in urban areas as compared with persons living in rural areas as set forth by the 1960 census.

Section 215(a) provides that the allotment of funds to States for adult basic education programs shall be made on the basis of the number of individuals in each State who are 18 or over and have completed less than 5 years of school or have not achieved an equivalent education on the "best and most recent information available to him, including any relevant data furnished to him by the Department of Commerce."

Section 611(a)(1) authorizes the Director to call upon other Federal agencies to supply such statistical data, program reports, and other materials as he deems necessary to carry out his responsibilities under the act.

Section 224 of S. 3 (Appalachian Redevelopment Act of 1965) calls upon the Appalachian Regional Commission to use specific criteria in making program or project recommendations. These criteria include:

Location in an area determined by the State to have the greatest potential for growth.

The population and area that the project serves, including the unemployment rate and per capita income of the people of the area.

The financial resources available to the State and political subdivision which are undertaking the project.

The importance of the project in relation to other projects seeking aid.

The prospects that the project will make a long-range contribution to the economic growth of the region.

H.R. 2362 (Elementary and Secondary Education Act of 1965) provides that basic grants shall be made to local educational agencies based in part on a "low-income factor."

The Commissioner of Education is called upon to determine the number of children 5 to 17 in families having an income of under $2,000 on the basis of the most recent satisfactory information available to the Secretary of Commerce. When requested by the Commissioner of Education, the Secretary of Commerce "shall make a special estimate of the number of such children in each county or school district."

Some of this information is available from the 1960 Censuses of Population and Housing. Some of it is available as output from other programs of the Bureau of the Census, from programs of the Bureau of Labor Statistics, the Office of Education, or the Office of Business Economics. But a substantial amount of this information is not presently available.

DANGER OF DUPLICATION

In most cases neither legislation nor administrative procedures prescribe standards to assure that the information is uniform as among areas. For some kinds of information, the lack of uniform standards may be unimportant in meeting the needs of a specific program. For some kinds of information, as, for example, data pertaining to such matters as population, employment, and income, the national interest in having comparable data, gathered and compiled by standard methods, using common definitions, transcends the immediate needs of any particular program. Such information is so important that steps should be taken to secure data which are comparable from one area to another. Without comparable data there will be no common measure to evaluate the success or failure of specific programs or to decide whether or not the existence, expansion, or curtailment of particular programs should be the order of the day.

To meet the needs of these and other specific programs statistics will be developed. They will be developed at Federal Government expense—even though they may never appear as statistics programs in Federal budgets. They will be developed in scores, even hundreds, of different places out of program funds Congress has authorized and has and will appropriate. They will meet the formal requirements of the law and of administrative procedures applicable to specific program needs; and they will be used. But they will be of differing qualities, they will be expensive, and their collection and compilation will almost surely lead to a considerable amount of duplication.

UNIFORM DATA NEEDED FOR POLICY AND PROGRAM EVALUATION

The urban transportation planning process will call for information on employment by industry, for per capita income, for population, and for income consumption patterns in Milwaukee, Wis. and in Des Moines, Iowa; in Chicago, Ill. and in New York, N.Y.; in Kansas City and in St. Louis, Mo.; and in hundreds of other places of 50,000 or more population throughout the land.

Work-training programs and community action programs under the Economic Opportunity Act likewise rely upon population, employment, and unemployment, and income statistics relating to Milwaukee, New York, Kansas City, St. Louis, and hundreds of other places.

Is it acceptable that population, or income, or employment, or unemployment may be measured in one way in Milwaukee and another in Des Moines?

Is it acceptable that data on employment, or income, or population be gathered in different ways, using different concepts or definition in different areas, or for meeting the requirements of different programs?

JOINT ECONOMIC COMMITTEE CAN PROVIDE LEADERSHIP

We hope that the Joint Economic Committee will exercise vigorous leadership in bringing about a uniformity of approach. Comparability of basic data are important in order that one area may be compared with another, not just for the purpose of a single program, but the purposes of all existing programs and for the purposes of evaluating future policy decisions which involve differential applications of programs according to population, income, employment-unemployment, or educational attainment.

If the committee can secure the development of basic data which are uniform throughout the country, it will promote economy; it will lessen the paperwork burden of respondents to statistical inquiries; and it will assure that public policy decisions are being made on the basis of reliable, comparable information.

SEVERAL CHOICES ARE OPEN

The Federal Statistics Users' Conference offers no prescriptions as to how this should be done. A number of possibilities are open:

The regular decennial censuses of population and housing already exist. They are the basic existing sources for area information and could supply more. The major shortcoming of the censuses for many policy purposes is that they become outdated as changes take place during the decade. Congress has no basis for judging whether implementation of policy decisions is effective as long as there is no recent data to evaluate whether programs are having any effect on situations they were designed to change.

The Federal-Aid Highway Act requirements calls for a continuous comprehensive urban planning process which hardly seems consistent with using census data. The legislative prescriptions for needed information for other programs also strongly suggest that they assume relatively current information.

If, however, an examination of the comparative merits of different approaches should convince the committee that the censuses of population and housing, together with presently available current statistical information, are adequate sources of information, the minimum requirement for making them more useful for future decisionmaking would be to incorporate in them such features as may be necessary to enable them to be used effectively to meet congressional needs. The time for planning the 1970 censuses is at hand, and any specifications to meet congressional needs should be spelled out as early as possible.

A mid-decade census has been suggested as a way of overcoming the objection to the obsolescence of materials from a decennial census. A related proposal has suggested that the whole demographic statistics program should be revised, and that an information system consisting of a decennial census, a mid-decade census, annual surveys of population (with some census-type materials) and current population surveys be developed. This would be about the same kind of program now in effect for statistics relating to business and manufactures. This, too, would call for planning now to inaugurate such a new system with the 1970 censuses.

Expansion of existing current statistical programs is a possibility. The Census Bureau has begun to produce annual population figures for metropolitan areas. (Forty areas are now covered. The 1966 budget asks for $218,000 to expand this work to 30 more areas.)

The Bureau of Labor Statistics and the Bureau of Employment Security, in cooperation with the States, produce employment data with some industry breakdown for 159 labor market areas (metropolitan areas). (The 1966 budget proposes to expand this program to 33 more areas at an additional cost of $266,400.) BLS and the Bureau of Employment Security are working on a program to develop comprehensive current unemployment data for States and local areas. (The 1966 budget contains $347,000 for this.)

The Office of Business Economics has been engaged in a program of developing income and employment data for small areas for analytical purposes based on existing information. Together with the benchmarks of the censuses, and more effective use of administrative records, a speedup and further expansion of this effort may turn out to be the most economical way of meeting information requirements specified in various recent legislative enactments.

More effective and imaginative use of administrative records and other available information has been an important means of improving Federal statistics during the past decade. More can be done to produce new information from these sources. County Business Patterns was an early development of this kind, using social security records. Similarly, the expanded use of income tax returns has been a major contribution to improved area income information. While these materials have some inherent limitations, they may prove to be an extremely important source of further statistical improvements because they do not involve new surveys and new paperwork. The Bureau of the Census is presently engaged in examining these possibilities. The Bureau's efforts are worth examination by the committee to determine whether this approach holds sufficient promise to warrant an early expansion of the current explorations.

State and local governments might be provided with technical assistance to assure that basic data developed locally are collected and compiled using uniform definitions and a common methodology.

Steps should be taken soon to assure a degree of uniformity in the statistical information gathered as a consequence of new programs. Otherwise, it will be too late and the Nation will be paying for information which has limited usefulness, in limited areas, for limited purposes.

A related but somewhat different problem—the need to provide a coordinated store of information of common interest and importance to the administration of different programs authorized by law to operate in the same general field of endeavor—is also worthy of your early attention. A most compelling example of this need can be seen as a result of the rapid expansion of manpower training programs in recent years.

Vocational education, apprenticeship training, training under the Manpower Development and Training Act and under the various provisions of the Economic Opportunity Act all bear witness to the congressional desire to equip our citizens to fully participate in the growing economy. Wherever each of these programs is now going forward, it is related to present and anticipated future needs for trained workers of different kinds in the area. But there is no central storehouse in each area to bring together all the information on the number of people being trained in each program to meet these needs. It would be tragic to find out sometime in the future that the public purpose of training and educational programs has been frustrated in part simply because available information has not been pulled together in a central place.

In addition to these problems which are directly related to information requirements associated with specific programs, there are a number of other statistical matters which deserve your early attention:

The Balance of Payments Statistics Review Committee has completed its work. It is our understanding that its report will be made public within the next month. We hope that the committee will give this important report the same careful attention which it previously has extended to reports on the national economic accounts, price statistics, and employment-unemployment statistics.

The Bureau of Labor Statistics and the Bureau of Employment Security are asking for a total of $3,005,000 to make the proposed job vacancy survey operational in 150 labor market areas even though the experimental work now going on has not yet been fully evaluated. This survey when it becomes operational will be widely used and widely quoted. It will figure in political policy discussions, arguments, and decisions. It will be surrounded by controversy, and it would be both disastrous for this program and dangerous for statistics programs generally if it tended to become discredited because of broad disagreements as to concepts. No other statistics program of comparable size and importance has been pushed forward so rapidly and with so little consideration of possible pitfalls.

This is a program which the Joint Economic Committee has supported. We urge you to take a careful look at the present status of the experimental work on job vacancies and to consider the desirability of postponing the operational phase of this program for a year. The Nation can afford to spend money on statistics, but it cannot afford to launch what will be a $5 million program on the slender underpinning so far provided by the experimental work on job vacancies.

The report of the Council of Economic Advisers already reflects the loss of essential data from the elimination of the national housing inventory by Congress last year. In trying to evaluate the present housing stock and housing demand (pp. 48–49) the Council's report is vague where it should be clear. Like everyone else, the Council has information additions to the housing inventory since 1960. But it doesn't know how many housing units have been destroyed over the past 4 years. According to the Council, the evidence "suggests that losses from demolition are now substantially larger than in the 1950's," that "it is probable that the net housing stock has grown more rapidly than the number of households, creating a considerable volume of vacancies or abandonments," but that "there is no evidence that any serious surplus has occurred in the types of housing units or the areas where most new building occurs."

The opportunity to get a mid-decade benchmark on components of change in the housing inventory is gone. There is, however, an opportunity to improve current information on housing demand. The budget contains an estimate of an additional $1,100,000 for HHFA urban studies and research, most of which would go for housing demand statistics.

This program has been urged by the President in each of the last three budgets. Congress has never seen fit to support it. The committee may wish to give particular attention to this program at this time in the light of the important role housing construction plays in the Nation's economy, in the light of the committee's responsibilities, and in the light of the obvious lack of information on current housing demand.

Last year the conference questioned whether existing information on American agriculture is adequate for the purpose of appraising policy alternatives. We repeat that question this year.

The question has more urgency now, for agricultural policies are receiving greater public attention than they did a year ago.

"Income per farm" has long been a basic concept used in considering questions of policy related to farm income. Its shortcomings have been known for years. In an effort to "throw light on the changing size and income structure in agriculture," the Department recently published a number of tables showing distributions of the number of farms and realized gross and net income of farm operators from farming based on size class of the value of sales (November 1964 "Farm Income Situation").

These figures are an improvement, but even they fail to show that over 200,000 of the 806,000 farm-operator families whose farms grossed more than $10,000 in 1959 had under $3,000 per year cash income in that year. And it is difficult to assess the significance of a reported figure for off-farm income per farm-operator family for these farms when perhaps 25 percent of these families did not report off-farm income.

Discussions about farm income, farm policy, rural poverty, and the like are bound to become more intense. They will generate a great deal of heat in any event. Perhaps this is a good time to make a serious effort to see if the data can supply more light as well.

Last year, the conference concluded its statement with the following paragraph which we would like to repeat:

"There is a real need for better guidelines for the development of Federal statistical programs over the remaining years of this decade. The Joint Economic Committee is particularly well equipped to make a significant contribution to this end. We hope that your crowded schedule will permit you to undertake at least a beginning to this task this year."

THE INDEPENDENT BANKERS ASSOCIATION

BY LEE M. STENEHJEM, EXECUTIVE VICE PRESIDENT

The Independent Bankers Association is pleased to respond to your invitation, of February 25, to make a statement for the record of the Joint Economic Committee's report to the Congress, in connection with the 1965 Economic Report of the President, including the annual report of the Council of Economic Advisers.

In addition to the public hearings that your committee has just concluded, in its busy 6-day schedule of the past week, we welcome inclusion among the banking, business, labor, agriculture, and consumer organizations you have asked to submit counsel, fact, and comment.

Our comment, in this instance, will be addressed to the areas in the President's report, and that of his economic advisers, that encompass the particular problems of agriculture and rural America, in which our members, as independent, country bankers, have considerable special knowledge, understanding, and concern.

Our association's agriculture committee has been studying the problems growing from the imbalance of income on the farm and the rural communities throughout America, that have not shared in the general prosperity of most segments of our people.

The committee chairman, Russell Hanson, vice president, Swift County Bank, Benson, Minn., has been supported in committee studies and research by two former committee chairmen, Pat DuBois, president, First State Bank, Sauk Centre, Minn., now an IBA vice president, by V. E. Rossiter, Sr., president, Bank of Hartington, Hartington, Nebr., and by the nine other members of his committee, from six States of the midwestern farm belt, Minnesota, South Dakota, North Dakota, Iowa, Nebraska, and Kansas, and from Texas and New Hampshire.

These committee members, possessed of a wide range of knowledge and understanding of farm income problems, inasmuch as there is no one who knows the farmer and his problems like his banker, include:

D. Wayne Meyer, vice president, Peoples State Bank, De Smet, S. Dak.

O. K. Anderson, president, State Bank of Lakota, North Dakota.

Stephen Garst, vice president, Iowa Savings Bank, Coon Rapids, Iowa.

H. L. Gerhart, Jr., vice president, First National Bank, Newman Grove, Nebr.

E. E. Manuel, president, George State Bank, George, Iowa.

Harry E. Rash, president, First State Bank, Thayer, Kans.

W. T. Richards, president, First National Bank of Hutchinson, Minn.

Frank A. Spring, president, Friona State Bank, Friona, Tex.

Edgar S. Winslow, assistant vice president, Concord National Bank, Concord, N.H.

After first committee meetings, held in Minneapolis some time ago, and other sessions, held here in Washington, February 10 to 13, during which latter time committee groups discussed their concerns and philosophy with Vice President Humphrey, Secretary of Agriculture Freeman, and members and staff of the President's Council of Economic Advisers, the committee has summarized its views and positions.

It is my privilege to present these views and positions for the record of your Joint Economic Committee report to the Congress, not as a fixed position of our entire Independent Bankers Association membership, which has not been recently polled on farm matters, but as the honest and sincere expression of members of this informed and earnest committee, who have special knowledge of farm economics, and special concerns for the future of our rural economy. I have participated, with our committee, in its studies and deliberations, and approve the statement.

The statement follows:

"Should the disaster of the thirties seem remote in these soaring sixties, remember that the lengthening shadow of the great depression went unnoticed as America danced its way through the roaring twenties.

"Depressions have always had their beginning at a peak of prosperity, and they always are farm led and farm fed."

It is now apparent that the mistakes of the twenties are being repeated. Commercial banks are loaned up to historically high levels in ratio to available deposits. The easy money of the sixties has made us a seemingly affluent society and we are now reaching for the Great Society.

But those who see a bright future for America apparently are not aware of a new shadow that has crept over the horizon. The most significant feature of the American economy today is this: Rural banks cannot much longer continue to supply the credit needs of rural America. Since 1951, farmers have been using credit as a substitute for earned income because of depressed agricultural raw material prices.

Since the inception of its agricultural research program 3½ years ago, the Independent Bankers Association has warned repeatedly that such credit could not continue indefinitely. The association has urged that action be taken to revive the economy of rural America before the point of no return was reached, but the downward drift has been allowed to continue.

The association now finds it necessary to caution its member banks to be concerned with the quality of their loanable assets. Country bank loans to farmers are dangerously close to deterioration.

The IBA is not alone in its concern.

At the recent convention of the American Bankers Association, the ABA urged a retreat from easy credit. In a convention resolution the ABA said "it is difficult to find justification for the degree of ease which now prevails in credit markets."

Insurance companies, and large as well as small lenders, are voicing the same caution. Similar experiences are being reported by the production credit associations and by the Farmers Home Administration. It has been said that unless corrective action is taken soon, the FHA will one day be known as the graveyard for bankrupt farm loans.

Firsthand experience of bankers throughout rural America show farmers holding assets of uncertain value which appear to support bank loans as collateral. The farm borrower continues to demonstrate excellent integrity. But his house falls in when his integrity and assets are measured against the profit entry on his operating statement. There just isn't enough left to make a dent in his debts.

In case after case, depreciation transfers are completely used up in paying operating expenses or providing food, clothing and other bare essentials for the farm family.

Rural bankers believe we have been building our economic future on a weak foundation. Our facade of prosperity has been achieved at the expense of the producers of agricultural raw materials.

We have not constructed true economic wealth at all, but a will-o'-the-wisp prosperity in which some segments of the economy have been fattened by feeding upon another. Since the land represents the beginning point of our country's wealth, such prosperity can only be temporary. It will eventually fall of its own weight.

In the absence of adequate profits in agriculture, essential to reduction of ever-increasing debt, the time approaches when banks will have to terminate credit availability to thousands of farmers in rural America. This will force liquidation of numerous farm units and subsequently the destruction of thousands of rural businesses that serve farmers.

One result will be the loss of a market for an important portion of our total output of goods and services. This indicates a cutback in industrial production and an increase in unemployment. Whatever gains can be made through the administration's antipoverty program will be more than canceled out by the inability of the rural population to earn a living.

And remember—some 30 percent of the U.S. population lives in rural communities of 2,500 and under and on the farms surrounding them.

Because net farm income has declined while the income of other segments of the economy has soared to record levels, the farmer has been caught in a cost-price squeeze. The result has been a drop of more than 3 million in agricultural employment since 1949. This would seem to have been the source of a large percentage of the total unemployment today. It is now contributing more to the poverty of the Nation than any other single factor.

In the face of this, the prevailing economic philosophy calls for the elimination of 2½ million additional farmers. These would not just be the "little inefficient farmers." They would be a broad category of farmers—large and small alike.

We have apparently overlooked the most obvious answer to the unemployment problem. An expanded rural economy would slow down the outmigration of farmers. It would create an expanded rural labor force, both on the farm and in the rural communities.

Government figures show that the largest pocket of poverty in America today is in the rural areas.

The farmer is in a state of economic depression because he is not getting a fair price for his production; that is, farm raw material prices are not in balance with the prices of other segments of the economy.

The situation has occurred not because of any inexorable laws of economics, but because important political and business interests have served to gain from maintaining farm raw material prices at depressed levels.

Our profit-started rural economy has been dependent on massive doses of credit every year since 1953. This credit will one day have to be repaid. When we do this we will deprive the market in some future years of the income necessary to consume our annual production at a profitable price level.

The farmer has been using credit to keep his head above water. His borrowing always is in anticipation of future profits, but the sad fact remains that repayment often is made from liquidation of assets accumulated in prior years.

There is a limit to the amount of credit that is available in the United States. Expanded credit cannot much longer serve as a substitute for adequate earnings in agriculture.

Ten thousand banks collapsed between 1931 and 1934 because of the necessity for rural bankers to withdraw loanable funds from agriculture. The reason the bankers were compelled to collect farm loans at an accelerated pace was severe underpayment for agricultural raw material production.

To prevent a repetition of this catastrophe, we recommend that the Federal Government give the same attention to farm prices that it has given to civil rights, the war on poverty, tax reduction, and other priority measures.

If farm prices are restored to relative balance with the rest of the economy, we can achieve a huge bonus of output and income by making full use of all of our resources and raw material, human and financial. We can provide full employment, full plant capacity, balance the budget, and commence retirement of the national debt.

MACHINERY & ALLIED PRODUCTS INSTITUTE

INTERNATIONAL OPERATIONS

A capsule view of the scope, effect, and balance-of-payments implications of U.S. direct manufacturing investments abroad

INTRODUCTION

Despite the impressive performance of the U.S. economy and a continuing substantial trade surplus, the U.S. dollar has been subject to renewed attacks in recent weeks. This is of course in major part due to U.S. commitments abroad in the form of military and economic aid and to the continuing and substantial accrual of dollar holdings by foreign governments. In the light of the present imbalance in the U.S. balance of payments, no doubt we can again look forward to the reopening of a Pandora's box of administrative and legislative mechanisms in an attempt to cushion the impact of these imbalances.

Although there are a number of alternative courses of action, unfortunately, some type of control—either by the United States or foreign nations—on U.S. direct private investment abroad will probably be among those items on the priority list for consideration. This is notwithstanding the fact that both from the standpoint of public policy and commercial considerations there are positive net advantages to encouraging such investment. In brief:

(1) The effect of discouraging direct private investment abroad would be to worsen rather than to improve our balance of payments over the longer run.

(2) Direct private investment overseas serves in many instances to maintain domestic employment at a higher level than would be the case without such investment and, in other instances, failure to invest abroad will not save domestic employment but will result in loss of markets to foreign competitors.

(3) Since timing is frequently crucial to the success of any business venture, even the temporary prohibition of, or limitation on, private investment abroad could seriously disrupt established business plans and by such disruption adversely affect the competitive strength of domestic companies involved.

(4) The solution, therefore, is not to discourage foreign investment but rather to encourage domestic investment by making the U.S. economy more competitive.

In an earlier study, "Private Investment Abroad—Public Policy and Commercial Considerations, Federal Tax Implications" (March 1961), the institute set forth these views based on the data then available. They are even more strongly documented today with the release of official data for 1963. Accordingly, it is timely again to call the attention of the Federal Government to the constructive role played by U.S. direct private investment abroad. This presentation undertakes this task, giving primary attention to the role of manufacturing investments.

OBJECTIVE OF STUDY

The huge increase in U.S. manufacturing investments abroad within the past decade reflects the rapidly growing role played by American industry in world markets. While considerable information has been made available indicating the nature and impact of these investments, there has been to our knowledge no effort to provide such information in a single comprehensive summary. It is the purpose of the present study to fill this gap, reviewing in broad terms the scope and effect of direct foreign investments—primarily manufacturing investments—and giving specific attention to their impact on the U.S. payments balance and the general competitiveness of U.S. manufacturers. The focus is on the years 1957—the first year for which much of the data are available—and 1963, and the extent to which the pattern of investment activities has changed in the interim.

U.S. INVESTMENTS IN MANUFACTURING ABROAD

The book value of U.S. investments in all manufacturing facilities abroad rose from $7.9 billion in 1957 to $14.9 billion in 1963, an increase of almost 90 percent. Net new investment (i.e., additions to book value) in oversea manufacturing facilities which totaled approximately $950 million in 1957 were some $1,600 million in 1963.[1]

The value of U.S. investments in machinery facilities abroad totaled $1.7 billion in 1957 and $3 billion in 1963, an increase of more than three-fourths. Net new investments in foreign machinery facilities averaged $188 million in 1958–59 and totaled $271 million in 1963.

RETAINED PROFITS AND OTHER SOURCES OF FINANCING FOR FOREIGN MANUFACTURING INVESTMENTS

Retained profits of manufacturing investments abroad increased from $525 million in 1957 to $644 million in 1962. They accounted for 55 percent of net new investment in 1957 and 53 percent in 1962. Funds from the United States accounted for the remainder totaling $425 million and $571 million in 1957 and 1962, respectively. In 1963, however, retained profits rose sharply to $1,063 million and accounted for 66 percent of net new investment as funds from the United States declined to $559 million.

There are no data breaking down U.S. capital outflows as between capital invested in new enterprises and investments in existing establishments. However, certain other data are at least suggestive in this connection. As already noted, new capital flowing from the United States into manufacturing enterprises abroad rose substantially through 1957–62 from $425 million to $571 million. Remittances to the United States also grew throughout this period, rising from $471 million in 1957 to $871 million in 1962. The increase in the outflow of U.S. funds at the same time that remittances were increasing sug-

[1] Minor conceptual differences between two Commerce Department series relating to U.S. investment activity abroad and certain bookkeeping adjustments have resulted in small differences between retained profits plus funds from the United States on the one hand and net new investments on the other.

gests that a substantial portion of this new capital was flowing into new or recently established enterprises while remittances were flowing back from more seasoned establishments.

Interestingly, however, new funds flowing from the United States declined in 1963 while plant and equipment outlays increased and net working capital rose sharply. As a consequence, a large portion of profits was reinvested and income remittances to the United States declined. Thus, even though earnings which had risen from $996 million in 1957 to $1,515 million in 1962 rose further to $1,768 million in 1963, remittances declined in 1963 to $705 million from $871 million in 1962.

The decline in the flow of new capital from this country combined with a sharp rise in capital requirements, particularly working capital requirements, suggests that, in contrast to earlier years, much of the increase in investment activity in 1963 was related to existing plants which were becoming seasoned and relatively less to the establishment of new operations. Whether this presages a leveling out or declining trend in new U.S. manufacturing establishments abroad remains to be seen.

It should be noted, finally, that while there has been considerable variation both in the supply of new U.S. capital to operating affiliates and dividend remittances from those affiliates during 1957–63, remittances have exceeded outflows throughout this entire period.

Sources of financing.—Internal sources of capital available to companies include, of course, depreciation in addition to retained profits. External sources may be broken down into funds obtained from the United States and capital obtained abroad. U.S. manufacturing companies have resorted to external financing to meet almost one-half of their foreign manufacturing requirements during 1957–63. Total sources of financing for direct manufacturing investments abroad were $2,067 million in 1957, $3,135 million in 1962, and $4,059 million in 1963. Forty-nine percent of the financing ($1,003 million) was external in 1957, 47 percent ($1,479 million) in 1962, and 45 percent ($1,826 million) in 1963. U.S. capital represented 42 percent ($425 million), 39 percent ($571 million), and 31 percent ($559 million) of external financing in 1957, 1962, and 1963, respectively.

As to the breakdown of internal financing, depreciation allowances gained somewhat in importance between 1957 and 1963 despite the rapid increase in total financial resources, growing from 26 percent to 29 percent of total sources, while retained earnings rose slightly from 25 percent to 26 percent. The increased importance of depreciation can be explained by the rapid growth in depreciable assets during 1957–63 and also by liberal tax depreciation which has encouraged the adoption of accelerated depreciation practices. Accelerated depreciation, of course, leads to a more rapid accrual of allowances when corporate outlays are expanding.

Adequacy of internal financing.—Despite the increase in depreciation allowances noted above, internal financing by direct manufacturing investments abroad has not generally been adequate to cover outlays for plant and equipment. Internal funds covered only 79 percent of the cost of plant and equipment in 1957 (which totaled $1,347 million) and 85 percent of such costs in 1962 (which totaled $1,941 million). However, there was a sharp rise in the percentage in 1963 to 104 percent (of $2,153 million). This may reflect the fact, as already noted, that less capital went into new manufacturing establishments abroad in 1963 and a larger portion of foreign manufacturing establishments was "seasoned" so that foreign manufacturing investments in the aggregate were better able to finance their capital requirements from their own internal sources.

SALES BY FOREIGN MANUFACTURING INVESTMENTS

Sales by U.S. direct manufacturing investments abroad totaled $18,331 million in 1957 or $2.32 per dollar of book value and $31,317 million in 1963 or $2.10 per dollar of book value. Of these sales, exports to the United States totaled $1,093 million in 1957 and only $1,092 million 6 years later in 1963. This slight decline in sales to the United States while total foreign sales increased by more than 70 percent strongly suggests that there has not been an adverse effect on domestic sales from U.S. manufacturing investments abroad. On the contrary, the net effect has been favorable insofar as U.S. exports have benefited as noted below.

Machinery sales by U.S. direct investments abroad totaled $3,950 million in 1957 or $2.32 per dollar of book value, and $6,531 million in 1963 or $2.18 per dollar of book value. Of these sales, machinery exports to the United States were $93 million in 1957 and $117 million in 1963.

The decline in sales per dollar of book value for both all manufacturing and machinery facilities suggests that new investments have proceeded at such an accelerated pace since 1957 that a larger proportion of them have not yet become fully productive.

U.S. TRADE WITH FOREIGN MANUFACTURING AFFILIATES

Estimated total exports [2] by U.S. manufacturing companies to foreign manufacturing affiliates were $3,221 million in 1963; in addition, U.S. manufacturers shipped $1,221 million to foreign distributing affiliates. These figures are actually understated to some extent since many parent companies could not identify sales to affiliates by other than themselves. Of the $3,221 million in estimated sales to foreign manufacturing affiliates, shipments to machinery manufacturers were $871 million. A breakdown of this same total by type of export shows that $1,252 million in shipments was for processing or assembly, $1,086 million was for resale without further manufacture, $102 million comprised capital equipment, $33 million was other exports by the parent company, $530 million was shipments by other than the parent company (although this figure is understated for the reason noted above), and $219 million represented sales by affiliates on a commission basis with shipments going directly to affiliate customers.

The fact that more than one-third of total sales comprised "resale without further manufacture" is indicative of the beneficial effects of foreign manufacturing investments in promoting export sales by parent companies to unrelated companies of goods presumably not manufactured by the affiliates. This is in addition to the large volume of sales generated as the result of the affiliates' own direct requirements.

[2] Based on an expansion of sample returns.

Of the $1,221 million in U.S. manufacturers' sales to foreign distributing affiliates, $77 million was for processing or assembly, $928 million was for resale without manufacture, $42 million was capital equipment, $1 million represented other exports by the parent, $60 million was exports by other than the parent company (again this figure is understated), and $173 million represented sales by foreign affiliates on a commission basis with shipments going directly to affiliate customers.

Exports to foreign manufacturing affiliates were the equivalent of some 9 percent of total sales by these affiliates in 1963. Shipments to machinery manufacturing affiliates abroad were the equivalent of 13 percent of sales by those affiliates.

Finally, exports to affiliates abroad by U.S. manufacturing companies totaled one-third of total exports of selected manufactured and semimanufactured products in 1963. For purposes of comparison, this selection was designed to cover a range of goods roughly comparable with those produced by the foreign affiliates.

EMPLOYMENT BY FOREIGN MANUFACTURING FACILITIES

Unfortunately, there are no current figures showing the volume of employment generated by foreign manufacturing investments. The latest figures were developed in a Commerce Department census conducted for the year 1957. Companies responding to the census provided on a voluntary basis data on the number of persons they employed abroad, including a breakdown of employees between supervisory, professional and technical personnel on the one hand and "other" personnel on the other. Reporting companies employed a total of 1,942,000 persons. Based on wage data which were required from all respondent companies, the total number of persons employed by all direct foreign investments in 1957 was estimated at 3,200,000.

Of the 1,942,000 employees reported, 1,053,000, or 54 percent, were in the manufacturing sector. Of the 1,429,000 employees classified according to type of employment, 178,000, or 12 percent, were classified as supervisory, professional and technical personnel, the rest being placed in the "other" category. Of supervisory, professional and technical personnel, 14,000, or 8 percent, were sent from the United States. Of other employees, only 1 out of every 250 was sent from the United States.

No comprehensive data are available indicating the impact on U.S. employment of direct investment abroad, although rough estimates were attempted during the hearings on the Revenue Act of 1962.

DIRECT FOREIGN INVESTMENTS AND THE U.S. BALANCE OF PAYMENTS

In discussing the balance-of-payments impact of investments abroad, we shall consider the impact of direct foreign investment generally and then turn our attention more specifically to the effects of manufacturing investments based on recently published data.

First, it is essential to distinguish, in the balance-of-payments accounts, between direct foreign investment capital and other capital outflows, both private and governmental. In the Government's balance-of-payments accounts, direct foreign investment refers to capital funds which are invested directly in plants and factories overseas. An investment is typically considered a direct investment where a U.S. company holds equity of 10 percent or greater although there are exceptions to this rule. Private capital may also flow abroad to be held in the form of gold or bank deposits, or to be invested in foreign securities (other private investment). Where a company holds equity of less than 10 percent the investment is treated as a portfolio investment and included under other private investment. Finally, the bulk of Government capital outflows includes Government credits for the disposal of agricultural products overseas and other credits to foreign countries.

Analysis of each of these accounts separately demonstrates clearly the extent to which U.S. direct foreign investments have provided a favorable element in this country's balance of payments.

Direct foreign investment.—Earnings returned to the United States from direct private investment overseas have exceeded net capital outflows into such investments in every year since 1950. Since 1957, they have, in the aggregate, exceeded outflows by some $6.7 billion.

Other private investment.—Looking at other private investment, repatriated earnings have exceeded net capital outflows in only 1 year since 1950, and the aggregate deficit since 1957 has been about $8.6 billion.

Government capital.—Repatriated earnings on U.S. Government capital have been exceeded by net Government capital outflows in every year since 1955. The aggregate deficit since 1957 has been $4.5 billion. It should be pointed out, in fairness, that this includes Government credits for the disposal of agricultural products overseas, and these earn no interest. At the same time it excludes Government grants which totaled $4.4 billion in 1963 alone including $2.7 billion of nonmilitary grants.

Thus, confining our attention to this sector of our balance-of-payments accounts, we find that there was a net deficit of $6.4 billion during 1957–63 as a result of net capital outflows into foreign investments in excess of income from such investments. Were it not for a surplus of approximately $6.7 billion from direct private investments abroad, a deficit of twice that amount would have accrued during this period.

Effect on payments balance of transactions with manufacturing affiliates.—Giving more specific attention to the manufacturing sector, and relying on recently published data of the U.S. Department of Commerce covering the year 1963, we find that the balance-of-payments impact of U.S. transactions with foreign manufacturing affiliates of U.S. companies was strongly favorable. U.S. receipts from affiliates totaled $4,227 million including the $3,221 million in merchandise exports mentioned earlier, $660 million in dividends, interest, and branch profits, and $346 million in royalties and fees. Payments to the same affiliates totaled only $1,808 million, including $1,092 million in merchandise imports and $716 million in net capital outflows. The resulting surplus was $2,419 million.

CONCLUSION

From the data presented, it is obvious that the net effect of U.S. direct private investment abroad is favorable to the U.S. balance of payments. Not only is this the case in the long run—which is generally admitted—but it has been true for the recent period during which we have been concerned over our deficits. The facts stand out as follows:

(1) While there has been considerable variation both in the supply of new U.S. capital to operating affiliates and dividend remittances from those affiliates during 1957–63, remittances have exceeded outflows throughout this entire period.

(2) During the period 1957–63 when total foreign sales of U.S. direct manufacturing investments abroad increased by some 70 percent, there has been no increase in their sales to the United States and thus no adverse effect on domestic sales from U.S. manufacturing investments abroad.

(3) Foreign manufacturing and distributing affiliates of U.S. manufacturing companies accounted for $4,442 million in exports from the United States in 1963.

(4) Earnings returned to the United States from all direct private investment overseas have exceeded net capital outflows into such investments in every year since 1950. Since 1957, they have, in the aggregate, exceeded outflows by some $6.7 billion.

We submit that to restrict—or to permit to be restricted—U.S. investment abroad will not only kill the goose that lays the golden eggs but will serve to deplete our store of golden eggs as well.

NOTE.—This summary was undertaken after a review of various U.S. Commerce Department publications for pertinent investment data and discussions with officials in the Commerce Department's Balance-of-Payments Division, the U.S. Bureau of Census, and the Bureau of Labor Statistics.

THE NATIONAL ASSOCIATION OF MANUFACTURERS

Our reaction to the administration's economic reports is a mixture of a number of sentiments. We share the administration's satisfaction with the continuous and rapid economic growth of the past 4 years which has carried the domestic economy to record levels of output and income. We are doubtful, however, of the pervading thesis that demand-stimulation, through fiscal policy, is the chief explanation for this past growth and the key to future growth.

We are puzzled at the calculations presented in these reports [1] indicating that there has been no perceptible narrowing of the gap between actual and potential output since about mid-1962. Why, if demand stimulation has all the power it is supposed to have, has this underutilization of resources persisted?

Finally, we would have preferred that these economic reports deal with the fundamental long-standing causes of our balance-of-payments deficit, instead of relying on temporary expedients to meet the immediate crisis.

In what follows we will present first a critique of the administration's demand-stimulation approach to insuring future prosperity, and second an outline of the program which the National Association of Manufacturers believes offers the best hope of achieving that result.

THE ADMINISTRATION'S PROGRAM

Fiscal policy

The chief tool of economic policy on which the administration places its faith is fiscal management. The reports are pervaded with the belief that a properly conceived and skillfully managed Federal fiscal policy can provide the Nation with continuous prosperity and growth. It is conceded and even emphasized that other economic factors, monetary policy and wage-price trends for example, have an important influence. Their function however is pictured as decidedly subsidiary—being largely that of not getting in the way of fiscal policy as the primary means to prosperity.

The reaction of a business-oriented observer to this theme cannot be entirely negative. Fiscal policy is important to the prosperity of the country. Who would deny that an onerous tax system can create a drag on economic growth and employment?

There are relatively few "musts" presented in these Economic Reports. They rather set forth conceptions as to how the economy is influenced by Government fiscal actions, and the directions expanded Government programs might take. The specific application of these conclusions in the longer run future is left to be determined by the circumstances which will arise.

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[1] See chart, p. 82, Economic Report of the President, together with the Annual Report of the Council of Economic Advisers, January 1965. Subsequent page references to the same document.

But for that very reason, it is well to take a close look at the general principles here set forth. If they are faulty we might find ourselves drifting in a wrong direction.

On fiscal policy, the administration states its view as follows (p. 62):

"The basic task of Federal fiscal policy is to help to provide a total market demand for goods and services that neither exceeds nor falls short of the economy's productive capacity at full employment."

This contrasts with the older view that the function of fiscal policy is to provide the revenue needed to pay for essential Government activities, in the manner which is least disruptive to the private economy.

The statement quoted above is phrased in general terms—allowing for the possibility that fiscal policy may be needed as a restraint on demand at some times and a stimulus to demand at others. However, elsewhere in the reports (p. 33) it is argued that during the next few years we are "* * * likely to face the continuing challenge of providing stimulus to markets rather than of restraining excessive growth of demand."

Stated more baldly, what this means is that for some time it will be desirable for the Federal Government to add to aggregate demand (by spending) more than it detracts (by taxation)—in other words to run a deficit. Apparently the proper size for the deficit is to be determined solely by the need to counterbalance a deficiency of demand in the private sector. Considerations of fiscal responsibility appear to be relegated (p. 33) to the category of outdated "* * * inhibitions imposed by traditions, misunderstanding, and doctrinaire polemics."

If the job ahead for fiscal policy is to add to aggregate demand then, by this philosophy, that result may be achieved in either of two ways—Government spending may be rasied or taxes may be reduced. The Report of the Council of Economic Advisers discusses these alternatives, but concludes (p. 98) that: "The criteria for this choice are not primarily economic." In other words the division of "fiscal stimulus" as between increased spending and decreased taxes will simply have to be made on a pragmatic basis as time goes on. As far as the economic objective of promoting full employment is concerned, one alternative is as good as the other.

This is quite different from the position taken by the National Association of Manufacturers, whose official policy states: "The Federal revenue gain from economic growth should not be used to support additional public spending but should be anticipated and preempted primarily for tax reduction." This stance is based on the conviction that tax reduction promotes prosperity and growth not so much through its effects on aggregate demand as through its effects in increasing the incentives, and the capital available, for expansion of private enterprise.

One may question the basic theory of the administration reports; namely, that fiscal policy can and should be used as a tool for equating aggregate demand with aggregate supply, thereby bringing about an economic balance. Isn't it rather a function of the competitive price system to equate supply and demand both in product markets and in labor markets? It is true that barriers to the free operation of the price-wage mechanism may interfere with this process—as when the jacking up of wages costs by unions or by minimum wage legislation leaves part of the labor supply unemployed. But is it the function of general fiscal policy to provide remedies for problems created by such nonfiscal situations?

And does fiscal policy as such really affect aggregate demand in the simple direct manner assumed by exponents of the new economics? A Federal deficit does not add to the purchasing power in the hands of the public unless it is monetized. Where the Federal Government finances its deficit simply by borrowing from its citizens purchasing power which had already been in their hands, it is hard to see how any net addition to demand occurs. There is simply a transfer of purchasing power from citizens to Government.

If the deficit is financed directly or indirectly by expansion of bank credit, the case is quite different. The increase in bank credit is matched by an expansion of the money supply in the hands of business firms and individuals. The increased purchasing power can, then, be presumed to raise the level of demand.

But, in such a case, the rise in the level of demand then must be regarded as the result of the expansionary monetary policy which permitted monetization of the deficit, rather than the fiscal policy which created the deficit in the first place.

The distinction just mentioned may seem a subtle one, but it is important in present circumstances. Our national commitment to maintaining the external covertibility of our currency places limits on the extent to which we can pursue an expansionary monetary policy at home. With our continuing balance-of-payments deficit we will not be free to use monetary policy to whatever extent might be necessary to create full employment. Even if we were free to do so, the process would simply be one of accepting inflation in an attempt to solve unemployment.

Balance of payments

The administration, in a message subsequent to its economic reports, quite properly recognized the seriousness of the balance-of-payments problem and the need for prompt action. Foreign central banks, and foreign individuals and business firms are becoming restive and reluctant to hold the additional dollars which our international deficit pours out on them in a flood.

The chief measures by which the administration currently proposes to stem this tide are in the form of curbs, mandatory and voluntary, on the outflow of investment funds. We believe that the business community will cooperate to the best of its ability in this program. We are hopeful that this may stave off the immediate crisis.

Yet it is clear that such a program offers no fundamental or permanent solution to the balance-of-payments problem. The report of the Council of Economic Advisers recognizes this in principle. In speaking of the interest equilization tax it states (p. 98): "Such special taxes cannot be properly considered basic elements of longrun policy, since they qualify the freedom of international trade and capital movements." The same may be said of any restraints, whether imposed by law or suggested by "moral suasion," on the international flow of funds.

In addition, it is clear that if restraints had been imposed on foreign investments in the past, our balance-of-payments situation at present would be much worse, rather than better, than it is. The return in the form of interest, dividends, and branch profits on private foreign investments accumulated in the past amounts to more than $4 billion annually. Without this offset to the funds flowing out on other accounts, our international financial position would be desperate indeed.

The President has declared his firm intention of preserving the international gold convertibility of the dollar at its present rate. But if this is to be achieved, and if we are to do so in the long run without disruptive ad hoc controls on the flow of funds, we must face the fact that we will be limited in our freedom to use monetary and fiscal policy as demand stimulants at home.

If we are to reach a satisfactory equilibrium, it will mean that the supply of dollars overseas is simply equal to what central banks choose to hold as reserves and private parties choose to hold as working balances. Despite the spectacular rise in our export trade over recent years, our goods are still not attractive enough to bring the surplus of dollars back home. And apparently we are reaching the point where foreigners are reluctant to hold increased balances for future purchases from us. Similarly, the comparative attractiveness of investment opportunities at home and abroad is such as to lead to a substantial outflow of funds.

We have had an excellent record of cost stability in this country during recent years. We have also had an impressive record of rising profits. In view of the continuing balance-of-payments deficit we must sadly conclude, however, that these developments have not been sufficient to keep our dollars at home or to bring enough of them back in the form of a demand for our goods. We must continue to strive to improve the competitiveness of our products in the rest of the world, and the attractiveness of the climate for private investment at home.

Wages, prices, profits

As has been indicated, our association regards the "demand stimulation" approach as a less-than-satisfactory solution to the Nation's economic problems. To say, whenever our national economic performance falls short of its potential, that demand has been insufficient is to utter a half-truth. When we are simultaneously faced with a severe balance-of-payments problem, it is a half-truth that has little value as a guide to policy.

The relationship among costs, prices, and profits is a much more fruitful basis for analysis of what is happening in our economy, and why. The differential between price and cost determines the profitability of business operations. And the expectation of profits determines the willingness and ability of business to produce goods, employ people, and invest for expansion.

Much has been made of the stability in unit labor costs during the past 4 years. This has indeed been a factor in making possible the growth we have enjoyed. But it is instructive to examine the trend of unit labor costs over the longer term and to compare it with the parallel set of figures on unit after-tax profits. (Unit labor cost is simply total labor cost per unit of output, and unit after-tax profit is total after-tax profits per unit of output.)

Such a comparison is presented on the following page. Although unit labor cost has been relatively steady since 1960, it has shown a pronounced upward trend during the post-World-War II period as a whole. By contrast, unit after-tax profits have risen slightly since

1960, but the longer term trend has been downward. Recent levels of unit after-tax profits have been below levels reached in the previous periods of prosperity in 1955–57 and 1959, and very substantially below the levels of 1947 through 1950.

We conclude that this shift in the relationship between costs and prices offers a better clue than insufficient demand for the failure of our economy to close the gap between potential and actual output in recent years.

Corporate unit labor cost and corporate unit profit after tax

[1947=100]

	Corporate unit labor cost	Corporate unit profit after tax [1]		Corporate unit labor cost	Corporate unit profit after tax [1]
1947	100.0	100.0	1956	127.0	82.7
1948	103.9	105.2	1957	132.0	76.7
1949	104.6	83.6	1958	133.9	66.4
1950	103.2	106.9	1959	133.7	80.2
1951	111.4	84.5	1960	137.1	69.8
1952	116.8	71.6	1961	138.0	67.2
1953	120.3	71.6	1962	137.6	71.6
1954	122.7	67.2	1963	139.5	75.0
1955	120.3	83.6			

[1] Excludes profits originating in the rest of the world.

Source: Based on data in the Nationa Income Accounts as prepared by the U.S. Department of Commerce.

The administration's economic reports, despite their emphasis on fiscal policy, do not ignore the importance of price and wage developments. Concern is expressed over the possibility that arbitrary market power might be used to push up either prices or wages unduly. The wage-price guideposts, first suggested in the economic reports of 3 years ago, are again offered as a guide to private decisions in this field.

As might be expected, the admonitions against irresponsible use of market power are offered evenhandedly to both business and labor. This seems to ignore some essential differences. Business firms are subject to antitrust laws and are exposed to foreign competition. In 1961 a group of independent experts was asked by the Organization for European Economic Cooperation to study the causes of inflation. They concluded that, while negotiated wage increases have been a major cause of inflation, monopolistic pricing by business is unlikely to initiate inflationary pressures. There can be a wage-price spiral but there cannot be a profit-price spiral.

In a general way the publicity given the wage-price guideposts can have a beneficial effect in restraining excessive wage demands. But they are designed to fit the average case, and no actual case is ever average. If they are used, as the administration threatens, as a publicity weapon to be applied in particular situations they could be disruptive and inequitable.

Cost trends in the private economy are not of course completely reachable by the tools of national economic policy. But it is abundantly clear that the Federal Government should, above all else, avoid intervening in a way that would raise labor costs. A rise in the minimum wage, an increase in the penalty rate for overtime, or a shortening of the workweek would be the worst possible steps at this time.

RECOMMENDED POLICIES FOR GROWTH AND PROSPERITY

The National Association of Manufacturers believes that national economic policies should be designed to promote balanced growth both in our ability to produce goods and in the demands for them generated by the flow of purchasing power. A one-sided emphasis on demand stimulation would make it impossible to reconcile steady growth, high employment, stable prices, and equilibrium in our international payments.

As an outline of a program for balanced and sustainable growth, we offer the following five guidelines:

1. *Expansion of money and credit can no longer serve as the stimulus for growth in the rate of economic activity. Instead, the increase in money and credit must be held down to the pace made possible by the growth in the productive power of the economy*

That is not to say that an abrupt and immediate reversal of money and credit expansion would be desirable. Some continued growth in the money supply may be necessary as the economy continues to grow. The essential point is that we can no longer expect that economic expansion will occur as a result of monetary expansion. Rather, the two—monetary expansion and economic expansion—must be mutually supporting and each limited by the other.

2. *Federal fiscal policy can lend strong support to future economic growth. It can do so by giving first priority in the disposition of the revenue gain resulting from such growth to reduction in the tax burden. However, tax reduction should not be regarded as a means of supplementing aggregate demand, but as a means of removing tax deterrents to greater production*

The normal growth in the economy produces a gain of about $6 billion in annual revenues of the Federal Government from one year to the next. There is no intrinsic reason why Federal expenditures should be expected to rise at this pace. Growth in Federal spending should be controlled so that the bulk of the annual revenue increase will be available for tax reduction.

As for the form of tax reduction, there is always a justification for reduction of any kind when the spending level permits it. It is simply a return to individuals of their own money so that they may spend it according to their individual choices rather than on the basis of collective decisions.

At the same time, it should be recognized that, while all forms of taxation are a deterrent to economic growth, different forms of taxation vary in their impact. Steeply progressive personal income taxes are an especially severe barrier to economic growth. So are rates of tax on corporate income which take very nearly half of any realized gain.

Despite the reductions enacted in 1964, there is considerable work yet to be done on Federal rate reform. A corporate tax rate of 48 percent, effective in 1965, retains Government as a substantial claimant to the proceeds of business activities. A rate that high remains a barrier to investment and job creation and restricts the ability of American industry to compete effectively with foreign industry operating under a more favorable tax structure.

As for individual rate reduction, a top rate of 70 percent can hardly be considered the ultimate in tax reduction. The rate structure remains very progressive, especially through the middle brackets.

The dividend credit having been repealed, steps should be taken to relieve the burden of the double taxation of corporate income. The simplest and most equitable way of doing this is to make a portion of dividend payments deductible in computing corporate taxable income.

3. All possible efforts should be made to reduce the deficit in the U.S. balance of international payments, which places limitations on our freedom of action in domestic monetary policy. These efforts would include an encouragement of exports, and the strictest economy by the Federal Government in its expenditures abroad

Undoubtedly there are foreign markets for American goods which simply go unrecognized by American firms which might take advantage of them. A greater awareness of, and interest in, foreign markets will be in the general national interest as well as in the interest of the particular firms concerned. Government can be of service in providing information and services in developing foreign outlets. In its relations with other governments, the American Government should be concerned with defending and forcefully promoting the interests of domestic producers as well as in removing barriers to international trade.

4. A renewed upward thrust of unit labor costs must be avoided through redressing the legal balance of power between employers and organized labor

The experience of the past decade indicates that unit labor costs tend to level off only when substantial unemployment hangs over the labor market. We are caught in a vicious circle if we depend on this to counteract the power of labor unions to raise wages and fringe benefits faster than productivity.

The present structure of Federal labor law is antiquated and jerry-built. Some parts of it were originally adopted to meet situations which have now changed. Moreover, the Federal labor law has been developed over the years by administrative decisions strongly influenced by the biases of the administrators. The net result has been to place in the hands of labor leaders powers which, especially in periods of prosperity, tend to raise labor costs excessively.

More specifically, the National Labor Relations Board recently decided that a labor union does not violate that act by fining its members for exceeding union imposed production limits. Thus, it is now possible for unions to control a company's production simply by making a rule.

The precedent-shattering Fibreboard doctrine requires employers to bargain about certain major management decisions which will have an effect on employees, prior to the reaching of those decisions.

In 1962, the Supreme Court held that the Norris-La Guardia Act precludes Federal courts from enjoining strikes which violate nonstrike agreements. This decision disregarded the clear intent of Congress, in the Taft-Hartley Act, to provide an effective Federal court deterrent of breach-of-contract strikes.

All these examples and many others available demonstrate that the whole structure of labor law needs to be reexamined, with a view of making it fit present circumstances and insuring that labor market forces can operate to keep labor costs at economically workable levels.

Meanwhile proposals for direct Federal intervention which would raise costs must be rejected. An increase in the rate of premium pay for overtime would destroy, rather than create, jobs. So would legal action to reduce the workweek or to raise the minimum wage.

5. *The problem of chronic unemployment among young, unskilled, and inexperienced workers should be dealt with by a two-pronged approach. First, efforts should be made by employers, voluntary groups, and agencies of States and communities to improve the employability of such persons. Second, further increases in the legal minimum wage, which tend to price these people out of the market for their services, should be avoided*

We are now in a period when a large inflow of teenagers into the labor force has to be digested. The process is impeded by the fact that for many of them there is a gap between what they are worth to an employer and what they have to be paid.

The gap can be reduced for many of them by programs of training, education, guidance, and motivation. Many programs of this type are currently being conducted by community organizations, employers, and voluntary groups. Since the problems vary so much from case to case and from community to community this approach, undramatic though it may be, offers more chance of success than a federally organized program operating within rules promulgated from Washington.

The report of the Council of Economic Advisers makes the following profound observation at one point (p. 81):

> * * * the task of moving toward several goals is far more demanding than the single-minded pursuit of just one. In order to attain our domestic production and employment goals in a climate of price stability, and at the same time to progress toward a better international economic order, we must make the wisest use of the full range of policy instruments.

It is our conviction that the five-point program described just above would represent the wisest, and most realistic, use of the policy instruments available to the Nation. The combination proposed in the administration's reports of a fiscal policy designed to boost domestic demand, with ad hoc forms of Government intervention for controlling the balance-of-payments deficit, does not seem to us to offer much hope of long-term success.

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

By Dr. Grover W. Ensley, Executive Vice President

I concur with the report's emphasis upon broader human goals as the proper backdrop for analyzing economic problems and formulating national economic policies. And this, I believe, is fully consistent with the legislative history and mandate of the Employment Act of 1946. The related goals of improving the quality of American life and of extending its benefits to all of our citizens, inherent in the President's concept of the Great Society, are eloquently expressed in both the President's and Council's reports.

The President's report is a fine statement of goals and of the new directions called for in Government economic policies under the broad mandate of the Employment Act. Similarly, the Council's report is highly professional and impressive in its treatment of recent economic developments and Government policies, the near-term economic outlook, the new role of fiscal policy and broader questions of urbanization, health, education, poverty, and equality of opportunity. The Council's projection of a GNP of $660 billion, give or take $5 billion, for 1965 is near my own projections. I would place the range at $660 to $665 billion.

I have a couple of observations on the content of the report which the joint committee may wish to consider.

As stipulated in the Employment Act of 1946, the President's Economic Report is to be more than a review of past performance, programs, and policies. In my judgment it is also to be a blueprint for legislative action. As you know, the act specifies that the President set forth in his report "a program for carrying out the policy declared [in the act] together with such recommendations for legislation as he may deem necessary or desirable."

In recent years there has been a tendency to rely on special messages to deal with particular problems. While this practice has certain advantages in drawing attention to individual legislative proposals, it tends to obscure the outlines of the administration's entire legislative program. More importantly, it makes the statutory duties of the Joint Economic Committee more difficult. Among other duties, the Employment Act requires the committee "to study means of coordinating programs—and as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report * * * to file a report [not later than March 1 of each year] with the Senate and House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report * * *."

Obviously, the committee's task would be lightened if the President's report contained a well-organized, comprehensive, and reasonably detailed list of legislative proposals designed to achieve the broad goals outlined in other sections of the report. Of course, the 1965 report does contain some proposals for legislative action in sufficient detail to permit assessment of their merits by the joint committee, including the proposal to remove the gold reserve requirement on Federal Reserve deposit liabilities and the proposal to increase social security benefits. Nevertheless, the report does not contain a separate chapter or section devoted to outlining and summarizing the entire spectrum of the administration's legislative proposals in the economic area, as was done in earlier years.

The Employment Act also calls on the President, in his Economic Report, not only to set forth current levels of employment, production, and purchasing power but also "such levels needed to carry out the policy declared [in the act]." In recent years, the Council of Economic Advisers has made a valuable contribution toward fulfilling this requirement, in its work with measuring potential GNP. I recognize fully that, as the report states, this "is an inherently difficult task." Nevertheless, it would have been helpful if the Council had published in its report a specific dollar figure for its forecast of potential GNP in 1965, and for the likely gap between this figure and its forecast of actual GNP. Similarly, a table of historical data to accompany the chart on page 82 of the Council's report, which shows the gap between potential and actual GNP, would have been useful.

In its report, the Council stated that "the United States passed a watershed in economic policy" in 1964 and that "a new era for economic policy is at hand." I fully agree. The "new economics," and particularly the emergence of Federal fiscal policy as a major tool for actively stimulating growth, is indeed a salutary and revolutionary development. Much of the credit for bringing about this "new era" belongs to the Council of Economic Advisers and the Joint Economic Committee, and, more broadly, to the Employment Act of 1946 which created these agencies and outlined their duties.

February 20, 1966, will mark the 20th anniversary of this landmark legislation. At the outset of a "new era" in our Nation's economic life, it would be highly fitting, I believe, to make this anniversary an occasion for a comprehensive reevaluation and "summing up" of the act's pervasive influence upon American life over the past two decades.

Specifically, I suggest that the joint committee, in close cooperation with the Council, invite those who were responsible for creating the act and those who have been responsible for fulfilling its provisions—on the Hill as well as in the executive branch—to submit papers evaluating the record of performance under the act, the applicability of its goals to present-day realities of our economy, and the implications of the act for future development of the American economy. In addition, it would be well to use this opportunity to consider any changes in the law, or procedures outlined by the law, that might prove desirable in the years ahead. These papers could be published in a compendium to be released on February 20, 1966. In my opinion this would be a timely and valuable memorial to this milestone in the Federal Government's assumption of responsibility for achieving national economic goals, and would bring renewed public recognition to the important functions performed by the joint committee under the act.

I would also suggest that a 1-day symposium evaluating the effects of the act, to be comprised of leading personalities responsible for its creation and execution, be conducted in Washington next February. In order to facilitate planning the compendium and symposium, the chairman of the Joint Economic Committee and the Chairman of the Council of Economic Advisers might wish to appoint a commemorative committee to work with them on this event.

NATIONAL FARMERS UNION

BY JAMES G. PATTON, NATIONAL PRESIDENT

The National Farmers Union is pleased at this time to present its comments on the Economic Report of the President, which was transmitted to the Congress in January of this year. We endorse in general the discussion included in the 290-page volume. The President's Council has faced up particularly to the problems of education, poverty, depressed areas, and automation. Suggestions by the President's Council of several years ago in regard to tax reductions were put into effect, and have dispelled forever, we hope, the myth that it would be unwise to reduce taxes during periods of budget deficits.

We particularly endorse the discussions in the report in regard to automation and poverty. The fact that during the remaining years of this decade there will be a 1.4 million increase in the labor force, and that we have at the present time around 5 percent of the labor force unemployed, causes us and others to rank unemployment as our No. 1 economic problem. As suggested, this problem and related problems are recognized by the President's Council in its report. The fact also is recognized that there is an urgent need for training programs which would supply professional and semiprofessional workers in automated industries.

We call attention to an article in the February 24, 1965, Washington Post, which points out that at the present time there are an estimated 50,000 data processing installations and 20,000 electronic computer and punchcard devices, and that the estimated 225,000 persons working in computer installations must be augmented by 600,000 by 1970. Other examples of the lack of needed trained workers in various industries could be given. We are pleased that the administration is giving its attention to this problem. We are also particularly pleased by the President's campaign to eliminate poverty by means of various programs which he has spelled out to the Congress.

Yet, we have reluctantly come to the conclusion that this administration and the Council of Economic Advisers have not really come to grips with the fundamental weaknesses in our economic society. The first objection that we have to the report is that the economy is viewed from the top, as one taking a bird's-eye view from an airplane, and that there apparently is no effort to look deeply into the economy to determine the causes of poverty and unemployment.

The second objection that we have to the report is that agriculture has been ignored. There is important discussion, of course, of rural poverty, but no recognition of the fact that a farmer with adequate land, with adequate machinery, and with good managerial ability, is unable at the present time to support his family at a decent standard of living in many areas of the United States. Farming is viewed in the report as a sick industry, as a sociological problem, and not an economic one.

The third weakness in the report—and perhaps this is most fundamental—is that the market power of the great corporations which have transformed our economic society, has been ignored. The fact that competition has been to a great extent eliminated in the food industry as well as in the durable goods industry is brushed aside by a platitude that we must have more competition and a vague suggestion that Government agencies should cooperate.

Getting back to the problem of agriculture, the report which virtually ignores the farmer throughout, finally gets around on page 155 to a passing glance at farming. The old cliche that farming as a way of life has passed and is passing, is used, and an inference is made that declining farm population and the inefficiency of the small farmer has caused stagnation in rural employment. On page 156 the discussion is continued with another inference that rural problems are the product of a sick and inefficient industry. The sociological approach is again used.

It is not necessary for us to introduce at this point a discussion pointing out that agriculture is the most efficient industry in the Nation, and that all economists and statisticians agree that percentagewise, increases in efficiency in farm production have far exceeded increases in efficiency in other industries. It is a well-known fact that the farmer, because of his efficiency, and because he represents the last great competitive segment in our economic society, has created problems in his industry by producing more than could be consumed at fair prices.

Let us review briefly the economic situation of the farmer today as compared with the prosperous year of 1948. It should not be necessary for this organization to present statistics to this committee. However, the fact is that these fundamental statistics which indicate the plight of the farmer have been omitted from the discussion in the President's report. They should be included in the record. In 1948, according to the President's Council, net farm income amounted to \$18.1 billion. Production costs amounted to \$18.8 billion and income per farm, \$3,065. Corporate income before taxes amounted to \$33 billion; after taxes, \$20.5 billion. Profits plus capital consumption allowances amounted to \$28.2 billion. Personal income of the Nation in 1948 amounted to \$189.3 billion.

Now let us turn to 1956 and see what happened to income. In that year, net farm income fell to \$12 billion while production costs increased to \$22.6 billion and income per farm dropped to \$2,574. Corporate income jumped to \$44.7 billion before taxes and \$23.5 billion after taxes. Profits plus capital allowances jumped to the fantastic figure of \$43.5 billion. This was, of course, because of the fantastic subsidies awarded to industries during the Korean war and afterward. Of course, not a peep was ever heard and is not heard today about the injustice to the general taxpayer of awarding billions in subsidies to industry. National income during 1956 jumped to \$332.9 billion.

In 1964, according to the latest figures available, farm income was \$12.7 billion, production costs jumped to \$29.5 billion, and income per farm was \$3,656. The increase in income per farm was due primarily to the fact that there was a terrific acceleration in the trend toward gigantic factories in the field owned by corporations and absentee owners. A breakdown of this figure of income per farm would, in our opinion, indicate that the family farmer experienced no such increase in income during the period considered here. In 1964 corporate profits increased to the amazing figure of approximately $57.5 billion before taxes and $31.5 billion after taxes. Profits plus capital allowances skyrocketed to $65.8 billion, indicating the astronomical tax subsidies which industry had received.

Much is made of the fact that the farmer derives some income from nonfarm sources. An examination of the figures reveals that even including nonfarm income, the farmer still is, economically, a second-class citizen. During the period 1953–64, farmers experienced a one-third drop in farm income as compared to other segments of the population. But even including off-farm income during the period, farmers' income per capita was 25 percent lower than that of persons living in cities and towns. Percentagewise, in 1964 per capita farm income was 37 percent as compared to off-farm groups, and including off-farm income, was 58 percent.

Millions of words have been devoted to the subject of farm surpluses and subsidies to the farmer. As indicated, subsidies to industry have been generally ignored in the press. Let us look, then, for a moment, at the problem of surpluses. During the period 1953–64 the total amount of food surpluses amounted to only 1.8 percent in excess of that required for domestic consumption. During the same period, unemployment—including part time and concealed—amounted to 8.1 percent of the labor force. It seems obvious to us that full employment would have completely consumed the 1.8 percent surplus. In other words, there would have been no surplus had the objectives of the Full Employment Act of 1946 been carried out by the President and the Congress.

Much is made of the fact that the budget for the Department of Agriculture has greatly increased since 1952. Commentators have generally ignored the fact that two-thirds of the agriculture budget does not benefit farmers at all. Funds appropriated and administered by the Department of Agriculture go for feeding hungry people all over the world, for school-lunch programs, and for various other needs of the underprivileged, and for those in cities and towns. It should also be pointed out that all of the funds loaned to rural electric cooperatives, as well as loans or investments for the building of multipurpose hydroelectric and steamplant facilities, are also included in the bookkeeping accounts of the Government as expenses. It is a well-known fact that these loans, as well as investments for soil conservation, flood control, and other purposes, are either returned to the Treasury of the United States, with interest, or are of benefit to people in urban areas.

Attention is called to the recent publication, "Agriculture and the Public Interest," published by the Conference on Economic Progress and authored by Dr. Leon H. Keyserling, who was formerly Chairman of the President's Council of Economic Advisers. In Dr. Keyserling's view, "the restoration and maintenance of maximum employment and production in the United States will be utterly impossible without the restoration of farm income." We agree with this statement completely, and we think it points up the fundamental weakness of the report of the President's Council, as well as recent publications of this committee.

A few figures will indicate why, to have a prosperous economy, we must have a prosperous agriculture. Agriculture provides jobs for 3 out of every 10 workers in private industry, including 6½ million workers on farms, 6 million producing farm equipment and supplies, and 10 million transporting, processing, and selling farm products. To point up further the economic importance of the farmer: In 1964 farmers spent three times as much for new equipment as did the entire iron and steel industry. Farm products also accounted for one-third of our exports. One wonders what our balance-of-payments situation, which is agitating economists at the present time, would be if farm exports were to decline.

Now to get at the roots of the causes of a depressed agriculture and an unemployment economy.

During the last few years there have been 11,000 mergers or acquisitions. Big business has virtually taken over the food industry. Previously, United States Steel and other corporations manufacturing durable goods had implemented their control of prices by means of the basing point system. Price control also was maintained to a great extent in other industries which furnished supplies to the farmers. The durable goods industries have been able for a long period of time to virtually dictate the price which the farmer paid for his machinery, his fertilizer, and other items necessary to efficient farm production.

Much has been said and written about the technological revolution in industry and agriculture. The extension of control of price by industry has been equated with technology. We infer that those economists writing about prices and technology assume that price control is necessary to efficient production. We disagree violently with this assumption and recommend that confused economists and others read carefully a brilliant paper published some years ago by Dr. John Blair, entitled "Technology and Size" (American Economic Review Proceedings, vol. XXXVIII, No. 2, May 1948). Dr. Blair rightly points out that multiple plant ownership and control of price on a nationwide or regional basis has little or nothing to do with efficiency.

The following is a quotation from Dr. Blair's paper:

" 'So far as concentration may remain, it is largely a phenomenon of the market, rather than of technics, promoted by astute financiers who see in the large organization an easier mechanism for their manipulations of credit, for their inflation of capital values, for their monopolistic controls' * * *.

"*Efficiency and size of company.*—The increasing importance of the decentralizing techniques raises a fundamental question concerning the ownership and control of industry: If these techniques do lead to a significant decentralization of the productive units of industry, why should not ownership and control also be decentralized? The existence of large, plural-unit corporations has traditionally been rationalized on two grounds: that technology requires a large scale of operations, involving big and costly plants, and that several independent plants can be more efficiently operated under common ownership and control than under individual ownership. If technology is, in fact, moving toward a smaller scale of operations, the first rationalization would tend to lose its force and significance. This would leave most of the burden of justification on the second rationalization; namely, that the decentralized units would be more efficiently operated as parts of large, plural unit corporations than as independently owned, single unit concerns. What, then, are the logical and factual bases, if any, for such a rationalization?

"The logical argument that the common ownership of several plants does not contribute to efficiency has perhaps been best summarized by Dr. Frank A. Fetter:

" 'It is apparent that the "economy of large production" in this sense is essentially a phenomenon of the single unit plant rather than of plural unit plants. It is a matter of internal arrangements and economies within a single plant. It is technical or technological, not financial or commercial; that is, it is the sum of various economies of time, materials, and wear and tear of machinery combined with labor used in a continuous process on one product, as compared with a more or less discontinuous process with change of product and patterns * * *. It will be observed that combination by means of special holding companies or by ownership of stock in other corporations gives unity to the ownership, but not to the productive processes of the subsidiary companies. The physical plants and equipment remain largely under decentralized management; they still produce singly, while the officers of the controlling corporations are concerned almost wholly with financial and general organization of commercial matters * * *. Simple as is the distinction, when formally set forth, between a large single plant with it economy of mass production and a big business in the sense of the combined ownership of plural units, it is constantly ignored, either innocently or intentionally, with resulting great confusion of thought * * *. It is often implied and sometimes explicitly declared with an appearance of seriousness that any limitation of the size of corporations means a return to the handtools and the small neighborhood shops of the Middle Ages. The exaggerations and error of such a statement surpass absurdity.' " (TNEC Monograph No. 13, "Relative Efficiency of Large, Medium-Sized and Small Business," 1941, pp. 402–406.)

While it is true that technology was the parent of such price control mechanisms as the basing point system, such price control had little to do with efficiency, except possibly to make big industry less efficient. It is well known that United States Steel, over a period of years, failed to make its plants more efficient and retained much obsolescent equipment. United States Steel, during the great depression, as other corporations because of price control, did not find it necessary to reduce prices when demand declined.

Somewhat the same thing has happened in the food industry on the wholesale and production level. There are many facets to this problem, but the dominant fact in the economic life of farmers and those processing and distributing food is the grocery chain. At the present time, 8 or 10 national food chains dominate the marketing of food products. They dictate not only the price that the packer and the processor or the food handler gets, but the price which the farmer receives. We are getting to the causes of the one-third decline in farm income during a period when income of other segments of the population increased by leaps and bounds. We are coming to grips with the fact that an efficient farmer in many instances cannot even meet the costs of production. Prices are manipulated all over the United States by gigantic food chains and national food corporations. This manipulation and dictation of price is made possible by control of a very small group of companies in various marketing areas. The food chain, sometimes in cahoots with a national corporation such as Borden's or National Dairies, deliberately fixes the price. Those dealing with such groups are completely at their mercy. For example, a large chain in many marketing areas sets the price of beef every week. Just as United States Steel sets the price of steel and its so-called competitors follow the leader, so other chains and others in the business of food distribution follow the leader in regard to the price of beef.

Another facet of this problem, and a factor which is useful to national corporations in price control, is vertical integration, which, carried to its logical completion, is control of a farm commodity from point of production to point of consumption. The activities of the National Tea Corp., in Denver, Colo., are a good example of the way farm commodity markets may be demoralized by those with great economic power. In December 1962, National Tea, which operates a feedlot of 75,000 capacity, got out of the beef competitive market and began utilizing its own supply. The economic climate was favorable for such an operation as evidently National Tea executives had in mind.

There was a surplus of cattle, and prices were due to decline. National Tea, by getting out of the market, snowballed the price decline into a gigantic collapse. Prices fell over a period of 3 months from 30 to 20 cents per pound for choice beef cattle, thus wiping out thousands of ranchers and feeders. Fortunately, we have records which indicate the extent and tactics of this food chain. Charts will be furnished to the committee on request, indicating the day-to-day purchases of National Tea in the competitive market. The record will show that National Tea only resorted to the regulated competitive market when prices hit the bottom. Then, if prices tended to go up again, they got out of the market.

We will not labor the fact of chainstore domination of farm prices. We observe that present trends will result in a complete elimination of competition in the marketplace and a reduction of farmers to sharecroppers or farmworkers and entrepreneurs who have lost all control over farm management.

We already have an example of what happens when off-farm interests control farm operations. In the broiler industry, a small number of feed companies and other corporations control almost completely the production of broilers. The farmer signing a contract to produce broilers with a feed company is much worse off than a farmworker who is paid a wage which, while inadequate, enables him to keep body and soul together. The broiler producer, on the other hand, in thousands of instances, has found that at the end of the growing season he had nothing to show for his labor and investment. In many instances the army of unemployed has been augmented by those farmers who had hopefully gone into the broiler business and who had not only realized nothing for their labor and investment, but because of chattel mortgages which they had unwittingly signed, had actually lost their farms.

In some instances, farmers who undertook to build a countervailing force by means of a cooperative, were discriminated against and marked for extinction by the integrators, who usually had organized themselves into a small, tight, monopolistic group. In the State of Arkansas, for example, broiler producers undertook to organize a cooperative and to bring about the enactment of legislation which would protect them from the vertical integrators. The result was a blacklist, which was very effective and which completely destroyed the cooperative, and today operates to deny those who attempted to organize the cooperative, the opportunity to sell any broilers at all.

We do not feel that the problem of poverty and the problem of agriculture, which as we have indicated are closely related, can be solved unless there is a rearrangement of economic groups in the United States. Either the antitrust laws must be strengthened and more adequately enforced to provide a competitive climate, or food production and distribution must be made a public utility. Certainly, the chain of vertical integration which will eventually destroy all family farmers, must be broken. We support Representative Roosevelt's bill, which would make it illegal for packers, chainstores, and other off-the-farm interests to go into the farming business. This legislation would only affect those with gross sales of more than $30 million a year. We feel strongly that if some 30, 40, or 50 national corporations in the United States were contained, most of the problems of monopoly—or oligopoly, as it is sometimes called—would be solved. The Joint Economic Committee and the Congress and the administration must first take a realistic view of our economy and no longer continue to pretend that conditions are the same as they were 20, or 30, or 40 years ago. Members of the Congress and others must waken, as did Rip Van Winkle, look about them, and take into account the new world of economics which is all around us. Laissez-faire economics—which never really existed anyway to a great degree—is gone forever. They must separate in their minds the facts of technology and the facts of price control and quit confusing the two. Otherwise, there will be no remedy found for our economic disease. Dr. Keyserling feels that a new Council of Agricultural Advisers to the President should be created, and that a new Joint Committee on the Economic Report for Agriculture would seem desirable. We are in favor of this idea, thinking it is a step in the right direction.

NATIONAL GRANGE

By Harry L. Graham, Legislative Representative

The Grange would like to make the following observations concerning the 1965 Economic Report of the President.

Our first observation would be that the report reflects in its content and emphasis, a statement which was reported to this office by one of our friends who had visited with some of the staff people of the Council of Economic Advisers. They reportedly told him that since the problem of agriculture was so complicated and since opinion was so varied as to a program to correct the low farm income situation, they did not know what to recommend as a solution. Therefore, they were going to disregard it and confine their efforts to those areas of our economic life that they knew something about and about which they could reach some conclusions.

In this report, meaningful consideration of agriculture seems conspicious by its absence. There are casual references to it and there are some interesting tables. But, the only serious consideration that was given was on page 113 in the discussion of the Kennedy round in the GATT.

Failure to come to grips with the serious problems facing American agriculture, which have contributed to some of the problems of persistent unemployment and a less than satisfactory growth in our gross national product is, in our judgment, a failure to recognize that the problems of agriculture are interrelated with the economic problems of the United States and, indeed, the rest of the world.

The report starts out by stating that:

"The gains of 4 years of uninterrupted economic expansion have brought fuller pay envelopes, greater sales, larger dividend checks, higher standards of living, more savings, and a stronger sense of security than ever before. Industrial production of all goods and services (valued in cost and prices) increased at an average rate of 5 percent (table 1.) These gains brought jobs to 4 million more persons and raised total consumer income after taxes by 6 percent a year. All of this was accomplished with essentially stable prices."—page 35.

What the report does not say is that the stability of prices has been achieved largely at the expense of agriculture. While the consumer price index was rising for all items a total of 5 points from 1960 to 1964; it increased by only 2.6 for food. Compared to that, services 1964, it increased by only 2.6 for food. This is despite the fact that not only does food with all its built-in services today cost less of the consumer dollar than ever before, but the farmer's share of this food dollar is also at the lowest point in history.

Net income to farm operators has dropped from $13 billion in 1963 to $12.7 billion in 1964 despite a $100 million increase in the net inventory which was almost entirely the result of the increase in real estate values. Their livestock inventory dropped $1.5 billion; household furnishings dropped $300 million; U.S. savings bonds investments dropped $200 million; the index of prices received by farmers dropped from 98 to 97 and the index of prices paid by farmers rose from 102 to 107. (Table 74.)

From 1960 through 1964 farm population dropped from 15,635,000 to 12,954,000, or from 8.7 percent of the population to 6.7 percent for a drop of 23 percent.

During this same 5-year period the number of hired farmworkers declined from 1.885 to 1.604 million, a drop of 14.3 percent. The effect of this decline was almost offset by an increase of wage rates from an index of 109 to 119.

This decline of hired farmworkers was accompanied by a decline of family workers from 5.17 to 4.506 million or two-thirds of a million. A total of displaced farm laborers supplied by both the farm family and the hired workers during this period was 947,000 people. This represents 26 percent of the persistent unemployed in the Nation. When we consider the fact that a considerable portion of this out-migration from the land has been rural people who are poorly prepared to work in our industrial and urban society, its effect on our attempts to reduce total unemployment becomes doubly apparent.

As a result of this out-migration, farm labor inputs have decreased from an index of 92 to 81. At the same time farm production indexes have gone up from 106 to 111; and the total index of inputs has risen from 101 to 103. The big increases have been in fertilizer and lime (110 to 137), feed, seed, and fertilizer (109–123), but with a relatively small change in the inputs of mechanical power and machinery (100–101).

Comparing that to the war years from 1942 to 1952 we find that the parity index ranged from 105 in 1942 to 100 in 1950. During that period the index of inputs for mechanical power and machinery increased from 48 to 80. During the Korean war the parity index increased to a high of 107 and back to 100 at the end of 1952. The machinery index for inputs increased from 86 to 96. In other words, the index for inputs for machinery doubled during the 10 years from 1942 to 1952. The maximum contribution of this factor to the economic growth and the increase of the gross national product for our country should be obvious.

For a comparison let us now look at what happened after the Korean war. The parity ratio declined 8 points from 1952 to 1953. It has continued this downward movement until at the end of 1964 it stood at 75.

The index of prices paid by farmers for machinery increased from 87 to 117 during the same period of time; however, the index number of inputs for mechanical power and machinery has risen only from 97 in 1953 to 101 in 1962 where it remained until it reached 102 in 1964. This is a change of only five points. Now when we look at the inputs for farm labor again which declined from 136 in 1952 to 81 in 1964, it should be obvious that there should have been a normal corresponding rise in the inputs for farm machinery.

During the period of 1942 to 1952 the value of farm machinery rose from $4 to $15.2 billion, an increase of $11.2 billion in this 10-year period. Despite the fantastic increase in technology and the obvious necessity for an increase in the mechanical equipment to carry out this technology, the value of farm machinery has risen to only $19.8 billion or an increase of $4.6 billion during the 12-year period following the end of the Korean war. An average inventory increase of $1.12 billion per year declined to an average increase of $380 million per year.

Had the farm segment of the economy continued to purchase automobiles and farm machinery at the same rate that their purchases increased from 1940 to 1952, the inventory for machinery would have increased by about $10 billion, and farmers would have spent over $85 billion more for farm machinery and automobiles than they did in 1953–64.

The recent survey taken by an officer of a wheatgrowers association in Idaho shows that the average age of the tractors and the combines in that area is about 10 years. It also shows that if the wheat income is not increased, only 3 of the 98 who replied to the questionnaire will be able to purchase a new tractor this year. If the price of wheat were raised to a parity level for that part which is consumed domestically, more than half of them would purchase new tractors this year.

The inability of farmers to purchase needed hard capital goods also of necessity must increase the price of that equipment. The advantages of spreading fixed costs over high volumes of production are denied to the manufacturer. And the assessment of the fixed cost to fewer units obviously has increased their price, and at the same time made it more difficult for the consumer to purchase this needed equipment.

Another way of comparing what is happening to agriculture and the rest of the economy is to note that in 1952 disposable per capita income was $1,781. By 1964 it had increased to $2,248, a per capita increase of $467. During this same period of time, per farm income rose from $3,279 in 1952 to $3,656 in 1964, a per farm increase of $375, a total per farm increase of $92 less than the per capita increase in the nonagricultural sector of our economy.

If agricultural income could be raised to parity, the total increase in farm income would be about $12.2 billion. This is the equivalent of 74 percent of the purchasing power generated by the total $16.1 billion of all cash exports in 1963.

If the same rate of increase in farm income that we experienced from 1940 to 1952 had been maintained for the next 12 years, we would have added over $100 billion to the gross national product, thereby avoiding the necessity of all support-program costs. The total national income for 1964 would have been in the area of $522 billion, without considering the stimulus that the multiplying effects of this income would have had on the remainder of the economy.

As a stimulant to our economic growth and our gross national product, this would exceed the effect of tripling our export markets, added to the effect of the tax cuts which have recently been enacted. This kind of economic growth would have obviated the need for a tax cut and most of the need for an antipoverty program, as well as for much of the expenditure for Government welfare and relief programs directed both to our urban and farm populations. All this would have left a substantial amount of money in the Treasury for the reduction of the Federal debt.

Furthermore, it would have given to the farmers sufficient income to permit them to limit their production of commodities that are in surplus without severely cutting back on their living standards. It would have allowed them to continue to service their indebtedness without being compelled to increase their production, thereby producing more and more for less and less.

The almost forgotten economic fact of life regarding agriculture is that when the cost-price squeeze increases, the first reaction of the farmer is to increase production. As he increases production, according to the price-wage guidepost on page 108 of the report, prices decline in an industry with greater than average productivity gains.

The resentment of farmers against production controls rises largely because these controls in general have served to decrease farm income when this happens in a situation where the cost of production is higher than the selling price of the product. During the period of declining prices and income which began in 1953, farm production actually increased as is reflected in a raise in the production index from 93 to 111.

Therefore, we see that the law of supply and demand, which presumes that production will decline when prices decline, does not work in the farm segment in anything like a short-run application. Indeed, it scarcely works at all in its classical theory when a major segment of the economy—as is agriculture—is economically out of balance with the total economy, and when supply and demand are thus out of balance. Like a teeter-totter, it works best when there is relative balance between supply and demand and the teeter-totter can work both ways. Once the supply end of the teeter-totter has been increased to the point that a balance is hard to achieve, then the game automatically comes to an end.

The history of agricultural production also indicates that where there is a substantial indebtedness and fixed charges for servicing the debt and carrying on the operation, that the classical concept of economics which holds that the farmer will not increase his production when the marginal costs of production exceed the return for the product is not necessarily true. The increase of the production of milk in the Central Northeast where the marginal costs of production are from 50 cents to $1 in excess of the returns for the milk produced is below the cost of production for much of the year, is an example of the fallacy of the so-called economic rule concerning marginal production.

We hold that it is also a provable fact that a great deal of the outmigration from the land was the result of inadequate prices which are the basis for inadequate income. The reduced labor force has been replaced, as has been shown not by increases in mechanization, but rather by increases in the hours of labor on the farm. Some of the men and their families that work 80 and 90 hours per week are not doing it because they have nothing to do except work. They are doing this because they have inadequate mechanization which is the result of inadequate incomes and inadequate purchasing power.

The net result of the continued disparity between the income levels of the agricultural and nonagricultural segments of the economy has resulted in the substitution of credit for earnings with the result that the index of farm mortage debt has increased from 100 in 1950 to 249 in 1962. The non-real-estate-debt index has increased from 100 to 235 during the same period.

All farm debt has increased from an index of 100 in 1950 to 362 in 1962. However, the production assets have only increased from 100 to 271. In other words, during the 12-year period the debt index increased 262 points while the asset index increased only 171 points.

The picture would be much worse if it were not for the fact that most of the increase in assets results from increased valuations on farm real estate.

Revised estimates of the total amount of real-estate-farm debt and non-real-estate-farm debt held by reporting institutions has increased from $2,834 million in 1950 to $9,465 million in 1964. Of equal significance and more hazardous to the financial structure of American farms is the fact that the debt held by nonreporting creditors, including merchants and dealers, consumers and sales finance companies, and various nonreporting lending institutions, individuals, and miscellaneous creditors, have increased from $2,320 million in 1950 to $6,720 million in 1964. It is also significant to note that this last figure compares with an earlier estimate of $4,500 million for debts held by nonreporting creditors. In other words, these debts are $2,220 million more than it was believed prior to a recent revision of the estimates. Much of this latter group of nonreported debts is of a relatively short-term and high-interest character. The hazard is that many of these are demand debts and exceptionally expensive to service, further decreasing net farm income.

The problems of rural America and of our total economy cannot be solved by substituting credit for earnings and relief for employment. Neither can they be solved by shifting farm income to rural antipoverty programs.

Mr. Chairman, and members of the committee, what we have tried to point out is that the problems of agricultural income are deeply interrelated with the problems of a less than desirable rate of expansion of our GNP, the problems of reducing our unemployment rate, the problems of taxation and fiscal policy, the problems of high concentration of poverty in rural areas, the problem of outmigration from the land and the transfer of the problems of poverty to the urban areas with all the multiplicity of the resultant social problems, the problem of an inadequate tax base to provide educational and other personal services to rural America, the problem of delayed retirement on the part of our agricultural producers and the consequent high age level of those who till the soil, and the more critical problem which we shall face in the future of the replacement of our agricultural producers by young men who cannot see enough profit incentive at the present level of prices to entice them to make the investment of time and money that is required for the small output that can be realized from the high level of inputs of both labor and capital.

It is the earnest desire of the National Grange that you and your distinguished committee give adequate attention to this critical problem of our American economic life in your preparation of the report of the Joint Economic Committee.

The National Grange and its staff stand ready to render whatever assistance you may care to request at the convenience of the committee.

UNITED MINE WORKERS OF AMERICA

By W. A. Boyle, President

On behalf of the United Mine Workers of America, I appreciate the opportunity to present our views on the current status of the American economy as set forth in the Economic Report of the President.

Economic progress in the United States has been significant. The statistics cited by President Johnson, as well as the Council of Economic Advisers, underscore a story of which America may well be proud and they tell of a youthful, vibrant, and dynamic nation.

Yet, behind the glitter of our present affluence, behind the growth and wealth, nagging problems remain. We have with us still a legacy of poverty and want inherited from our past. We have citizens who do not have the good fortune of their countrymen and who must live apart from them in squalid separation. You can find present in our land faces showing the physical and moral degeneration of hunger and hopelessness. There are parents who must live with the awful realization that their desperate plight will be passed on to their children. Also, there are old people who, after a lifetime of service to America, must sustain themselves as best they can on a meager social security payment and who live in dread of a major illness which will drain in a few short weeks their savings of a lifetime.

Statistics are not difficult to find to prove the existence of this "other America." As the President points out in his Economic Report, 3.7 million Americans are seeking jobs in vain. Another 1 million Americans, according to President Johnson, have given up what appears to be a hopeless task and have allowed themselves to be submerged into a quagmire of poverty and destitution.

Unemployment insurance was instituted to help relieve the financial distress caused by temporary layoff. The system has become obsolete under the stress of advancing economic and technological trends. Benefits as a percentage of average wages have actually declined from more than 40 percent in 1940 to 35 percent in 1964. Furthermore, the duration of unemployment is such that most recipients exhaust their benefits before they are able to secure another employment opportunity.

It has been estimated that 19 percent of our Nation's families live in poverty. This in itself should be enough to spur the remedial efforts of all Americans. But, an even further breakdown, which was made this year by the Joint Economic Committee, adds urgency to our quest to eliminate the blight of poverty once and for all. The report points to the incidence of poverty among large families. On the basis of these statistics the number of children in the poverty area is estimated to be between 11 and 15 million.

How can one visualize in cold and impersonal statistics the human tragedy emphasized by the facts outlined? These 15 million children have been born into the wealthiest and most prosperous nation on earth. On every side they can see the progress of their more fortunate countrymen and the even higher standard of living that lies ahead. Yet these young people are being excluded from such progress and they can only look to a future bereft of hope, deprived of a share in the material prosperity of a Nation to which they pay allegiance and from which they ask merely for an opportunity to work and live as decent human beings.

We owe them that opportunity. We cannot write off 15 million of our young people. Morality rejects any compromise in a determined national effort to fit all of our young people to meet the challenges and opportunities of a future America and reap its benefits.

Further, it is economically wise that we do this. An educated, aggressive, talented people have been the bedrock of our progress. For each person excluded from sharing in our prosperity, the Nation loses by the amount that he would have contributed. More importantly, a growing body of youthful unemployed men and women, apart from the rest of our affluent society and not sharing in its traditions, poses a distinct and dire threat to the continuation of our free society.

The legacy of our past errors which still persists is dwarfed by the enormity of the challenges which lie ahead. These challenges and the potential they include demand immediate and forceful action at every level of public and private endeavor. Failure to take such action will witness a compounding of our present difficulties and the serious weakening, if not the destruction, of our national social and economic fiber.

The President in his Economic Report points to the major dilemma of our age—the creation of jobs. He underscores the 1½ million new jobs that were created in 1964 and the 4½ million new jobs which have come into being since 1961. However, there are several disquieting and ominous trends on the horizon. Of the 1.3 million workers added to the labor force in 1965, 500,000 will be below the age of 20. Approximately 30 percent of these youths will not have high school diplomas and will be ill-equipped for productive labor in our fast changing technical society. Failure to provide gainful employment for young citizens will be the beginning of the decline and fall of the American Nation, just as the destruction of the economic base of any nation signals its ultimate destruction.

The most important question then is: How do we create new jobs and more importantly, how do we protect the jobs that we now have.

We cannot offer any easy solution to the problem of nationwide job creation. We can, however, offer constructive advice on how to promote jobs in coal mining areas, especially the Appalachian region. From that region can be learned the lesson of what to do in other areas and other situations where the need for jobs is crucial and the task of providing them difficult. In the final analysis, jobs are created by the demand of one part of the economy for the products of another part. For example, the Nation needs ample supplies of energy and the demands upon our energy reserves will increase rapidly in the years ahead. Our Nation is blessed with ample supplies of energy. The most abundant source of energy is coal which has been the keystone of our entire economy since the beginning of the industrial revolution. Coal mining has provided jobs for hundreds of thousands of American families. In the Appalachian area the mining of coal has contributed over $1 billion to the economy of the region. Each increase in coal production means an increase in wage payments and jobs for the people in the States involved, as well as jobs and income for those employed in related industries and services. Any rational program to aid depressed coal areas and to provide jobs in coal mining regions would have to look to the coal industry as the base for such progress and must reject any program or activity which would threaten the basic economic health of the coal industry.

Unfortunately, this has not been the case. Our Nation today is flooded with imported residual fuel oil, which displaces an equivalent of 55 million tons of coal. Residual oil is dumped on our shores because it can be sold in no other way and its price is determined by the exigencies of the moment and by what the international oil cartel thinks the traffic will bear.

The United Mine Workers of America has long urged the establishment of effective controls on the importation of residual fuel oil. Although controls were instituted in 1959, the controls have been gradually relaxed until they are now almost meaningless. The impact control system can be justified in many ways but one of the most important reasons is to protect American workers' jobs.

Residual fuel oil threatens the job of each coal miner of this Nation. The economy of Appalachia is further eroded by each barrel of this waste product which is imported. The weakening or even elimination—as has been suggested in certain ill-informed quarters—of the control program negate any efforts to create jobs in the coal regions of the Nation.

The coal industry is not alone in its fear of unfair foreign competition. Even those in New England and elsewhere who demand increased residual imports, are forced at the same time to ask for protection for their own industries. Coal miners do not fear foreign competition so long as it does not unfairly destroy our jobs. American coal is able to compete in the world market, largely because of the productive efficiency of the coal miner. But to compete with a waste product which has no market other than that which it can secure by the most ruthless price practices, a product that must move at any price, is impossible. Therefore, we must ask—yes, demand protection. If such protection is not forthcoming, the Government must bear the responsibility for the destruction of jobs that will inevitably follow.

The Government is also destroying the jobs of American coal miners through the civilian nuclear power program of the Atomic Energy Commission. For years the Commission has pushed the development of the atom for the generation of electrical energy. To date a total of $1.5 billion has been spent to develop the nuclear reactor to generate electricity. This Government expenditure has been a further threat to the jobs of American coal miners. This threat does not result from free enterprise, but from an open and blatant Government subsidy. The nuclear program, as it is now constituted, is ill advised for another reason. Many thousands of scientists are hard at work spending millions of dollars of public funds to develop an energy source which is not needed and at best is only as good as other sources and at worst a great deal more dangerous.

The Nation would benefit far more if this scientific effort could be used to develop our national resources in other areas. If we can tap the vast riches available in coal, entire industries can be created overnight. The problems of Appalachia would evaporate and the region would become once again a bustling center of economic activity. Jobs can be created by research to promote industrial development. Such research would contribute to the American Nation, not only because of the jobs that are created, or the area rehabilitation that is engendered, but because of a fuller utilization of the national wealth of our country.

There are many positive programs the Nation can undertake to create the climate in which America can grow and prosper and make available the jobs that are needed.

First, we must as a nation protect our jobs against the onslaught of foreign competition. This national policy must be determined at the highest level in both the executive and the legislative branches of Government.

Second, we must use the power of Government to develop our national resources to the fullest possible degree and to such an extent that they will result in the creation of jobs and income.

Third, we must equip our young people to cope with the rapid changes that are taking place in science and technology and in the greater demands that will be placed upon them in the marketplace. Education is the answer. Every American must have an opportunity to progress in the education field as far as his ability and desire will take him. The fact that 30 percent of our high school age citizens are school dropouts is shocking. Steps must be taken to reduce this rate to the absolute minimum for no other situation has such explosive social and economic implications for the future of the Nation and its free institutions. We can no longer afford the luxury of so many people who can only perform unskilled tasks and who are deprived of the chance to make progress with the rest of our Nation. The United Mine Workers of America has supported expanded educational opportunities for all Americans. We shall continue to do so in the years ahead, because we feel that such opportunities are vital to the continued prosperity of America.

Fourth, we must learn to adjust to the new challenges of automation. Automation is the primary problem of our domestic economy. Its influence is already being felt in every industry in America. A Government commission has been established to probe the consequences of automation and to chart a national course which we hope will allow us to reap the benefits of the new technology, and to avoid the excesses which inevitably follow widespread economic dislocation.

Unless such steps are taken, we are prone to severe economic and social disorders, as we attempt to cope with these changes. We have a parallel of what can happen in the earlier industrial revolution which brought the reality of plenty to millions, but which also spawned the many totalitarian doctrines currently plaguing world peace. Due consideration to the human dignity and well-being of the work force must accompany the introduction of new technology. It is a goal that will require the utmost zeal of all sectors of the Nation, both in public life and in private endeavor. We shall do everything within the power of our organization to aid in resolving this problem.

Fifth, steps must be taken to insure against the recurrence of recession and depression in the United States. Such downturns are extremely expensive in terms of lost production and wasted resources. In addition, each recession leaves a residue of unemployed once the upturn begins. This residue, the chronically unemployed, are the real victims of a slack economy.

There are many things that can be done to help cushion the economy from downturns. A public works program is vital and necessary to stimulate a lagging private sector. Unemployment insurance has served to place a floor under private income and thus mitigate the harsher effects of recession. But both approaches need strengthening. Public works, especially in depressed areas, can serve a dual purpose: they can add to the employment in those areas, and they can provide the public facilities which are so essential to the economic rehabilitation of depressed regions.

Unemployment insurance on the other hand is lagging badly and, as I pointed out previously, economic and technical developments have made this program obsolete. Its present form permits a wide variance in both coverage and payments. We need a comprehensive national program which will guarantee a worker protection if he is forced into idleness and will allow him to maintain his standard of living until he can once again find gainful employment. Such provisions should be based upon a reasonable percentage of the worker's previous income and should extend for as long as the unemployment continues.

Finally, the Federal Government's fiscal policy can do a great deal to prevent economic depression. The Government's purchasing program should take cognizance of the economic impact upon certain areas and their industries supplying the goods and services to Government agencies. This can be amply demonstrated in the case of coal utilization by the Department of Defense installations. Often a decision to convert to another fuel is made without any thought of the impact of such conversion upon the coal industry and its employees. The United Mine Workers of America has opposed such conversions because they do not serve the best interest of the national welfare. We hope that in the future the Department of Defense and other Government agencies will consider the total impact of their fuel utilization policies so the true value of these Government expenditures can be translated into jobs for American coal miners.

The problems I have mentioned in this paper are most important and are based upon the actual experience of the United Mine Workers of America. All of them relate to the question of jobs for there are no other national problems that assume priority over the all-important goal of providing jobs for our workers. If we can give employment to the millions now seeking jobs and the millions who will be seeking work in the future, our national objectives will be largely accomplished. If we fail to meet the job challenge of this decade, any other achievement will shrink into insignificance.

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