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JANUARY 1966 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

EIGHTY-NINTH CONGRESS

SECOND SESSION

INVITED COMMENTS

PART 4

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ORGANIZATIONS SUBMITTING STATEMENTS IN RESPONSE TO COMMITTEE INVITATION

JANUARY 1966 ECONOMIC REPORT OF THE PRESIDENT

The letter appearing below was sent to the following organizations: American Bankers Association, American Farm Bureau Federation, Chamber of Commerce of the United States, Committee for Economic Development, Conference on Economic Progress, Consumers Union of U.S., Inc., Cooperative League of the U.S.A., Federal Statistics Users' Conference, Independent Bankers Association, Life Insurance Association of America, Machinery & Allied Products Institute, National Association of Mutual Savings Banks, National Federation of Independent Unions, National Grange, National League of Insured Savings Associations, National Planning Association, Railway Labor Executives Association, United Mine Workers of America, United States Savings and Loan League. These organizations were invited to submit their views or comments on the text and recommendations contained in the 1966 Economic Report of the President. Eighteen 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.

JANUARY 28, 1966.

DEAR MR. ------------: Since our schedule of hearings on the 1966 Economic Report of the President is very full and time short, 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.

The 1966 Economic Report of the President, including the annual report of the Council of Economic Advisers, is enclosed. We would appreciate having your comments on the materials and recommendations in this report.

In order that we may have ample time for consideration of these comments, written statements should be received by Monday, February 21. We will need 25 copies sent to G-133, New Senate Office Building, Washington, D.C., 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 BANKERS ASSOCIATION

Comments on the President's 1966 Economic Report

In the 1966 economic message and report submitted to the Congress in January, the President and his Council of Economic Advisers reviewed the state of the economy and presented policies which they believe will assure the continuation of noninflationary economic growth in the year ahead. The President and his Council are to be commended for recognizing that the economic circumstances of 1966 are far different from those of the preceding 5 years, when policy was appropriately directed to promoting fuller use of labor and other economic resources. The fundamental vigor of our free enterprise economy, bolstered by steadily expansive tax and monetary policies, has once again thrust upon us the problems of a high employment economy. These problems are greatly compounded by the impact of the war in Vietnam.

The year 1966 is heavily clouded with uncertainty. But the President, his economic advisers, and the vast majority of economic observers outside Government agree that the avoidance of inflation is likely to be a major economic problem in 1966. Given this agreement, the question is whether the program put forth by the administration is sufficient to contain inflationary pressures. We cannot share the confidence of the President and his advisers that the program outlined in the Economic Report is sufficient to the task. We do believe, however, that willingness to maintain full flexibility of monetary and debt management policies in this uncertain year, coupled with a readiness to adjust Federal tax and spending policies if and when conditions warrant, could minimize the dangers of inflation and help sustain the economic advance.

The economy in 1966

The Economic Report presents a balanced and realistic summary of the current and economic environment. We agree with the Council that national economic policies over the past 5 years have contributed significantly to the achievement of strong economic growth. We are skeptical, however, that the remaining margin for continued expansion in real output, without inflation, is as great as the Council assumes. Utilization of plant capacity in many industries is above or close to the desired range. Unemployment has fallen to an 8-year low, and labor shortages are especially pronounced among skilled and experienced workmen. Shortages of some specific goods are reported, and shortages may spread if the war in Vietnam intensifies further.

The result of these growing signs of mounting inflationary pressures has been a rupture of the 6 years of stability in the wholesale price index and acceleration of the upward creep in the consumer price index. We conclude, therefore, that it will be extremely difficult to achieve, without significant price increases, the 5 percent increase in real gross national product for 1966 that is implicit in the Council's forecast.

Budget policy in an uncertain year

We fully agree with the President that "the economic cost of Vietnam imposes no unbearable burden on our economy." With production for Vietnam accounting for less than 1½ percent of our gross national product—vastly less than World War II and considerably less than the Korean conflict—this contention should be beyond debate. But the central question is whether we are willing to pay the cost of the war—superimposed on an already strong and ebullient economy—without feeding mounting inflationary pressures and destroying the economic balance that has contributed to 5 years of sustained economic advance.

The evidence now available does not seem to us sufficient to judge conclusively whether the President's budget is or is not up to this vital task.

On the surface, the $4.6 billion decline in the administrative budget deficit—from $6.4 billion to $1.8 billion—signifies an appropriate shift toward fiscal restraint. The amount of the shift, however, is more than accounted for by a $1.4 billion increase—from $3.3 billion to $4.7 billion—in the sales of Government financial assets and $3.6 billion to be realized from a speedup in personal and corporate income tax payments. In addition, postponement of scheduled reductions in certain excise taxes accounts for another $1.2 billion in expected revenues. Considering the nature of these actions, the fiscal restraint implied by the decrease in the administrative budget deficit may be significantly less than appears at first glance.

Indeed, there is a real question as to whether the restraint indicated by the projected decrease in the deficit is fiscal restraint in the commonly accepted meaning of the term. What actually appears to be involved is credit restraint, to be achieved through the proposed sale of Government financial assets (in reality another type of deficit financing) and the speedup in tax collections. Such restraint works not through reducing consumer and business income, as in the case of higher taxes, but through reductions in liquidity and curtailment in the availability of credit.

A speedup in tax payments is not a tax increase; the taxes are simply paid earlier and the taxpayer's liquidity is reduced. If the taxpayer has counted on the longer retention of cash to cover expenses, he will have to forgo the spending, finance it by drawing down other liquid assets or by increasing his debts. In either case, credit availability will decline and interest rates will probably rise. The speedup in tax payments is restrictive, but it does not have the same strong impact on private demand as a genuine tax increase that draws off an equivalent amount of funds.

The sale of Government financial assets works in a similar manner. The liquidity of the institutions which purchase the assets is reduced and they will be able to make fewer loans to other borrowers. The result of the action is quite similar to tightening credit through sale of securities by the Federal Reserve banks, but without the multiple reserve effect of such sales. The resultant reductions in liquidity and credit availability, and the probable increases in interest rates, are characteristics of classical policies of credit restraint.

A tax increase now?

In view of these considerations, coupled with the uncertainties stemming from the war in Vietnam, it is not surprising that some critics charge that the budget fails to meet the realities of the day. These observers maintain that the President should have called for tax increases in addition to the continuation of the automobile and telephone excises. Hindsight may prove these critics to be correct, but the very uncertainties which they refer to suggest caution in effecting a broad-based tax increase at this time. Moreover, the administration has clearly stated its willingness to propose such an increase if events so warrant, and statements by administration officials indicate that contingency planning for any such increase is well advanced. The willingness to advocate a tax increase in 1966 is, of course, the logical followup to policies which have permitted growth-inducing tax reductions in the past few years. The slack economy which justified such reductions has been replaced by a taut, high-employment economy in which aggregate demands must be moderated.

The American Bankers Association has been a leader in advocating soundly structured tax reduction to foster stable economic growth. We are convinced that the Kennedy-Johnson administrations' tax-reduction steps—the investment credit, the revised depreciation guidelines, the personal and corporate income tax cuts, and the excise tax reduction—played a central role in sustaining the economic advance that began in early 1961. In the interest of economic stability, we believe it only consistent to pledge our support for equitable and properly structured tax increases, soundly conceived for the purpose, if such prove necessary to avoid inflation in the period ahead.

We believe strongly, however, that no request for an emergency tax increase should be made or granted without firm accompanying efforts to cut back on domestic spending proposals. Despite the fact that the war-induced expenditures threatened to add strongly to inflationary pressures, the administration proposes a further increase of $3.2 billion for major domestic programs of social legislation in fiscal year 1967. Reductions in domestic spending proposals, submitted at the same time as an emergency tax increase, would be fully consistent with the President's pledge in his budget message that, "should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability."

The mix of fiscal and monetary policies

Economists have long recognized that fiscal and monetary policies are complementary. Used together they can provide either stimulus or restraint to the economy. Within reasonable limits, and deficiency in fiscal policy can be offset by more intensive use of monetary policy, and vice versa. If the fiscal 1967 budget is, as some observers maintain, not sufficiently restrictive, flexibly administered monetary policies may be able to take up the slack and help largely to contain inflationary pressures.

It is especially important for the administration and the Congress to recognize, however, that this approach will result in firmer monetary conditions—with reduced credit availability and higher interest rates—than if a tighter budget were adopted. But once these consequences are recognized and accepted, this approach to policy has considerable merit in today's uncertain conditions. For one thing, a good case can be made for only temporary shifts in the Federal revenue stream (as is involved in the tax speed-ups and the postponed excise tax reductions) to cope with what is clearly a fluid situation. More importantly, firmer monetary conditions would undoubtedly help to improve further the U.S. capital position on international account, thus strengthening our balance of payments. This strengthening is especially important in view of the continuing negotiations to develop new approaches to creating international liquidity.

The implications of this approach to economic policy for the banking and financial system should be clearly understood. Credit demands, which are already huge, would be expected to mount further at a time when bank liquidity is low and loan-deposit ratios are at a 35-year high. Under these conditions, large-scale liquidation of Government financial assets can prove especially unsettling to financial markets. In addition, banks may be faced with growing pressure to allocate wisely scarce loan assets among competing borrowers, while at the same time avoiding further escalation in the already severe competition for time and savings deposits.

In view of these considerations, the case for firm restraint in domestic Federal spending and quick adoption of a tax increase, if it proves necessary, is all the more compelling. Otherwise, pressures on credit markets could indeed become severe.

Prospects for flexibility in monetary policy

The administration's publicly stated opposition to the increase in Federal Reserve discount rates last December led some observers to conclude that further moves toward monetary restraint would run into stout opposition. Unfortunately, the economic message and report give few clues as to whether the administration would object strenuously to further reductions in the availability of credit, and perhaps another increase in the discount rate, if they should prove necessary in the months ahead.

In his economic message, President Johnson referred only briefly to monetary policy. He said (p. 11):

> I will also look to the Federal Reserve System to provide assistance in promoting the objectives we all share:
>
> —meeting the credit needs of a vigorous and growing economy, while
>
> —preventing excessive credit flows that would carry the pace of the expansion beyond prudent speed limits.

Nor is the Council's economic report much more enlightening. The Council notes briefly the need for close coordination between fiscal and monetary policies, but this discussion is marred by an unfortunate reference to the breach of coordination—in the administration's view—that occurred when the discount rate was increased in December. It is encouraging, however, that the Council goes on to state that "major changes in the outlook during the year could require new actions by the administration, the Congress, *and the Federal Reserve System.*" (Emphasis added.)

Still, the economic report is disappointing in not presenting a fuller discussion of the role of monetary policy in supporting what may be an insufficiently restrictive fiscal policy. If this omission reflected a determination on the part of the administration to oppose the flexible use of monetary policy in 1966, as it did last December, then there would be great cause for concern. We believe that this interpretation may well be incorrect.

For one thing, the wisdom of the Federal Reserve action in raising the discount rate in December has clearly been supported by subsequent events. If there is cause for regret as to a rupture of coordination, the regret should not be because the Federal Reserve insisted on acting, but because the administration was slow in recognizing that the new economic environment required a shift toward restraint in Federal economic policies.

More importantly, the administration's willingness to face up to the realities of the Federal financial situation and to be fully prepared to meet whatever contingencies arise seem to have been clearly demonstrated by the action of the Treasury, with the approval of the President, in providing for a large advance refunding operation for Treasury securities maturing later this year. Perhaps, less significant than the size and success of the operation, was the willingness of the President to authorize a 5-percent interest rate on a new issue of Treasury notes. Except for the so-called Magic 5's issued in 1959, this is the highest interest rate paid on a Treasury security since 1921.

The expedient course would have been to order a smaller and less complex debt operation, one which could have been effected at a coupon rate below the symbolically high level of 5 percent. Instead, the administration faced up squarely to the problem and chose the more difficult but, from an economic standpoint, much more desirable course of action. In so doing, the President helped convince financial observers both here and abroad of the administration's willingness to pay whatever interest the cause of economic stability demands. Consequently, fears of unsound monetary and debt management policies should be reduced.

It might be noted in passing that the Council of Economic Advisers' failure even to mention debt management in its economic report is a strange omission. Although the demands of Treasury financing cannot always permit the tailoring of offerings to meet economic objectives, it is nevertheless true that debt management can and should be used as an adjunct to fiscal and monetary policies when conditions permit. Indeed, as just noted, the significance to policy of the recent Treasury refunding should not be underestimated. A thorough discussion of debt management problems and prospects in this uncertain year would have been a welcome and useful addition to the economic report.

The 4¼-percent interest rate ceiling

Such discussion would, of course, have had to confront directly the problem of the existing 48-year-old ceiling on the coupon rates on new issues of Treasury bonds. Under present and prospective conditions, this archaic requirement effectively prevents the Treasury from selling new securities with maturities of more than 5 years, unless it is willing to market them at a substantial discount. Such heavy discounting is undesirable and impracticable.

The damage that can be done by forcing debt management to conform to the restrictions of the ceiling is well known and need not be recounted here; suffice it to say that the restriction can be especially damaging at a time when utmost flexibility in Federal economic policies is necessary. It is highly encouraging, therefore, that in recent congressional testimony the Secretary of the Treasury has said that he would give consideration to proposals relating to the interest-rate ceiling at the time he presents to the Congress his proposals with respect to the public debt ceiling, which will probably be in the spring. In view of the fact that the advance refunding has greatly reduced debt management problems for the remainder of this calendar year, proposals to deal effectively with the problem of the ceiling can be safely postponed until that time.

It is to be hoped that the administration's proposals will deal with this problem straightforwardly and effectively. The only really effective approach for the long run is outright removal of the ceiling—a step which would be warmly welcomed by financial observers both here and abroad. Moreover, the announcement that the administration intends to seek such removal would do much to convince skeptics of its determination to pursue flexible monetary and debt management policies in the period ahead.

The wage-price guideposts

The American Bankers Association continues to view with skepticism the usefulness of the wage-price guideposts as a major instrument of economic policy. In the past, this skepticism has been directed primarily at the conceptual soundness and operational feasibility of the guideposts. Nevertheless, in our comments on the 1963 Economic Report we cautioned as follows:

> Somewhere along the line, the results could well be de facto determination of wages and prices by the administration without a mandate from the Congress or the people. Such a transfer of decisionmaking from the market to the Government simply could not be tolerated in a free enterprise economy.

And in 1964:

> These guideposts * * * may have served a useful purpose in helping to clarify public understanding of one aspect of the process of inflation, although they will have proved harmful if they serve to obscure inflation's basic monetary origins * * *.
>
> It may be true that little or no harm can come from exhortations calling for business and labor restraint in wage and price demands, although even this is doubtful if business confidence in the freedom of market processes is threatened. Certainly a great deal of harm can flow from relying on the effectiveness of a policy of exhortations, however. Similarly, major damage would be done to the strength and viability of the economy if what begins as moral suasion should drift toward direct Government control.

It is with considerable regret that we note that our earlier fears may be in the process of being realized. The administration has engaged in de facto control of certain prices. Perhaps it has also influenced wage settlements, as in the case of the steel industry, but these instances have been less apparent than in the case of prices. Up to this time, business confidence does not seem to have been impaired by this direct intervention in market processes, but it must be remembered that such interference has occurred within the context of strong business activity and rising profits. If continued for long, the policy of direct White

House intervention in wage and price decisions may at some stage have perverse and severely damaging effects.

These dangers, although great in the long run, are not the most imminent of those stemming from heavy reliance on the guideposts as major instruments of economic policy in a high employment economy. The major danger today is that Federal policymakers will be tempted to rely on the guideposts as a substitute for fiscal and monetary discipline. Unfortunately, this interpretation is not contradicted by a close reading of the Economic Report. Indeed, the concluding sentence of the chapter on the "Prospects for Cost-Price Stability" can be viewed as providing at least partial support to the interpretation. Said the Council (p. 93):

> Both unions and management should reflect on the fact that if their actions create an inflationary spiral, the most likely outcome will be restrictive fiscal and monetary policies which will aim to stop further price increases but will in the process also reduce output, cut back profits, and reduce employment.

Thus, the Council seems to be saying that restrictive fiscal and monetary policies should be used only if voluntary restraint fails. Surely this is expecting too much of the guideposts; at the most, such policies should be used only as a supplement to effective fiscal and monetary policies, which must continue to provide the first line of defense against inflation.

Our view that too much is being expected of the guideposts is reinforced by the growing discussion of the possibility of imposing direct controls over prices and wages; the implication is that unless the guideposts are adhered to voluntarily, the Congress will conclude that such controls are unavoidable.

Let it be clearly understood that if such controls are indeed adopted, it will not be because the war in Vietnam places an intolerable burden on the U.S. economy; as noted earlier, the costs of the war absorb less than 1½ percent of current gross national product. Any imposition of direct controls to contain inflation should not be attributed either to the war in Vietnam, unless it escalates greatly, or to lack of voluntary adherence to the guideposts. The imposition of direct controls would result directly from inadequate fiscal and monetary policies.

The American Bankers Association is convinced that it is possible to achieve, without direct wage and price controls, a high and noninflationary rate of economic growth at high employment, but only if we rely on fiscal and monetary policies as the first line of defense against inflationary pressures. We therefore view with deep misgivings the efforts of the administration to elevate the wage-price guideposts to the status of a major instrument of economic policy.

This tendency is especially disturbing in view of the lack, until recently, of a dialog between administration economists and non-Government experts on this vital matter. Indeed, the criticisms leveled at the guideposts in recent years by responsible non-Government economists have largely been ignored by the administration, but during the same period the guidepost approach has grown in use and emphasis. It is therefore heartening to note that debate on the guideposts is growing. The American Bankers Association plans to devote major attention to the subject at its forthcoming symposium on business-Government relations to be held in Washington on April 1, 1966.

The international economy

The Council's chapter on "The International Economy" includes excellent discussions of the problems confronting lesser developed countries, recent changes in developed countries, and the continuing steps toward improvement of the international monetary system. With respect to this last topic, the analysis of the adjustment process for the international accounts of developed nations is especially useful. We share the Council's view, however, that "improvements in the adjustment process alone cannot assure that the international monetary system will work smoothly."

We therefore endorse the efforts of the leading industrial countries to reform the international monetary system in order to add gradually and rationally to the supply of international liquidity. And we would emphasize that this type of monetary reform can proceed in a stable, evolutionary manner without radical or disruptive changes in free world monetary institutions. Moreover, we believe that the questions posed by the Council in discussing this problem are the ones that should be posed and resolved, and we are hopeful that the current negotiations can resolve them in such manner as to serve the interests of both the community of free world nations and also those of the United States. Indeed, in view of the pivotal role played by the United States in free world economic and financial affairs, these two interests are in fact inseparable.

But we would emphasize strongly, as we have before, that continued steady progress toward elimination of our chronic balance-of-payments deficit is essential if U.S. interests are to be protected adequately in the current negotiations. The administration's program of guidelines for foreign investments contributed to a halving of the deficit in 1965, and full equilibrium has been set as a goal in 1966. This is a laudable objective. It should be remembered, however, that unforeseen events can lead to sharp shifts in the various components of the accounts. Unrelenting effort is essential if continued progress is to be assured.

Beyond this, it should be clearly recognized that equilibrium in 1966, if attained, is only an interim goal. For such balance will be achieved only with the help of devices which observers both within and outside Government view as undesirable in the long run. We refer to the investment guidelines, mentioned above, and the interest equalization tax, both of which discourage rather than augment the free flow of investment funds and thus impede the orderly expansion of international trade.

Nevertheless, the American Bankers Association recognizes that these devices, however undesirable in the long run, will undoubtedly continue for the foreseeable future. We therefore pledge our full and continuing support for both of these programs.

Proposals for increased regulation of financial institutions

In his Economic Message, the President states (p. 19) that new legislation and regulations are needed "to protect the safety of savings of American families, to assure the most efficient and equitable regulation of financial institutions, and to create still better channels for the flow of funds to borrowers." He then lists four general areas of legislation which he intends to recommend to the Congress.

The American Bankers Association supports fully the objectives of the proposals as outlined by the President but, in the absence of specific legislative provisions, is not at this time able to comment on the proposals as such. However, the association intends fully to state its views on each proposal before appropriate congressional committees.

The longrun view

The Economic Report concludes with a stimulating discussion of "The Employment Act: Twenty Years of Policy Experience," in which the Council reviews the two decades and attempts to distill some lessons for the future. We share, of course, the view of the Council that the essential prerequisites of successful economic policy are firm and timely knowledge of where the economy stands, intelligent processing of the information gathered, and public understanding of how proposed economic measures intend to further desirable objectives.

We also agree that, as in the past 20 years, the problem of minimizing recessionary tendencies and thereby helping to assure high employment and growth without inflation will continue to be of central importance. We would also emphasize, however, that emerging trends indicate that new and complex problems will doubtless come into view. For example, the social and economic problems associated with a rapidly expanding population—both here and throughout the world—will demand the best efforts of public policymakers. Similarly, problems associated with the space age may bring new and difficult tasks to economic analysts and policymakers. In addition, the closer integration of free world economies, which has advanced markedly in recent years, is likely to continue, bringing with it increasingly complex problems relating to trade relations and financial policies.

These are only a few examples of what may be difficult problems in the decades ahead. At this time no one can foretell how these problems should be dealt with. But of one thing we can be certain: our approach to them must embrace measures which will preserve the essentials of individual freedom, private enterprise, and democratic government. Indeed, if we have one major and underlying criticism of the current trend in Government economic policy—especially as embodied in the implementation of the wage-price guideposts—it is that the efficient functioning of our free market economy may in the long run be impaired.

Thus we conclude by reemphasizing that vitally important but often overlooked provision of the Employment Act; namely, that all measures taken to promote economic growth and stability should be carried out "in a manner calculated to foster and promote free competitive enterprise * * *."

AMERICAN FARM BUREAU FEDERATION

By Charles B. Shuman, President

We appreciate the opportunity to submit comments on the 1966 Economic Report of the President.

The Economic Report presents an impressive picture of the economic expansion that has occurred in recent years. However, in our opinion, it fails to place sufficient emphasis on the danger that the current expansion will turn into an inflationary spiral which would seriously weaken the national economy—and increase the danger of an ultimate collapse into a severe recession.

Our views with respect to the major economic policies that should be emphasized under current conditions are summarized in the following extracts from the resolutions adopted at our annual meeting in December 1965:

> Monetary and fiscal policy should be used effectively to achieve (1) a more stable general price level, (2) a high level of employment, (3) rising productivity, (4) improved standards of living, and (5) protection of the position of the dollar as the key currency of the free world.
>
> Both inflation and deflation must be avoided if the above objectives are to be achieved. Inflation is the greater immediate danger, but the excesses of inflation can precipitate deflation. The best way to avoid deflation is to counter inflationary pressures before they get out of hand.
>
> The Employment Act of 1946 should be amended to make it clear that it is national policy to stabilize the purchasing power of the dollar, as well as to maintain a high level of employment and economic growth.
>
> We continue to oppose direct price and wage controls.
>
> We also oppose indirect controls, including efforts to influence private decisions by guidelines, retaliatory action, or dumping of stockpiled commodities. Such measures deal with symptoms rather than causes of inflation. If the Federal Government continually engages in deficit spending and other policies which expand the supply of money and credit, we cannot hope to avoid inflation.
>
> An independent Federal Reserve Board is an essential safeguard against pressures for inflationary policies.
>
> It should restrain the expansion of bank credit in inflationary periods and make it easier for banks to expand credit if deflation threatens.
>
> Under present conditions of high economic activity we believe that Federal cash expenditures should be less than revenues.

The current economic expansion has been accompanied by a very rapid increase in the money supply, and most categories of public and private debt. (See enclosed table of financial statistics selected from the Economic Report.)

While the general price level shows only a modest rise for the period 1960–65, as a whole, we do not agree with those who say that we have not had any inflation. December 1965 was the 124th consecutive month in which the Consumer Price Index was higher than in the corresponding month a year earlier.

Moreover, as a result of the expansion that has already taken place and the increasing demands for military operations in Vietnam on the national economy, the danger that expansive policies will touch off a serious inflation has become much greater than it was when the economy was operating at a lower level.

In our opinion the present economic and military situation calls for fiscal restraint on the part of the Federal Government to reduce inflationary pressures. The Economic Report exhibits considerable concern with respect to these pressures but defends a Federal budget which seems to us to reflect very little restraint.

The President's estimate of the administrative budget deficit for fiscal 1967 is relatively small; however, the assumptions and proposals that have been combined to produce this estimate are far from reassuring. The budget estimates assume a continuing growth in the gross national product at apparently the 1965 rate, no major acceleration of the present upward trend in the price level, and the enactment of tax proposals which represent a form of borrowing from the future. Moreover, an examination of some of the devices that have been used to hold down budget totals, and past experience with the tendency of Government program costs to increase, suggests that actual expenditures may prove to be substantially greater than the budget estimates.

In view of these facts we strongly urge that the Joint Economic Committee give careful consideration to the inflationary dangers inherent in our current national situation in its review of the President's Economic Report.

Selected financial statistics, 1960 and 1965

[Dollar amounts in millions]

	1960	1965	Percentage increase	
			1960-65	Per year
Total money supply and time deposits adjusted (seasonally adjusted)[1]	$214,000	$314,300	46.9	9.4
Total Reserve bank credit outstanding	29,060	43,853	50.9	10.2
U.S. Government securities held	27,248	40,885	50.0	10.0
Total net public and private debt	890,200	1,260,000	41.5	8.3
Federal Government and agency	241,000	270,000	12.0	2.4
State and local government[2]	60,000	92,800	54.7	10.9
Total private	589,200	897,200	52.3	10.5
Total corporate	302,800	439,500	45.1	9.0
Long term	139,100	206,000	48.1	9.6
Short term	163,600	233,500	42.7	8.5
Total individual and noncorporate	286,400	457,700	59.8	12.0
Farm[3]	25,100	41,100	63.7	12.7
Total nonfarm	261,400	416,600	59.4	11.9
Mortgage	174,500	283,500	62.5	12.5
Commercial and financial[4]	30,800	47,000	52.6	10.5
Consumer	56,000	86,100	53.8	10.8

[1] Money supply consists of (1) currency outside the Treasury, the Federal Reserve, and vaults of all commercial banks; (2) demand deposits at all commercial banks, other than those due to domestic commercial banks and the U.S. Government, less cash items in process of collection and Federal Reserve float; and (3) foreign demand balances at Federal Reserve banks. Time deposits adjusted are time deposits at all commercial banks other than those due to domestic commercial banks and the U.S. Government.

[2] Data are for June 30.

[3] Farm mortgages and farm production loans. Farmers' financial and consumer debt is included in the nonfarm categories.

[4] Financial debt is debt owed to banks for purchasing or carrying securities, customers' debt to brokers, and debt owed to life insurance companies by policyholders.

AMERICAN TRUCKING ASSOCIATIONS, INC.

BY WILLIAM A. BRESNAHAN, MANAGING DIRECTOR

The American Trucking Associations, Inc., speaking for the organized trucking industry of the United States, wishes to submit for the record of the Joint Economic Committee comments relative to the report of the Council of Economic Advisers in its Economic Report to the President submitted to the Congress in January 1966.

We agree with the general conclusions regarding the present state of the Nation's economy and the prospects for vigorous, future growth. We also understand fully the many problems that relate automatically with such sustained economic and social development.

We agree further that inseparably related to the desired economic development is a sound, well-regulated transportation system that serves a vibrant, thriving economy. It is the position of the trucking industry that we have such a transportation system today. Admittedly, as is the case in all facets of economic life, all is not perfect. Our transportation system can be improved, but basically it is a sound system and is fitted to serve the needs of tomorrow.

This leads the trucking industry to fundamental disagreement with one of the proposals set forth in the Economic Report relative to criteria to be used in competitive ratemaking in transportation. First of all we believe that under regulation today the Nation's shippers are receiving the type of transport service proven in dynamic competition of the marketplace, with the restraints that may exist being those dictated by public interest.

The recommendation in the Economic Report that freight rates should be "cost oriented" overlooks completely the fact that in deciding competitive rate cases the Interstate Commerce Commission, following the directives of the Interstate Commerce Act, considers costs as a vital, and often determining factor. Costs, however, are only one factor in deciding competitive rate cases in the public interest. Many other factors must be considered, particularly those that are inherent in following the congressional directive contained in the national transportation policy.

The Economic Report refers to cost-oriented rates as being desirable and refers to these within the reference of "marginal costs" with these further defined as "increase in total expenses as a result of carrying additional ton-miles of traffic."

In view of the preceding comments in the Economic Report regarding the current status of transportation, and the strongly implied criticism of rate regulation today, we cannot help but conclude that the Economic Report approves of the type of rate regulation proposed by the railroad industry. The railroad industry's concept of competitive rate regulation, by whatever euphemism one may use, is the "added traffic" theory of ratemaking. This is presented in clear terms in the Economic Report when it talks of expenses directly related to the additional traffic to be carried.

We believe the attempt to clothe the added traffic, or added cost theory, within the cloak of the basic economic concept of marginal costs is a distortion of the latter and a complete failure to understand the basic economic principles of transportation.

If the added traffic theory were written into the Interstate Commerce Act as an acceptable criteria in competitive ratemaking, or even if it were carried through indirectly, through subsequent decisions without statutory changes, it would be completely destructive to a sound transportation system. There is no doubting the tremendous competitive weapon placed in the hands of the Nation's railroads if they were permitted to set rates on an "added traffic" basis.

The relatively high fixed or capital costs of the railroads compared with the costs of other forms of transportation, gives them a tremendous reservoir from which to finance competitive rate warfare on an added cost basis. No other form of transportation could withstand this type of competition, even the other forms that may be the lowest cost forms of transport in terms of total costs. Under such a program the inherent advantage of the low-cost form of transport would be completely subverted to the competitive power of the railroads, in complete contravention of the national transportation policy which specifically directs that the Interstate Commerce Act, among other things, should be administered so as to "recognize and preserve the inherent advantages of each (form of transportation)."

We believe, also, that the Economic Report, in its comments on competitive ratemaking shows remarkable inconsistency when on the one hand it approves rates based on added costs, as far as rail-oriented rates are concerned, but when talking of the costs of other forms of transportation it states: "At the same time, costs should reflect the value of all resources required to provide the service."

Where is the logic in a proposal that would sanction railroad rates based on part of the total actual costs of producing a service but would at the same time direct that the total costs of other carriers be considered, even where these "total" costs include hypothetical or assumed costs and not costs actually incurred, either direct or indirect.

We believe the type of rate regulation, embodied in the substantive provisions of the Interstate Commerce Act, as administered by the Commission today, are basically sound and in the public interest. They have helped produce the world's finest transportation system and form the type of regulatory framework for continued growth. To change these regulations as suggested by the Economic Report would do serious and irreparable harm to our Nation's transport system and render it incapable of serving the expanding needs of tomorrow.

BUSINESS DIARY, HAIFA, ISRAEL

By GABRIEL ALON,[1] EDITOR

SUMMARY OF CONTENTS

(1) The U.S. balance of payments should contain a subtotal of current transactions (as similar statements in any other country) for better economic analysis and in order to strengthen confidence in the dollar (the surplus on this account was $30 billion between 1950 and 1964).

(2) The U.S. balance of payments should not only show the flows but also the total assets and liabilities to strengthen confidence in the dollar (surplus between 1950 and 1964, $20 billion).

(3) One important measurement of the U.S. international accounts should be the surplus of total assets over total liabilities as proposed by Senator Javits last year. This surplus at end-1964 was $57 billion.

(4) The overall deficit for 1961 (to give an example of the lack of certainty in this respect) ranges between $3.070 million under the liquidity basis to $1.287 million only on the basis chosen by IMF.

(5) To prevent disruptions of the international payments structure, overall surplus and deficits of all OECD countries should be measured and presented on a uniform basis by OECD or IMF; not the American deficit itself is important, but the flows of funds caused by it.

I am indebted to Prof. Milton Friedman, University of Chicago, for having perused these observations and for his valuable suggestions on them; to Dr. Walther Lederer, Chief of Balance of Payments Division, Office of Business Economics, Department of Commerce, for special figures not previously released; to Messrs. Jacques Rueff and William Thorpe (Paris) for European background information; and to Mr. James W. Knowles, the executive director of the Joint Economic Committee, and Mr. John Smith, of IMF, for the U.S. background to the issues involved. I wish to emphasize that these remarks concern the methods how the U.S. balance of payments should be represented; they do not take issue at actual policies; I feel that better presentation would make for better analysis, and would form a more valuable tool for the policymakers. As Dr. Bernstein so ably expressed it: "The function of statistics is to provide insight into policymaking."[2]

The present presentation does not contain a subtotal of current transactions

This year's Economic Report incorporates general economic and theoretic considerations to a degree such as I have seldom seen them in

[1] In response to invitation tendered by Chairman Wright Patman of the Joint Economic Committee.

[2] "The Balance of Payments Statistics," pt. 1, hearings before the Subcommittee on Economic Statistics of the Joint Economic Committee, May 11, 1965, p. 41.

similar reports elsewhere, and it deserves for this reason alone greatest praise, and should serve as an example for such reports elsewhere. The reasoning is extremely lucid and easy to understand.

On page 164, the Economic Report presents the balance of payments summary table for 1960 through the third quarter of 1965 (summarized from the table in the December issue of the Survey of Current Business). This table is in one important point materially different from such tables as published in any other country, by OECD or IMF, and as published by the United States up to 1954. In all the other statements, a subtotal is drawn after the item: "Nonscheduled Repayments on Government Loans." It is the so-called "Total of Current Transactions and Grants." The Joint Economic Committee published tables with this subtotal, e.g., the end of Dr. Lederer's statement during the hearings on the Bernstein report. (Report of the Review Committee for Balance of Payments Statistics to the Bureau of the Budget. April 1965.)[3]

A balance of payments consists of two quite different parts, current transactions and capital transactions, which should be shown separately

This subtotal is important for economic analysis and understanding of the balance of payments which is composed from two materially different (though interconnected) parts: (1) The balance of payments represents the economic performance of the United States in relation to the outside world (exports, imports, grants, and a few smaller items not today shown separately, such as changes in portfolio investments, expropriations in foreign countries, and earnings of foreign subsidiaries not repatriated, and possibly soft currency Government loans and currency purchases). (2) Again, the balance of payments expresses flows of wealth between different countries, the so-called capital transactions, which concern individual or corporate wealth.

The current items are irreversible: if goods are exported, property has, from the balance-of-payments angle, changed hands, even if the goods are sent by a U.S. firm to its foreign subsidiary. A grant made by the U.S. Government is unlikely ever to be returned, and even lend-lease was composed of two different transactions—inward and outward—not quantitatively connected with each other.

In the case of the so-called capital accounts, ownership (from the balance-of-payments angle) is not changed. From the balance-of-payments angle, the lender retains his claim for redemption of the loan (even if the loan is transferred from one lender or borrower to another), and investments may (in theory at least) at any time be repatriated (and sometimes they are).

The subtotal of current transactions should contain only irreversible transactions as explained above; it should under no circumstances contain the item "investments" which is a reversible transaction out of funds which have been "earned" at an earlier time. Today both contain U.S. tabulations, and those of the European Monetary Agreement include "investments" in the "regular" transactions (if the balance of payments were an income tax return, the men responsible for such presentation would make themselves liable for income tax evasion).

[3] "The Balance of Payments Statistics," pt. 2, hearings before the Subcommittee on Economic statistics of the Joint Economic Committee, June 8, 1965, p. 177.

An alternative presentation of the U.S. balance of payments

For a proper understanding of the issues involved. I have prepared a rather uncommon statement of the U.S. balance of payments for 1964, which is quite similar in its form to the financial statement of a bank. (No similar statement can yet be prepared for 1965 as the figures have not yet been published by the Department of Commerce.) I included not only the flows commonly shown in balance of payments but also the total sums of assets and liabilities as estimated in the annual article by Messrs. Pizer and Cutler in the Survey of Current Business of September 1965 (following an observation by Senator Javits on p. 61 of the "1965 Economic Report of the Joint Economic Committee").

TABLE I.—*U.S. balance of payments, 1964—Proposed rearrangement*

PROFITS AND LOSS ACCOUNT

[In billions of dollars]

Visible trade		+6, 669
Invisibles		+4, 053
Military sales	−2, 062	
Private remittances	−839	
Government grants	−4, 362	
Net surplus	−3, 459	
Total	10, 722	10, 722

BALANCE SHEET

	End of 1963	Flow	End of 1964
Long-term positions:			
Private	+58, 330	+6, 401	+64, 731
Governmental	+21, 788	+1, 513	+23, 301
Foreign assets in United States	−27, 791	−2, 188	−24, 979
Total	+57, 327	+5, 726	+63, 053
Short-term positions:			
Gold	+15, 596	−125	+15, 471
U.S. positions abroad	+8, 183	+2, 505	+10, 688
Foreign positions in United States	−28, 695	−3, 168	−31, 863
Total	−4, 916	−788	−5, 704
Accumulated profit, total	+52, 411	+4, 938	+57, 349
Errors and omissions		−1, 489	

The presentation above should be compared with the summary of the present U.S. tabulation shown below:

TABLE II.—*Summary of present U.S. balance of payments*

[In billions of dollars]

	1963	1964
Goods and services excluding military grants (net receipts)	5.7	8.2
Remittances and pensions (net)	−.8	−.8
U.S. Government grants and capital except military grants	−3.9	−3.7
Foreign official capital	.3	−.04
Long-term private capital	−3.3	−4.1
Regular transactions	−3.3	−3.1
Short-term private capital	−.3	−1.7
Short-term claims of foreign commercial banks	.4	1.4
Net errors and omissions	−.3	−.9
Official settlements balance	−2.2	−1.5
Special intergovernmental transactions	.3	.1
Gold, foreign currency, International Monetary Fund	1.9	1.4

The revised form proposed by me would give a proper accountancy expression to all the different items of analysis so lucidly presented in the report—as a statistical table should. It shows to which degree the United States in 1965 used short-term funds for long-terms investments (net short-term assets dropped by $788 million to a net liability of $5,700 million in accordance with the unadjusted Department of Commerce figures), while long-term investments increased by $5.7 billion total net assets of $63 billion; these figures are larger than those quoted by Senator Javits because they are for a date that is 1 year later and because gold has been added to the assets. The basic surplus on current transactions, exports less imports and grants, was $3.5 billion according to these unadjusted Department of Commerce figures.

My presentation contains a controversial arrangement: I have divided between short-term and long-term positions (generally understood to be for more than a year) following the discussion in the United States about the problems of short-term indebtedness. I have placed the item "investments," e.g., among the long-term positions. But this item also contains portfolio investments which, possibly, might much better be placed amongst the short-term assets and liabilities. U.S. portfolio investments abroad increased in 1964 by $1.2 billion, while foreign portfolio investments in the United States appear to have increased by $1.8 billion (according to Pizer and Cutler in Survey of Current Business, September 1966).

The subtotal of current transactions was contained in the U.S. balance of payments until 1954

The subtotal of "current transactions" was contained in the U.S. balance-of-payments presentation in the Survey of Current Business as line 31 until 1954; in the annual summaries of the balance of payments it formed line 23. I asked Dr. Lederer why he omitted the line when he became the Director of the Balance of Payments Division. He explained to me that he saw no importance at all in this subdivision, and thus had omitted the line in order to save space and printing expenses in his tabulations. In my view, a statistical statement without proper and adequate subtotals cannot easily be properly understood by its readers, and Dr. Lederer should be asked to reinstate this balance even if he considers it superfluous by his own economic conceptions.

The development of the current transactions, 1950–64

Dr. Lederer was kind enough to prepare for me the missing unadjusted figures, year by year, of the U.S. balance on current transactions which, according to my concepts, constitutes the "profit and loss account" of the U.S. economy in relation to other countries. Here are the basic figures which show an "earned surplus" in the international transactions of the United States of $30.6 billion between 1950 and 1964—unadjusted "business profits" after the United States paid almost $40 billion in grants and gifts to other countries.

TABLE III.—*Unadjusted current transactions for the period 1950–64*

[In millions of dollars]

	Balance on goods and services (1)	Unilateral transfers (2)	Net current surplus
1950	+2,299	−4,007	−1,708
1951	+5,110	−3,492	+1,618
1952	+4,808	−2,505	+2,303
1953	+4,562	−2,454	+2,108
1954	+5,190	−2,262	+2,928
1955	+4,597	−2,486	+2,111
1956	+6,334	−2,398	+3,936
1957	+5,729	−2,318	+3,409
1958	+2,206	−2,338	−132
1959	+134	−2,424	−2,290
1960	+4,067	−2,336	+1,731
1961	+5,633	−2,559	+3,074
1962	+5,149	−2,657	+2,492
1963	+5,917	−2,754	+3,163
1964	+8,560	−2,723	+5,837
Total	70,295	39,715	30,580

The 1950–64 surplus in total assets and liabilities

If you are an accountant, you check whether the profit as shown in the profit and loss account tallies with the increase in net wealth (after deduction of dividend payments). Thus I took advantage of Dr. Lederer's helpfulness to have him also reconstruct the changes in the U.S. "net worth" during the years 1950–64. A a number of adjustments had to be made, adjustments which, as already pointed out above, should in future best be included in the "current transactions" sections on top of the capital transactions.

TABLE IV.—*Increase in U.S. net worth, 1950–64*

[In millions of dollars]

Increase in gross assets	67,181
Less:	
Gold losses	− 7,349
Increase in liabilities	−39,207
Total	−46,556
Balance	20,625

The difference between this figure and $30.6 billion in the "profit and loss" statement is explained by the expropriations in Cuba, Indonesia, etc., on the one hand, by changes in portfolio valuations on the other (it might be desirable to have the two figures more scientifically examined and adjusted).

There should also be a "reserve for doubtful debts." I refer to $7.8 billion loans to developing countries in their own currencies and soft currencies held by the United States. As already pointed out, these payments should best be included among the "current transactions" and not among capital transactions.

These above figures express the "basic strength" of the U.S. economy in its transactions with the outside world, and they would, if published, greatly increase international confidence in the dollar, a confidence in which everybody in Washington (and not only the U.S. banks and trading concerns) appears to be so greatly interested.

The present presentation of the U.S. balance of payments conceals the extraordinary strength of the U.S. economy

On my way to Washington I visited Mr. Jacques Rueff in Paris. I asked him how he could compare the French balance of payments in 1958 (which was thoroughly adverse on this above "current account") with the U.S. balance of payments in 1963 so exuberantly strong in this item when he gave his famous interview to Mr. Hirsch of the Economist in February (the interview was republished by Professor Machlup in a recent Princeton International Finance Series booklet). Mr. Rueff replied that a balance of payments can be looked upon as central bankers do, and as economists do. He is only concerned with the balance of payments as a central banker who became Controller of French Finances in 1958 when France had only 3 weeks means of payments left to settle its liabilities, and that he is only concerned with this aspect of the international means of payment. Thus he does not bother whether a deficit which reduces gold holdings is caused by the current or by the capital transactions. Yet the Joint Economic Committee, in its approach to the U.S. balance of payments, should emphasize the economic aspects of the balance of payments.

Even today, with "only" $13 billion gold left, the United States appears to have sufficient liquid means left to arrange for any likely gold settlements for many years to come; if the U.S. balance-of-payments statements would show the total sums of assets in addition to the flows, as proposed by me and included in my above presentation, everybody would again and again see the payment strength of the United States and know the extent of its gold holdings.

With all due respect to the great and important job performed by the so-called Bernstein committee, I am puzzled that these considerations are nowhere contained in that report.

Gold and foreign currency might not be shown separately but as a subdivision of the capital transactions

As I wrote above, the "basic transactions" are offset by the capital transactions or, as customary hitherto but, possibly, not desirable at all, by "capital transactions" and "international means of payment."

At present, the interest about the balance of payments in the United States centers around the international means of payment—gold and convertible foreign currencies. The balance of payments expresses economic and financial flows, and for this reason much can be said in favor of including gold and foreign currency just as one subitem of the capital accounts as I have done above. From the economic point of view, the importance lies in the surplus of overall assets over overall liabilities. Gold and foreign currency reserves are of much less economic importance; and country can strengthen its international cash holdings by borrowing from others (as it is so frequently done). It is only a question of how much this strengthening of the reserves costs in terms of interest and other considerations. If the United States is ready to pay very high interest (or to make exaggerated political concessions to the French) it can at any time have again the ownership over $20 billion in gold, with a parallel increase in liabilities of the nonmonetary sector. As no economic purpose whatsoever would be served by such a transaction, as gold is one of the most useless of all metals, nearly nobody in the United States thinks of it.

Mr. Rueff made to me a clever remark. He told me: "As there is not enough gold to finance expanding world trade, the United States, as soon as the Russian gold sales cease, must decide between two alternatives: either change the gold price, or discontinue convertibility; no third alternative exists. The gold problem can much more easily be understood if gold and foreign currency become a subsection of the capital accounts rather than remaining a separate item, even if the United States is proud of being a reserve currency country, a burden no other country (apart from the United Kingdom) wishes to bear. The item "gold and foreign currency" would of course remain clearly identified even without being a separate subsection. In the long run it is economic growth which matters, not the amount of cash held (as Mr. Avery Montgomery Ward, discovered 15 years ago).

The official settlement basis is only one of many different possibilities to show the overall deficit. All other methods show smaller deficits than the two methods chosen by the United States today

The very measurement of the U.S. deficit is controversial even after the Bernstein report. The "overall deficit" is published differently from the "liquidity preference" and the "official transactions" bases at least by OECD and by IMF. I looked up the respective figures (without investigating the reasons for the discrepancies). Here are my findings:

Different measurements of the U.S. overall deficit

[In millions of dollars]

	OECD	IMF	Liquidity basis	Official settlements
1960	2,930	3,292	3,918	3,455
1961	1,339	1,287	3,071	2,043

Sources: Bernstein report, IMF balance of payments; yearbook. OECD "Statistics of Balance of Payments."

For 1961, there is a difference of not less than $1,784 million between the lowest estimate (IMF) and the highest (Dr. Lederer). To show by a single example how such differences arise today: IMF includes purchases and sales of gold by the Bank of France in the Paris market in line 13 amongst other private short-term assets and liabilities. Central Government short-term capital is included amongst "Central Institutions" (lines 18 and 19). Contrary to France, for the United States, Central Government liabilities are included by IMF in the monetary factors, while central bank assets are included in the nonmonetary factors. No other country records the extraordinary transactions the way the United States does. Extraordinary transactions, in a commercial balance sheet, may not change the legal character of the items shown; nor should they in the business account of the United States, their balance of payments. Such explanations belong in the Director's report.

Deficits should be calculated for all OECD countries uniformly—it is in the international context that the U.S. deficit matters

Of course, I was greatly surprised not to have found any mentioning of the IMF and OECD alternatives in the Bernstein report. I would extend this statement and would say that it is quite irrelevant how the United States itself measures its overall balance-of-payments deficit. The really important issue should be the movement in the settlement flows between all the developed countries. A proper judgment of the size of the overall U.S. deficit, and the ensuing problems of the international means of payment is, in my view, desirable only on this basis. As a private individual I fail to understand that the Ten can be meeting to determine joint policies without a joint statistical basis. I took up this issue both at OECD and with Dr. Lederer and I have in my files a written communication by Mr. John Smith of OECD on this subject. They all tell me that each country must prepare its own balance-of-payments presentation in its own way, and that nobody would dream about an attempt at uniform preparation and presentation which has not been achieved (but is at least tried) in the Common Market countries. I am surprised at the apparent frustration about the possibilities of cooperation which express itself; e.g., in the following statement by Dr. Bernstein in the subcommittee hearing (p. 58) : "I don't think that an international conference can compel countries to set up balance of payments in a particular form. I think there will always be small variations, partly because of how the statistics are collected." All this is the more surprising, as all OECD countries except France now report their basic figures in accordance with a questionnaire jointly prepared by IMF and OECD.

From correspondence, I know that the members of the Joint Economic Committee believe that the "official settlements basis" is uniformly used everywhere. At OECD and IMF I learned that not a single other country in the world uses this basis, and that only the United States shows "central institutions" net while every other country shows it "gross" (line 17 of the OECD Balance of Payments Statistics, 1950–61), and that only the United States shows the "extraordinary transactions" the way it does.

International balance-of-payments statisticians should change their attitude toward publication of their work

I asked the OECD staff economist with whom I checked the international symmetry to let me have a short written statement of facts on this issue for presentation to your committee. This proved impossible without specific permission by Mr. Kristensen, the OECD Secretary (who that day was in the confidential meeting of the Ten, and for whom I could not wait because my plane left. I was told that balances of payment are so top secret that not even a simple technical statement can be given in writing without top authorization. Three different agencies examine balances of payments at OECD: Working Party 3, the Balance of Payments Section, and the European Monetary Agreement (not the Development Assistance Committee headed by Mr. Thorpe as stated in the reply by Mr. Reynolds to a question by Senator Douglas on p. 57 of the Bernstein evidence, vol. I. Yet these three Paris agencies largely work independently of each other. Parallel work is done in the Balance of Payments Division of IMF here in Washington. As the United States partly finances all their activities, it might be to the advantage of the West, of all free people, to suggest both more coordination and more publicity in Paris and Washington (where an overall annual compilation, for example, is published only in the obscure annual IMF report, not in any current IMF statistical publications). Their work on the balances of payments is not mere scholastic exercise—it may become of utmost importance to everybody if hitches in the international payments structure should develop. I feel that Dr. Lederer might be asked to extend the spirit of international cooperation into the field of balance-of-payment statistics. I learned from him, for example, that it is difficult to synchronize international trade statistics because the transit trade is not broken down by countries, a breakdown which most probably would be cheap on today's computers. Without it, flows of international trade remains largely obscure, and transfers of goods, for example, to Cuba and other Communist countries through free ports from Antwerp to Hong Kong, cannot statistically be traced.

CHAMBER OF COMMERCE OF THE UNITED STATES

By Carl H. Madden, Chief Economist

Anniversary of the Employment Act of 1946

The 20th anniversary of the Employment Act of 1946 is, happily, marked by full employment in the U.S. economy. The postwar economic expansion and the past 5 years of stable economic growth are a tribute to the wisdom of the Employment Act, one of the most important legislative achievements of the postwar era.

Congress in 1946 wisely rejected the central economic planning concepts of the Murray full employment bill (S. 380) urged on it by labor unions and others. The Murray bill would have given each American able and willing to work an unqualified legal right to a "useful and remunerative" job. It would have required the Federal Government to guarantee that legal right. It would have required a national budget each fiscal year containing a detailed central economic plan to assure full employment.

The Murray bill would have empowered the President to effectuate such central economic planning by spending Federal Government funds in any amount necessary to make up any deficiency in aggregate private investment spending. It would have required a continuing redistribution of income by the Federal Government. It would have empowered the President to set up advisory boards of representatives from business, labor, agriculture, State and local governments, and others to advise and consult on the central economic plan.

Labor unions and others engaged in an elaborate and expensive campaign of promoting among intellectuals and others the central economic planning concepts of the Murray full employment bill. They accused the business community of opposing, not merely the means the bill proposed, but the objective of maintaining high employment levels. Despite such efforts, the Congress recognized the broad support given to employment objectives by business groups.

The Congress likewise recognized the danger to the Nation and to its free institutions posed by the Murray bill. It recognized that full employment cannot be legally guaranteed in a free society. It saw that a Government-created right to jobs would impose vast inefficiencies reminiscent of WPA days on the private economy, while destroying the incentive for market-responsive private investment. It realized that vast Government investment-spending authority, backed by the power to tax and itself exempt from income taxes, would destroy business willingness to invest. It perceived that economic forecasting for central economic planning was unreliable in assuming the future could be accurately predicted. In short, the Congress saw that S. 380 would move the United States toward a Government-dominated economic system with a tremendous loss of freedom and a built-in potential for continuous inflation and political abuse.

The Employment Act of 1946, though brief (less than 1,000 words), lacking in administrative jargon, setting up no large agency, requiring little appropriations, and dispensing little administrative power, is still a major achievement in the development of the U.S. economy. It set a new goal for the Central Government of "creating and maintaining * * * conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work," and of promoting "maximum employment, production, and purchasing power." Its policy statement requires that the Government shall set policy under the act "in a manner calculated to foster and promote free competitive enterprise." And it set up two instruments—the Council of Economic Advisers and the Joint Committee on the Economic Report in the Congress, now the Joint Economic Committee.

POSTWAR ECONOMIC ACCOMPLISHMENTS

The Employment Act of 1946 no doubt contributed heavily to the postwar confidence of business, labor, and consumers by assuring that the Government would act responsibly to offset either major downswings or inflation. The act has no doubt also helped importantly in our avoiding a massive postwar depression. The Joint Economic Committee and the Council of Economic Advisers have made highly valuable economic studies, adding much to knowledge of economic developments, and have steadily emphasized the need to take an integrated view of legislative policy. Indeed, perhaps the greatest contribution of the act was to require the Federal Government to review its own legislative and administrative programs, including monetary and fiscal policy decisions, in overall economic terms.

The postwar decades have vindicated the faith of Congress in the power of our economic system to call forth individual efforts and to create wealth. Despite four mild recessions, the U.S. economy has steadily gained for most Americans increased wealth, productivity, education, income, and leisure, while maintaining freedom of individuals, of money capital, and of business enterprise to choose their form of activity and their location in response to consumer demands anywhere throughout a subcontinent.

Despite vast migrations of people and economic activity among its regions, the United States in the postwar decades has retained political stability and has achieved unparalleled prosperity. The poor have improved their lot. Far from having one-fifth of its people mired in a culture of poverty, the United States has seen a steady alleviation of want throughout the postwar period. As the former Director of the U.S. Census Bureau, Richard M. Scammon, has pointed out:

"That poverty is not a major malignant disease, that the Nation is not overrun by a huge, seething, hopeless, invisible quintile of poor people—this, too, apparently needs public articulation."[1]

Rising postwar incomes have meant the most significant gains in human terms to the poor. Two-person families, young couples, and

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[1] Ben J. Wattenberg and Richard M. Scammon, "This U.S.A.," Garden City, N.Y.: Doubleday & Co., p. 138.

old folks now more often in the lowest income quintile have displaced the prototype low-income family of two decades ago, containing a husband, wife, and three children. While the share of income going to low-income families is no larger than in 1944, two people are more often today sharing incomes that two decades ago had to stretch across a five-person family.

Neither are our cities so "sick" with urban blight and decay as the modern prophets of doom suggest. Cities and their people have been getting better off. The proportion of low-income families, of dilapidated housing, of crime; of murder, or juvenile delinquency in central cities has been declining. Traffic congestion is less than 50 years ago. The "flight to the suburbs" has meant improvement for most people who have moved in housing, schools, and opportunities for children.

FOCUSING COUNCIL EFFORTS

With unemployment practically solved in 1966, there is a real danger in misstating and overstating longer range issues such as strengthening human resources, alleviating poverty, improving our urban environment, and improving the international economy. Indeed, the Council in its 1966 report, neglects pressing problems of current economic and fiscal policy in favor of superficial treatment of longer range issues, thereby lowering the professional quality of its efforts and risking the creation of new economic myth such as "the culture of poverty" and "the sickness of our cities."

To illustrate with only one of many possible examples, take rural poverty. Although less than one-third of our people live in rural areas, nearly half of the poor are rural residents and half of this group live in the South. But present definitions of "farm residence" greatly overstate the number of people and families who may reasonably be considered farmers. The 1959 Census of Agriculture disclosed that 44 percent of American "farmers" actually derived 93 percent of their incomes from other sources. To misidentify the problem of "rural" poverty as part of the "farm problem" as is done by the Council in its chapter on agriculture, can only do more harm than good.

The loose analysis of the Council in recent years has extended to such important issues as defining poverty, analyzing human resource needs, evaluating urban problems, and others. The question is raised whether Council standards of analysis should not improve along with rising standards of performance set for the economy. Another question is whether the Council expects too much, or fails to focus its efforts, in trying to place the whole task of solving long-range social problems on the shoulders of economic policy alone.

The postwar economic experience suggests that a full employment policy and high, sustained economic growth at stable prices provide the best conditions for solving many social problems such as alleviating poverty. Concentration on Employment Act objectives is preferable to the recent tendency of the Council to spread itself across a wide range of social problems. Serious intellectual effort in defining and measuring poverty and low income, in identifying causes, in prescribing remedies, demands far more skill and competence than has been given to it. The Council, meanwhile, could find its own resources of manpower fully utilized in hewing to analysis of aggregate economic policy.

Disquieting events in 1965 also raise questions about the focus of Council activities. During the aluminum and steel price incidents, the Council found itself playing a role as part-time price enforcement agency without statutory authority or administrative procedure. The resulting low quality of professional competence was evident in public statements surrounding such incidents. Further, the due process of public disclosure was neglected in Council withholding of information upon which decisions were based. It would be a regrettable distortion of congressional intent for the Council to become an ad hoc price enforcement agency.

Finally, the ending of price stability in mid-1964 and the recent acceleration of price rises raises the question whether the Employment Act of 1946 should not be amended to include among its objectives the maintenance of reasonable price stability. In view of the recent spread of Council efforts, Congress may wish to focus those efforts on maintaining high, sustainable growth and employment in the economy at stable prices.

ECONOMIC OUTLOOK

The most immediate and real problem facing the U.S. economy in 1966 is Government-induced inflation in the form of upcreeping prices resulting from overly expansionary monetary and fiscal policy and cost-raising legislative policy.

Optimism is the most characteristic note of the 1966 report. The GNP is expected to rise to $722 billion, a 6.8-percent gain over last year. Prices are expected to rise no faster in 1966 than in 1965, when the GNP price deflator was 1.8 percent. The balance of payments is expected to improve further in 1966, despite a European pause and closer-to-capacity output and income at home.

With unemployment at its interim target of 4 percent in January, the Council sees no risk to price stability in forecasting a further fall to 3¾ percent during 1966. The expected rise in productivity is projected at closer to its long-range trend of 3.2 percent, despite a fall to 2.8 percent in 1965 and despite 1966 economic activity that will further strain manpower and plant capacity. Federal spending is projected as growing less than Federal revenues in the second half of fiscal 1967 despite new social welfare programs, cost-raising legislative proposals, and uncertain escalation in Vietnam.

Economists outside Government expect both prices and output to rise in 1966. Some forecasts go as high as $730 billion, but they include a greater rise in prices than is built into the Council's projections. There is no unanimity of opinion about further appreciable improvement in the balance of payments without more "voluntary" controls. One estimate, for example, expects a further decline of net exports of 14 percent in 1966 to follow the 1965 decline of 22 percent. The Vietnamese war by itself is universally expected outside Government to worsen our payments position.

GOVERNMENT ECONOMIC POLICY

The Government in 1966 is taking all the risks on the side of inflation rather than restraint. In doing so it risks destroying the consensus on economic policy carefully built up during 1961–65. The Chamber of Commerce of the United States supported in 1962 the need for tax reductions to unshackle the economy from wartime taxation levels and to stimulate investment and consumption. The tax measures of 1962 and 1964 and the expansionary monetary policy of most periods between 1961 and 1965 have been widely supported as appropriate for an economy operating at less than full employment.

The year 1966 is no time for overoptimism or complacency in Government economic policy. Prices, rising since mid-1964, have recently accelerated their rise, and the wholesale price index, the broadest measure of inflation, has risen 3.6 percent in the last 12 months. The industrial price index rose 2.3 percent from June 1964 to December 1965, in contrast to a 4.1-percent rise for the all-commodity index, but the industrial price index understates the true rise in industrial commodity prices. The advance in the wholesale price index has become generalized. Of the 15 major subgroups of the wholesale price index, only 1 shows a decline from June 1964 to December 1965. It is typical that a rise in the Consumer Price Index lags behind the advance in wholesale prices.

Acceleration has also appeared in wage increases. In 1963 wage increases negotiated in major collective bargaining settlements averaged 3 percent. In 1962 they rose to 3.2 percent. In the first 9 months of 1965—exclusive of fringe benefits—they averaged 4.2 percent. And as the Council notes (p. 78, its report), such fringe benefits added three-fourths of a percentage point last year. In no sense can it be held that wage increases have remained or are remaining within the wage-price guideposts laid down by the Council.

What about Government economic policy in response to these developments? Turning first to monetary policy, over the past 5 years the money supply has increased at a 3-percent annual rate. During 1965 the money supply rose 4.8 percent. But in the last 6 months of the year the money supply rose at an annual rate of 7 percent. If time deposits are included in the money supply, the annual rate of increase during the last half of 1965 was an astonishing 11½ percent. Monetary policy has become more and more expansive, the closer the economy has come to full employment. To be sure, some economists argue that the change in the discount rate and the resulting increases in other interest rates exercise the major effect on total monetary demand. Such economists would hold that monetary policy has recently tightened. However, any price is determined by the interaction of supply and demand. If, as is true, both demand and supply of credit have been rising in recent months, it is difficult to sustain the view that a resulting rise in interest rates represents credit restraint.

Turning next to fiscal policy, the projected administrative budget deficit of $1.8 billion for fiscal 1967 is at best speculative and at worst misleading. First, the Federal budget is bound to be more stimulative in calendar 1966 than in calendar 1965. An increase of $7½ billion is set for Government purchases and one-third of the supplemental for 1966 of $13½ billion is scheduled to be spent in the first half of this year.

At issue is the timing of the impact of the Federal budget. It is argued that the inflationary impact of higher military outlays in the first half of calendar 1966 may be largely offset by the $5 billion increase in social security taxes which took effect on January 1. However, as Murray Weidenbaum has pointed out,[1] the effect of military expenditures occurs in the private sector upon placing of orders, such production remains in the private sector until delivery, and it does not show up in Governmetn expenditures until then. The contribution to economic activity occurs before Government purchase. The result is to mistakenly conclude, as Weidenbaum points out, that during periods of rapid increases in Government purchases it is private and not Government demand that lies behind inflationary pressures.

Next, the fiscal 1967 budget is inflationary. The deficit of $1.8 billion was achieved by what have been called gimmicks on both the receipts and expenditures sides. Among receipts, there is a seignorage profit of $1.7 billion, private participation in Federal credit programs of $4.7 billion, corporate speedup in current accrual of income tax liabilities of $3.2 billion, graduated increase in individual income tax withholdings of $0.4 billion and a shift to revolving fund financing of $0.2 billion. The amount not available as an income base for the Federal Government in future years among these items totals $7.4 billion. None of them has an appreciable effect in reducing current demand.

On the expenditures side, several proposed budget reduction programs may well not pass the Congress. They include agriculture, school lunch, and veterans' benefits cuts. Other expenditures may well be underestimated, such as national defense, Federal Housing Administration, other aids to housing, and manpower program.

Finally, some of the budget proposals involve legislation which may not be enacted. These include user charges of some types, consolidation of direct-loan sales, and revolving fund proposals.

Even if the optimistic budget targets are achieved, the budget for fiscal year 1967 can still be inflationary. If a small budget deficit is combined with continuing monetary expansion at recent rates, the results could still be damaging to price stability. Such a judgment is not the projection of "gloom and doom," as some have argued. No one wants to see the remarkable record of economic growth and price stability end in a period of recrimination among Government, business, and labor. Yet the clear signs of inflationary pressures being generated by Government policy threaten to produce imbalances in the economy that could end our record expansion.

Besides monetary and fiscal policy, the Government's legislative policy in coming months could contribute to price rises by promoting an inflationary psychology. Proposals to increase minimum wages, to increase unemployment compensation taxes and federalize administration at the loss of experience ratings, to add to the costs of credit and consumer items by cost-raising regulation, and other legislative proposals deserve careful scrutiny in 1966 for their price-raising impacts.

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[1] Murray L. Weidenbaum, "The Inflationary Impact of the Federal Budget." Working Paper 6529, Department of Economics, Washington University, St. Louis, Mo., Feb. 10, 1966.

Indeed, three of the four eminent economists who participated in a national symposium on inflation, guideposts, and economic policy sponsored by the national chamber on February 9, 1966, indicated that inflationary pressures are strong enough to warrant fiscal and monetary restraint this year. This was the view of Arthur F. Burns, Paul A. Samuelson, and Walter Fackler. All of them advocated careful scrutiny of expenditure proposals in 1966, including antipoverty expenditures made less necessary by conditions of high employment, in order to drive the budget toward a surplus.

WAGE-PRICE STABILITY AND GUIDEPOSTS

The strategy of the guidepost philosophy of wage-price stability understates demand influences in the economy and shifts the onus for inflationary pressures from Government to business and labor.

The guideposts are based on the simple idea, not yet documented, of cost-push inflation. On industrial concentration and private price policy, the Council states (p. 65): "The Goverment's price guidepost is an attempt to avoid inflation resulting from industry's use of discretionary pricing power." This is a question-begging statement. It assumes that administered-price inflation exists. It assumes market power over pricing throughout a range of industry broad enough to induce general price inflation. Facts supporting the Council's administered-price theory of inflation are simply not given. Likewise, the Council assumes a similar theory of wage-cost inflation without supporting documentation.

Indeed, the Council neglects considering the effects of many short-run determinants of prices besides costs. To be sure, the Council gives superficial treatment to many price-determining forces aside from labor productivity as compared to wage rates. However, it is hard to avoid concluding that the Council has undertaken its brief excursion into price analysis as a sop to possible critics of its working hypothesis that costs alone determine prices.

Several consequences important to economic policy flow from the posture of the Council. One consequence is underrecognition of the role expectations play in influencing prices. The Council, for example, might have analyzed the effects of expectations on prices during the investment boom of the midfifties. This, in turn, might have led to parallel analysis of the impact of the current "guns and butter" budget decisions on business and labor expectations. Indeed, the Council also may have more carefully evaluated the impact on expectations of Government actions influencing prices, such as higher minimum wages, higher postal fees, higher Federal wage scales, increased power for unions in support of repeal of section 14(b) of the Taft-Hartley Act, and higher unemployment compensation taxes and benefits. If the Government suggests in its monetary, budget, and legislative proposals, that it prefers risking inflation to fighting it, what effect is this likely to have on private expectations?

The Council decided, in a highly publicized action, to hold the general wage guideposts at the long-run trend productivity figure of 3.2 percent. This decision required abandoning the 5-year moving average which, up to 1964, included the low output per man-hour figure for 1960. Retaining the 5-year moving average would have meant dropping the 1960 figure and picking up "the unsustainable productivity gains of a year of recovery and 4 years of improving utilization."

While the courage of this action has been widely praised, its logic leaves much to be desired. The logic assumes that productivity in 1966 will reverse its direction from a downward movement to 2.8 percent in 1965 and move upward this year, despite drum-tight operations, closer to its long-run trend. Or else the decision embraces the long-run, "cost determines price" hypothesis applied to pricing elsewhere. The explanation is a curious mixture of shortrun and long-run considerations.

At any rate, a convenient "scapegoat" theory of price and wage rises is another consequence of such a posture by the Council. Its working hypothesis of "cost determines price" leads to ad hoc, arbitrary intervention in particular price and wage decisions, without clear legal sanction or procedural rules of the game.

Industry opinion reflects both uncertainty about governmental moves to intervene in pricing and the uneven impact on industry and labor of widely publicized pricing decisions compared to quiet moves to influence wage decisions. Meantime, in the view of informed observers such as Arthur F. Burns, the guideposts are widely ignored by those not subject to high national "visibility."

Serious doubts that wage-price guideposts will help much in the fight against inflation are heightened by union views expressed this week in Bal Harbour, Fla., at the annual meeting of the AFL-CIO Executive Council. The guideposts, while valuable as an educational device for public discussion are effective only when not needed. When Government is contributing to inflation by its own policies neither business nor labor can resist the pull of too much monetary demand on prices, wages, and other costs.

THE EMPLOYMENT ISSUE

The employment issue in 1966 resolves itself into whether it is a reasonable trade-off to ask U.S. consumers to sacrifice $13.5 billion or more in purchasing power this year to generate jobs, including many part-time jobs suitable for abilities of teenagers and housewives, needed to lower the national average unemployment rate below 4 percent.

Beyond that, the issue is whether the Nation wishes to trade off the risk of a recession in 1967 or beyond in order to lower the jobless rate below 4 percent in this election year. Or, put another way, do the people of the United States wish to risk a worsening of the balance of payments deficit, with its threat to confidence in the U.S. dollar and to our gold supply, by foreign dollar holders who lose confidence in our ability to maintain prices stable?

The administration in its 1966 economic policies calls for abandoning the "interim" target for full use of manpower of 4 percent set in 1962. At that time, the Council acknowledged that when unemployment drops below 4 percent, resulting bottlenecks of skilled manpower raise costs and slow down productivity advances. Yet in 1966, when plants are operating at above optimum or desired rates of use, the administration is willing to take the inflation risk of reducing the full employment target to below 4 percent.

It is ironic on the 20th anniversary of the Employment Act to find the Council pressing for a jobless rate below 4 percent to achieve a seller's market for labor. William A. Beveridge, in his book "Full Employment in a Free Society" (p. 19), defines full employment as "having always more vacant jobs than unemployed men * * *. The labor market should always be a seller's market rather than a buyer's market."

Job vacancy statistics are not available in the United States. The Council is right in calling for their collection. Yet the Council finds the nearest thing available—the NICB index of help-wanted advertising—at an alltime high. It is, indeed, still rising. And even Lord Beveridge pointed out that collective bargaining in a perpetual seller's market for labor would entail "a real danger that sectional wage bargaining, pursued without regard to its effect on prices, may lead to a vicious spiral of inflation" (op. cit., p. 198).

The unemployment profile for January 1966 raises grave questions whether aggregative economic policies can achieve significant reductions in remaining unemployment without inducing inflation. The unemployed numbered 3,290,000 in January—4.4 percent of the civilian labor force on an unadjusted basis, but 4 percent seasonally adjusted.

Teenagers made up nearly 800,000 (23 percent). Among teenagers going to school, over 90 percent were looking for part-time work. A 1964 BLS survey of unemployed teenagers found that, despite their unemployment, their median family income was $5,600.

Another large group among the unemployed in January 1966 were women, numbering 1,327,000. Of women over 20 years of age in the labor force—766,000—about half were looking for part-time jobs.

About half (51 percent) of the jobless in January 1966 had been out of work less than 5 weeks. Those out of work 27 weeks or longer had dropped to 9 percent.

The jobless rate for married men living with their wives was 2.6 percent. Such men made up only 30 percent of the unemployed.

To be sure, unemployment statistics are not intended as measures of personal hardship, but only of unused human resources. Likewise, no one wishes to see anyone able and willing to work without a job against his will. Yet, in the absence of knowledge about the demand-supply balance in the labor market, the administration seems willing to put the economy under forced draft to push unemployment down further. With total spending for consumption now running at about $450 billion a year, a 3-percent price rise would lower the consumer's ability to buy about $13.5 billion. It would, of course, hit hardest the poor families of employed people.

THE RISK OF FORCED-DRAFT ECONOMICS

The threat to price stability in 1966 is the greatest in a decade, and economic policy decisions this year are among the most difficult of the 5-year expansion. What are some of the risks of the administration's forced-draft economics?

Forced draft economics risks ending the consensus on economic policy in a burst of mutual recrimination among government, business, and labor—all locked in the grip of economic forces of rising prices and inflationary psychology produced by Government policy. No one expects runaway inflation in 1966. But in a nation of 50 million savers and 60 million wage and salary earners, a faster price upcreep is a cruel tax that may yield more bitterness than new jobholders if, as widely observed, many now without jobs are either hardly employable or are seeking only part-time work.

Forced-draft economics jeopardizes confidence in fiscal measures such as the tax cuts of 1962 and 1964 passed despite deficits by demonstrating the unwillingness of the administration to follow the full logic of its own economic advocacy. Leaving aside the rhetoric of the "New Economics" and its excessive claims for fiscal policy, the tax cuts marked a new step in effective use of monetary-fiscal measures to achieve high levels of employment in a growing and stable economy. The logic of the New Economics as surely implies surpluses and restraint at full employment as it implies deficits at less than full employment. Forced-draft economics threatens the widening of the credibility gap in Government economic argument.

Forced-draft economics can worsen the balance-of-payments problem. Already, the net export surplus is threatened by rising prices and incomes at home combined with a lull in European economies. Foreign dollar holders possess existing power to challenge U.S. lack of fiscal discipline in the midst of strenuous and delicate international negotiations to the detriment of U.S. interests.

Forced-draft economics pushes the economy away from competition and toward wage-price controls. Rising prices and wages tip the world-price scales away from U.S. products while Government claims of guidepost-fulfillment obscure softening of competitive muscle. Ill-timed fiscal and legislative measures, meantime, increase the temptation to use defense needs as excuses for Government controls. The Vietnamese war is now by no stretch of the imagination a large enough drain on current U.S. resources to justify controls of wages or prices. Economic controls in 1966 slapped on amid references to the U.S. fighting men in Vietnam would signal a bankruptcy of Government economic policy.

THE ALTERNATIVES

To resist restraining a drum-tight economy is no less doctrinaire than to neglect stimulating an underemployed economy. The tools of economic policy and the priority of their use are both too well known.

Thus, it is disappointing to see no discussion in the 1966 Economic Report of policy priorities for economic restraint. Monetary measures have not yet dampened credit demands. Yet there is no serious discussion of the important role of monetary policy in curbing price rises.

Little searching consideration has been given to the logic of budget surpluses in periods of full employment. Instead, administration spokesmen recently floated trial balloons that set unemployment targets at 3 percent.

There is no discussion of the need for tax flexibility beyond reference to tax increases perhaps needed "later in the year." With demand pressing against capacity, the logic of the new economics equally embraces a broad-based, low-rate excise tax with suitable exemptions to sop up excess demand as it does a Federal deficit at below-full employment. Instead, administration spokesmen vaguely refer to the notoriously ineffective excess profits tax. Supporters of an excise tax argue that not only would such a broad-based excise tax sop up excess demand, but it would be a nondiscriminatory measure for retention after the need for added revenue was ended as a substitute for the corporate income tax which inhibits new enterprise, distorts investment decisions, and falls on business and consumer with uncertain incidence.

CONCLUDING REMARKS

Faced with full employment on the 20th anniversary of the Employment Act, the administration in its Economic Report postpones difficult decisions of economic policy, takes the risk of fanning rather than fighting inflation, is timorous of following the logic of its own economic doctrine, and seems intellectually frozen into a perpetual posture of expansionist measures.

As a result, the administration exacerbates its economic problems, which are likely to cumulate while decisive action is postponed. Postponement of decisions, meanwhile, heightens the temptation to heroic but unneeded measures of control. The result could well be both inflation and controls, imposed in the name of discipline not sufficiently evident in administration proposals, both economic and legislative.

To be sure, the economic problems of 1966 are born of success. The administration has exhorted the American people to demand more of economic policy. The Nation can be grateful for its present prosperity and its present strength. In demanding more of economic policy, however, the Nation now calls on the administration to maintain the inherited record of stable economic growth, and to keep the economy moving on an even path.

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 Economic Report of the President and the annual report of the Council of Economic Advisers. We regard this annual review as important, and we have, I believe, an uninterrupted record of annual statements to the Joint Economic Committee since the review was established.

The 1966 Economic Report of the President and the annual report of the Council of Economic Advisers which accompanies it constitute a very helpful description and analysis of the economic problems before the country today. These reports present in condensed, readable form an enormous amount of factual information and a wealth of instructive argument relating to economic policy. They are invaluable contributions to professional and public understanding of economic issues.

For the most part, I agree with the recommendations in the report of the Council of Economic Advisers and the analyses supporting them. At some points, however, the report has stopped short of solving the policy questions to which its analysis relates; at others, the report seems to have arrived at policy conclusions not fully supported by the analysis.

The 1966 report concentrates on the problems of maintaining sufficient flexibility in economic policy to assure the continuation of the high employment and stability which have characterized our economy in recent months. This focus is appropriate because the threat to price stability is greater now than it has been in a decade. For the first time since 1955 we are at a point where our actual and potential GNP are in approximate balance, our unemployment rate is down to 4 percent, the lowest it has been since 1957, and our remarkable record of price stability is beginning to give way to price increases.

The Committee for Economic Development has been one of the leaders in supporting the principle of a stabilizing budget policy to promote high employment without inflation. In December 1962, the Committee for Economic Development recommended a tax cut of about the size that was subsequently enacted, although it suggested that the cut take effect earlier and in a form different from that adopted. Our recommendation was an application of the principles this committee has been stating since 1947. We are pleased that the cut was made and that it has worked so well so far.

We believe that the tax cuts, in conjunction with continued price stability and strengthened business confidence, have made possible the rapid expansion in the economy in the last few years. Thus far, the recent experience with stabilizing fiscal policy has been successful and has not brought about the inflation that its critics predicted. The public support that has been generated for a budget policy oriented toward high employment may be endangered by a continuation of expansionary pressures as we approach full use of resources. For if we experience inflation in the near-term future, there may be a rebirth of cynicism about the usefulness of stabilizing fiscal policy with a resultant loss of a powerful stabilization tool. For this reason, with the economy operating so close to its potential output and with unemployment predicted to fall below 4 percent in 1966, it would seem to be the course of wisdom to follow policies likely to avoid inflation rather than policies to exact the last ounce of potential output and thereby risk inflation.

In these circumstances I believe there is insufficient attention given in the report to the following matters:

(1) The level of defense expenditures that will be required by our foreign commitments is uncertain. In view of the fact that additional revenue may be required to contain excess demand, the discussion of tax flexibility seems hardly adequate. The Economic Report would have been strengthened by including in its recommendations a specific statement relating to a discussion earlier examined by the Committee for Economic Development about the possible desirability of an agreed upon quick procedure for raising or lowering tax rates in an emergency.

(2) The report notes that increased productivity will help avoid inflation. It further points out that the productivity rise in 1965 has fallen below its trend value. The Committee for Economic Development on numerous occasions has suggested revision in the tax structure that would increase productivity by stimulating investment. We have raised the question of the possible role in the Federal tax system of a broad-based, low-rate general business receipts tax as a partial substitute for the corporate income tax. Such a tax would add to the flexibility of the tax system by providing a means to raise substantial additional amounts of revenue with minimum adverse effect on incentive or on income distribution. In present circumstances such a tax could be used, within limits, in place of reimposition of discriminatory excise taxes, an increase in the corporate income tax, or an increase in the personal income tax. As the needs for revenue subsided, this tax could be retained as a substitute for part of the corporate income tax.

(3) While the report shows concern about the total level of Federal expenditures, it exudes confidence that these can be increased without generating excess demand. At the same time, a strong plea is made to both labor and business to abide by the wage and price guidelines. The need for guidelines is stressed because of anticipated price pressures in labor and product markets. These two positions are somewhat inconsistent. I suspect that the proposed increase in Federal expenditures for nondefense purposes may be an excessive stimulus to a fully employed economy that cannot be neutralized by the guidelines.

(4) This question aside, the report offers little insight into whether the proposed programs will actually make a worthwhile contribution to their intended objectives. When the economy was operating below its potential output, it could be argued that the costs of Federal expenditures were small, since they absorbed what would otherwise be unemployed human and physical resources. But at a full employment

level of output, when we must rob Peter to pay Paul, it becomes vitally important that choices be made intelligently from among the wide array of expenditures, private as well as public, that many people deem desirable. The report offers little guidance as to how these difficult choices are to be made. Probably we shall never find a satisfactory objective way to answer this question for all programs, but we believe that the adoption of the procedures contained in our recent report, "Budgeting for National Objectives" would be a step in the right direction. In this statement the Committee for Economic Development supported President Johnson's "planning-programing-budgeting" proposals of last August and suggested new congressional procedures for better ways to define and program the budget in order to meet our national objectives.

(5) We share with the President a desire for a rapidly rising standard of living. An essential element in this process is an increase in investment. To assure that savings will be forthcoming to finance the additional investment which is required for growth and at the same time to prevent inflation, we have suggested the desirability of a budget surplus at high levels of employment. The desirability of a budget surplus at high employment and policies designed to achieve it could well have received more searching consideration. This is especially true since many feel we have attained our high employment goal, and the budget deficit (national income basis) is currently at an annual rate of $2 billion, and there is no prospect for a surplus in fiscal 1967.

(6) At various points the report appears to ascribe importance to monetary policy as one of the instruments of stabilization. Yet, when it comes to action, the report seems to take another view. Thus, the report suggests that demand may be on the verge of becoming excessive. Nevertheless, the report explicitly regrets the Federal Reserve Board's decision to raise the discount rate as recently as December 6, 1965. Furthermore, the report recognizes that the Federal Reserve Board exercises a major influence over credit, which in turn affects expenditures. One might expect therefore in a report devoted to the need for flexible stabilization policy that a greater role would be assigned to monetary policy than in fact is done.

(7) In the report of the Council much stress is laid on the role of guideposts in restraining inflationary price and wage behavior. Full employment without inflation is, of course, a most important goal to which our efforts should be directed. However, I have serious doubts as to how much the guideposts will contribute to this end. The experience with incomes policy (the equivalent of guidelines) in various European countries indicates that even in Europe such policy has had at best limited success—and then only in the short run. Unlike most European countries, the United States is much less dependent on foreign trade and hence not subjected as quickly or as effectively as are these European countries to adverse trends in their exports resulting from inflationary wage and price policies.

In fact, there is considerable reason to believe that the stability of costs and prices in recent years in the United States has been due primarily to unemployment of both men and machines rather than to exhortation to statesmanship in wage and price policy. Now, with the economy producing close to its potential and with the prospect of less than 4 percent unemployment, there may be strong upward price and wage pressures. To use the evidence of the past to advance the guidelines as sufficient for the stability tasks ahead seems risky.

(8) I am less optimistic than the report appears to be about the prospects for price stability. Whether the slackening in the rate of growth of productivity in 1965 will be reversed in 1966 is at least debatable. Future inputs into the work force are likely to be less skilled than those added in the recent past. As capacity utilization increases, less efficient equipment may be pressed into use. In addition, the productivity gains in the recent past which resulted from drawing on a less than fully employed amount of supervisory overhead will tend to diminish.

While many of the price increases in recent months have been in the food and nonferrous metal groups, there is evidence that price increases are spreading more widely throughout the economy. The rising ratio of prices to costs in manufacturing suggests also the possibility of upward pressures arising from the demand side.

On the cost side, the report suggests that, since relatively few labor contract settlements come due in 1966, cost pressures arising from wage settlements will be moderate. It is hard to demonstrate this proposition, and, even if it is true for this year, the pressures may be all the greater in 1967.

(9) Apart from differences in analysis, I am concerned about the rising reliance on guidelines for administrative and political reasons. There is a fundamental problem with the guidelines that is not discussed in the 1966 report. As I remarked in commenting on the 1964 Economic Report:

At issue is the role of free, competitive markets as compared with the role of Government in the guidance of our economy. One aspect of the issue is whether there is a way of exercising Government influence over prices and wages through moral suasion and leadership that will be effective without in fact constituting Government control of a kind generally considered alien to American tradition and values. Other questions, on the assumption that such influence without control is possible, include how, by what legal processes, the Government will determine the standards of price and wage behavior to which the economy should conform. How can it be assured that the standards will bear equitably and without discrimination upon all the individuals, businesses, and unions to whom they are expected to apply? If the guidepost policy is a response to a belief that competition in labor and product markets is inadequate, is it better to move in the direction of more Government influence, rather than in the direction of strengthening competition?

(10) The degree of inflation associated with any given level of unemployment depends in substantial part upon the character and degree of competition in the markets for products and the markets for factors of production. One finds a paucity in the report of concrete references to the possible adverse effects of trade union activity on wage rates. Much of the discussion about labor markets is confined to discussions of measures to improve mobility through employment service activity.

(11) In view of the concern about the budget deficit, price inflation, and the adverse balance of international payments, it may be timely to recall that the Committee for Economic Development has urged gradual return to free markets in agricultural commodities as a way of reducing price supports and encouraging efficient production in agriculture. The recent improvements in agricultural income, the reduction

in many agricultural stocks and the low level of unemployment in the economy would greatly facilitate the transition to free agricultural markets and the exodus from submarginal farm units.

(12) In its comments on the balance-of-payments problem, which has plagued us now for 8 years, the report has little new to offer. A general sense of optimism about our ability to achieve equilibrium in 1966 appears implicit in the chapter dealing with this subject. Until equilibrium is achieved, the report supports the selective measures which have been taken to restrict the outflow of capital from the United States. The possible adverse effects of these acts on Europe in the short run, as well as the adverse effects on the U.S. balance of payments in the long run, do not receive a great deal of attention. The explicit recognition of the need for reform in the international monetary payments system by the provision of "adequate reserves" through the IMF merely restates the administration's position as expressed earlier by Secretary of the Treasury, H. H. Fowler. The conventional and officially recognized ideas for dealing with imbalance in international payments seem to offer only stopgaps and palliatives rather than any solution to the problem that has plagued both international economic relations and often domestic economic policies as well. Perhaps there is no solution, but I believe that we have not yet exhausted the possibilities of finding one.

In conclusion, may I say that my purpose in raising these questions about the report is not to record any fundamental disagreement with the analysis or recommendations in the report. Rather, my comments are intended to highlight some of the aspects of policy about which more thought is needed.

COMMON CARRIER CONFERENCE OF DOMESTIC WATER CARRIERS

Any appraisal of the state of the Nation's economic health and the consequent evolution of policies and practices to further prosper the United States must take into account the basic natures and functions of the various modes of transportation which, together, represent a significant proportion of national expenditures, taxes, investment, and employment.

During the period 1958–64 approximately 20 percent of our total national annual expenditures for goods and services, or our gross national product, was made, either directly or indirectly, for transportation of one kind or another. In 1964, this amounted to $126.2 billion, roughly divided equally between private automobile expenditures and commercial transportation operations.

In 1963, 18 percent of our total Federal taxes were derived from transportation sources, totaling $19.1 billion in corporate income taxes, excise taxes, and individual income and employment taxes.

Approximately 10 percent of U.S. net civilian investment representing privately owned reproducible assets is for transportation facilities. In 1963 nearly half of that $139 billion was related to automobiles with the remainder in commercial transportation equipment.

In 1964, approximately 13 percent of our total civilian employment was in transportation or transportation related industries and totaled about 9.1 million employees.

The Nation's transportation bill, keeping pace with the needs of increasing population and national economic growth has risen steadily in the period 1958–64 from $90.1 billion in 1958 to $126.2 billion in 1964. Of the latter amount, $56.1 billion was for the movement of freight alone.

It follows, then, that freight transportation is directly related to national economic considerations not only because it is indispensable to modern production and distribution but because it is a basic ingredient of national revenues.

The movement of freight within the United States, and between continental United States and its noncontiguous States and territories, is essentially performed by three competing modes, railroads, motor trucks, and water carriers. Air freight accounts for relatively little of basic intercity transportation. Railroads, motor trucks, and domestic water carriers each provide approximately one-third of the services involved in intercity freight movement.

The Common Carrier Conference of Domestic Water Carriers represents 30 companies operating ships and barges providing freight services for hire on the Great Lakes, coastwise, intercoastally, and on the inland waterways. These companies, all common carriers, are directly competitive with railroads for all freight movement, and are subject to Interstate Commerce Commission regulation. In addition these companies each carry a significant proportion of unregulated freight which constitutes 90 percent of all water movements.

In view of the overall significance of freight transportation to the national interest and specifically since intercity freight movement is roughly divided equally among three competing modes it seems altogether appropriate for the Common Carrier Conference to question the basis upon which recommendations contained in the section headed "Efficiency in Transportation" were made by the Council of Economic Advisers in its recent report to the President.

The sweeping revisions recommended by the Council with respect to ratemaking and transportation policy appear to be derived solely from the premise that railroads have allegedly not been experiencing the growth rate enjoyed by competing modes. There appears to be little if any consideration of the interests or contributions of either water carriers or motor truck lines whose combined revenues and employment are much greater than those of the railroads.

The fundamental concern of the Council appears to be with perpetuating the railroad investment in facilities, developed over more than a century (with substantial Federal assistance in the form of land grants from which railroads still derive significant revenues), without regard for the impact of its proposals on other freight transportation modes which similarly represent capital investment and service to the American economy.

The Council contends, for instance, that the railroads' share of intercity freight traffic suffered a decline from 61.3 percent in 1940 down to 43.5 percent in 1964. The statistics cited, however, exclude the substantial number of ton-miles logged in intercoastal and coastwise water carrier service. Their inclusion, while not diminishing the evident decline in total railroad freight ton-miles, nevertheless, reveals declines of the same order in total water carriage.

For instance, the table used by the Council indicates that while the percentage distribution for railways in the period 1940–64 shows a decline of 17.8 percent, inland waterways declined only 2.7 percent in the same period. When the 252 billion ton-miles of service provided by coastwise and intercoastal water carriers (excluded in the Council's table) are added to the national totals in 1940, however, the statistical figures show that railroads carried only 43.5 percent of the national intercity traffic in 1940, rather than the Council's 61.3 percent, while all domestic water carriers enjoyed 42.5 percent. Including the 306 billion ton-miles of service by coastal and intercoastal carriers in 1964 shows that the railroad percentage of all freight traffic should be 36 percent rather than the 43.5 percent cited in the Council's table for that year. This reduces the rail percentage loss to 7.5 percent, as opposed to the Council's 17.8 percent, but, more significantly, it also demonstrates the fallacy of the alleged 2.7 percent decline attributed to water carriers. The fact is that while all U.S. water carriers moved 42.5 percent of all the ton-miles of freight carried in intercity traffic in 1940, rather than 19.1 percent shown in the Council's table, the water carrier share in 1964 had declined nearly four times the percentage shown in that same table, and in 1964 water carriers held only 29 percent of the total intercity traffic, a decline of 11 percent from the total in 1940, and greater than the railroad decline calculated on the corrected base.

It would be unthinkable to ignore the major contributions to national intercity freight movement by deepwater vessels in arriving at conclusions with respect to "Efficiency in Transportation" and yet this has been done in the report of the Council of Economic Advisers. Coastwise and intercoastal ton-miles, as a matter of fact, represented over 20 percent of the total intercity freight traffic in ton-miles in 1940 and just over 16 percent in 1964. It is significant to note that while total rail freight increased from 379 billion ton-miles to 637 billion ton-miles in that 24-year period, coastwise and intercoastal domestic water carrier ton-miles increased by only 54 billion ton-miles.

When evolving policies which will have a basic impact upon the national economy it is essential that the statistical data properly reflect the total transportation complex affected and not just elements which appear to substantiate preconceived determinations to serve one carrier at the cost of others.

It is important as well in measuring the decline of a given mode to to take into account the base from which competing modes began. While the railroads had provided service to the United States for nearly a century in the base year of 1940, the concept of long-distance trucking was in its relative infancy, there were no transcontinental pipelines until wartime urgencies beginning in 1941 required them, and the water carrier industry on the inland rivers was just beginning to emerge from nearly four decades of inactivity imposed, in the first instance, by disastrous losses suffered at the hands of unbridled railroad competition in the late 19th century. Understanding the relative starting points of competing carriers it is fairly simple to understand why the growth rate of railroads would tend to lag behind the growth rates of newer industries. "Sic transit" the Conestoga wagon.

It is important as well, for economic planners, to look behind the bare statistics of relative traffic by mode and discern the reasons for change.

In the case of the railroads, for instance, the diminishing role of coal as a source of energy has been an inhibiting factor in terms of tons, ton-miles, and revenues. While coal remains the largest single contributor to rail traffic, the portion of our total enegry consumption supplied by coal dropped from 52.4 percent in 1940 to 22.5 percent in 1964. Actual consumption of energy from all sources increased from 23,908 trillion B.t.u.'s in 1940 to 51,821 trillion B.t.u.'s in 1964, an increase of 117 percent. And yet, energy supplied by coal dropped from 12,535 trillion B.t.u.'s in 1940 to 11,640 trillion B.t.u.'s in 1964, a decline of 7.1 percent.

Coal accounted for 36.3 percent of the total tons originated by the Nation's class I railroads in 1940 and 20.8 percent of the freight revenues by the class I railroads in 1940. By 1963, these percentages had dropped to 27.1 and 12.9 percent respectively.

This basic rail traffic was not diverted to another mode. It simply stopped moving due to technological advances in energy production and the substitution of other fuels better carried by pipelines, tankers, and electrical transmission lines.

The fuel market influenced the decline in water carrier traffic as well, but in this instance, the change affecting both railroads and water carriers was essentially brought about by the increasing availability of alternative modes of transportation for moving petroleum—pipelines and trucks. In 1939, water carriers and pipelines moved 78.4 percent of all domestic petroleum traffic, moving about 148 million tons each. Railroads that year carried about 15.9 percent of the traffic and trucks about 5.7 percent. In 1962, pipelines and water carriers still carried 71.8 percent of the petroleum traffic, but pipelines had increased their share of the traffic to 43.36 percent while water carriers had declined to 28.46 percent. Trucks had increased their share of the traffic to 25.69 percent and the railroads had declined to 2.49 percent. The annual volume in this 23-year period had increased 781.5 million tons, but the railroads' share of the traffic had declined by nearly 13.5 percent and the water carriers by approximately 11 percent.

The advent of the tank truck and the extension of pipelines had influenced the distribution method for a basic commodity and had thus altered the economic balance among the modes. In 1965 Gulf-Atlantic coastwise water carriers suffered a sharp decline in petroleum traffic which was wholly related to the opening of one new pipeline.

The significance of these data related to coal and petroleum is that, in the one instance, changing demand patterns had an adverse effect upon railroad traffic and, in the other, the availability of alternative modes resulted in a reorientation of distribution methods with comparable negative impact upon two modes among four.

It is essential that recommendations for modification of national transportation policies be based upon careful analysis of factors influencing all modes and not solely upon representations of distress in a single mode.

It is the view of domestic water carriers that railroads have sought to establish in the minds of the public the image of an industry fighting for its life and therefore justified in resorting to practices such as discriminatory ratemaking, which would result in both civil and criminal penalties if undertaken by any other element of the American business community.

It is distressing to note that the President's Council of Economic Advisers has apparently permitted itself to be persuaded of the desperate condition of the railroad industry and has recommended solutions to national transportation problems which have been a part of the railroad platform for many years.

The Council suggests that four directions of Federal policy appear to be emerging: (1) The development of a rate structure more oriented toward costs; (2) the planning of transportation to provide comprehensive services; (3) promoting the adjustment of transport investment to meet changing demand requirements; and (4) speeding the response to new technical opportunities.

The thrust for "cost-oriented rates" is not a new concept. The present Interstate Commerce Act provides that carrier costs must be compensatory to the extent that they return to the carrier the cost of providing the service. It is in this area where the railroads have proved to be principal offenders against the law, against competing carriers, and against shippers.

The railroads in the last decade have universally participated in a program of rate discrimination, without regard to actual costs of service, which would be outlawed in any other business. The railroads, by law, are exempt from the stringent prohibitions and penalties of the antitrust laws and the Robinson-Patman Act.

These railroad practices are generally characterized by the rankest kind of discrimination in pricing transportation services and may be categorized as geographical discrimination and intermodal discrimination.

In geographical discrimination, shippers isolated from the water by geography are charged high rates to subsidize the low rail rates offered where railroads must compete directly with low-cost water transport. In effect, shippers off the water obliged to use rail transport for their movements, are penalized in the rate structure to provide sufficient revenues for the railroads to be able to offer below-cost rates in areas of high intermodal competition.

In the case of intermodal discrimination railroads charge more for a haul if it is preceded or followed by a water movement rather than if linked by a connecting rail movement. This practice, designed to dissuade shippers from using water part way on hauls where there would be substantial savings if the movement were carried by rail-water-rail, flies in the face of the National Transportation Policy as clearly enunciated by the Congress and is a principal barrier to attainment of "planning of transportation to provide comprehensive services" the second "emerging policy" cited by the Council.

The burden of protests borne by the Interstate Commerce Commission with respect to rate reductions, and lamented by the Council, is directly related to the obligations of the Interstate Commerce Act and the fact that it requires rates to be related to costs. Protests originate with both shippers and affected competing carriers and are specifically designed to oblige the carrier seeking a rate reduction to prove that he will recover costs from the proposed rate. It is paradoxical that the Council cites the caseload burden of the ICC as a justification for increased dependence upon rates related to costs of service when the caseload exists precisely for that reason.

The Council, in supporting its contention, cited the ICC case, Coal to New York Harbor and suggested that division of tonnage was a major factor in ICC decisions rather than actual cost of service. The Council would have benefited materially from examination of a paper "Railroad Coal Rate Policies (Recent Changes in Freight Rates on Bituminous Coal in Eastern Territory: A Commentary on Discrimination)", delivered before the Transportation Research Forum in New York City on December 27, 1965, by James Sloss, Assistant Director of Education, Northwestern Transportation Center. Mr. Sloss examined movements of bituminous coal from the eastern mining area by rail and substantiated his observation that railroads had tended not only to indulge in normal discriminatory rate practices but had refined discrimination to a point where varying rates were charged depending upon the type of coal involved. This could be considered a classic case of value of service, as deplored by the Council, with the rate being tied to the cost of the commodity rather than to the actual cost of moving it.

The Council, oddly enough, while deploring value of service pricing, suggests that it is proper to apply the economist's concept of marginal cost and states "Some traffic, on which rate reductions are not proposed, will pay more than marginal cost and in this fashion fixed costs will be met." The Council fails to answer the obvious questions: Whose traffic will be considered marginal? Will the traffic of the biggest shipper be considered marginal? Shall it be the traffic of the newest shipper? Or should the best located shipper be considered to have marginal traffic? The water carriers contend that the improved unit cost resulting from use of idle capacity must be spread over all units, and not the incremental units. The fantasy of a special price to a steel buyer, whose requirement is arbitrarily considered marginal, suggests itself as analogy.

It is obvious that the practice advocated by the Council would sponsor price discrimination of the worst order and perpetuate unlawful practices already engaged in by the railroads.

The Council's concern with (3) "promoting the adjustment of transport investment to meet changing demand requirements"; and (4) "speeding the response to new technical opportunities" are related because water carriers have been sorely troubled in each case.

In the area of "Flexibility in Transport Investment" it is essential to look at the experience rating of representative transportation companies as compared to all other U.S. manufacturing companies.

Comparisons of freight transportation company returns on invested capital with the 500 largest corporations during 1964 reveal that the 50 largest transportation companies (excluding airlines) realized nearly 66 percent less profit after taxes as a percent of net worth (4.3 percent compared to 12 percent (and roughly 66 percent less profit after taxes as a percent of total assets (2.5 percent compared to 7.6 percent).

Transportation companies tended, in 1964, a better year than the 2 preceding, to live off the fat of depreciated assets which will ultimately have to be replaced.

If the figures accurately reflected transportation profits, the picture would be much worse since railroad profits include substantial sums representing tax relief growing out of guideline depreciation not reserved against the published accounts of many railroads. Their effective Federal income tax rate is about 18 percent compared with the 40–48 percent range for other carriers.

If transportation investment is to be adjusted to meet changing demand requirements and if the industry is to speed its response to new technical opportunities, requiring equipment and research investment, the economic facts of life must be faced.

There must be substantial reformation in the thinking of both industry and Government concerning legitimate profits in the transportation industry. Only then can transportation research and development be expanded. Only then can recurring crises of inadequate and scarce transportation capacity be averted. Only then can the diversion of investment funds by carriers or their affiliates from transportation assets into other fields with higher yields be stopped.

In summary, the earnings of transportation companies, and their individual abilities to fulfill the transportation needs of the country in an orderly and responsive manner, have been adversely affected as the direct result of noncompensatory intermodal competition sponsored by the railroads.

Railroads openly seek to restore their traditional monopolistic position in the movement of bulk traffic.

Railroad doctrines of the profitability of short-term marginal costs in selective ratemaking have created destructive competition in not only their own ranks but in other modes.

Railroad freight rates which are demonstrably excessive are those discriminatory rates protected by geographical monopoly which subsidize rail rates competitive with water carrier rates.

Dependence of the Council on the "Big John" innovation as an example of just and reasonable rate reduction is regrettable. The benefits of "Big John" may extend beyond the carrier and the shipper to the region served, but the evils extend beyond that region as the poultrymen of New England can bitterly attest. Since "Big John" movement of feed corn began, Georgia broilers have been able to undersell Maine broilers in Boston.

The Council of Economic Advisers chose, in its report on transportation, to ignore the fundamental dependence of the Federal Government upon all modes both for the movement of Government property in normal times and as an essential element for our national defense system in times of national emergency.

The U.S. Government in fulfilling its various obligations to the national interest is the single largest shipper of freight in domestic transportation services. The policies adopted for management of the transportation complex in the public interest will have a direct bearing upon the capabilities of government to fulfill its own needs with respect to the movement of mail, the shipment of Government property, the servicing of the military, and the achievement of economy in administering its own freight problems.

Similarly, the nature of our widely dispersed industrial, military, and population centers impose a necessity for this Nation particularly to correlate its civilian transportation requirements with the fulfillment of national defense requirements in wartime. Water carriers, unfettered by the limitations of a set of rails, afford versatility of movement essential in times of emergency and their relationship to national defense requirements warrants careful examination and consideration prior to the adoption of national transportation policies which could well limit their availability in time of need.

It is regrettable that the Council in its examination of transportation neglected to relate existing transportation services of all modes to the increasing demands imposed upon the Government to resolve the poverty problems of entire regions of the country. It has been repeatedly stated that the problems of Appalachia, for instance, are directly related to the lack of adequate transportation systems for the flow of raw materials and manufactured products. A good deal of attention has been directed to the improvement of highway and rail service into the depressed areas while the potential contribution of domestic water carrier service has been virtually ignored. The Council should direct its attention to this problem.

The recommendations submitted by the Council for Presidential consideration have failed to relate the interests of the private sector of the Nation with the heavy burdens of the public sector in a manner which would foster sound policies designed to serve the needs of such.

The contemporary meshing of public and private programs for national advancement demands totality in the development of any recommendations submitted for policy adoption.

If the United States is to develop public policy on transportation regulation truly reflecting the opportunities and responsible behavior by all modes, it will be necessary to examine in detail the basic causes for the economic anemia afflicting vast segments of the entire transportation industry. It is not sufficient for the Council of Economic Advisers to base its recommendations of such far-reaching consequence upon data and opinions which are largely railroad oriented and which tend to ignore entirely the essentiality of other modes in the common purpose of providing economical freight transportation to the people of the United States.

CONFERENCE ON ECONOMIC PROGRESS

By Leon H. Keyserling,[1] President

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CHARTS

(Included at end of testimony)

[1] Former Chairman, Council of Economic Advisers.

Conference on Economic Progress

INTRODUCTORY REMARKS

I want at the outset to express my deep appreciation of the opportunity the Joint Economic Committee has accorded me, year by year, to offer my analysis of these two vitally important reports.

The 20th anniversary of the Employment Act of 1946 naturally turns our thoughts to the great progress made in American economic thought and action during these two decades. This degree of progress would have been impossible without the Employment Act, and not only the operations under this act in the executive branch but also the splendid performance of the Joint Economic Committee established by this act have been powerful factors in all this progress.

But this anniversary occasion also challenges us all to look toward the future, and to examine without reservation how the evolution of our national economic policies may further be improved. Even with the gains thus far made, I believe that there are still many shortcomings, and I would not be truly responsive to your kind invitation if I did not set these forth as I see them without reservation. I hope that I do not indulge in criticism for its own sake, but undertake it rather in a constructive vein.

In the very nature of things, the President's Economic Report tends to be a short statement of broad principles and objectives. In these respects, I find the 1966 President's Report a great and inspiring document. This should come as no surprise, in view of the many other messages of the President in recent years and this year which so marvelously define the aspirations of a Great Society—aspirations complicated in their attainment by the heavy and fearful world obligations we bear.

Because this is the succinct nature of the President's Economic Report, the balance of what I shall have to say is directed toward the 1966 Annual Report of the Council of Economic Advisers. Here is where all of us, and especially economists, look for the more detailed economic analyses and indications of policies and programs directed toward the attainment of the basic objectives which the President so excellently defines.

Both experience and reason make me fully aware that the work of CEA, and especially that part of it made manifest in its annual report, is limited to a high degree by fundamental policy determinations of the President. This might lead some to conclude that some of my criticisms herein of the 1966 Report of CEA are too severe, in that it is by no means a free agent. But I submit that this conclusion would not be justified.

The Council of Economic Advisers must be responsible to the President, but the President must also be highly dependent upon the Council. At this level of Government service, policies determined elsewhere affect the Council's analysis, but the Council's analysis also affects these policies. It cannot be otherwise, and this imposes a very heavy responsibility upon the Council itself.

This point is so important that I feel bound to relate it to the specific criticisms of the CEA report which I make in this statement. I do not believe that the President would exercise the degree of restraint in moving toward the goal of maximum employment which is indicated in the current reports, if he did not place high reliance upon the Council's indications that a more rapid movement toward maximum employment would cause inflationary pressures outweighing the desirability of this more rapid movement. I believe that the President must and does rely upon the Council for quantifications of the relationship between the amount of economic growth we have had to date and the amount we need in future, and for the size of the current GNP gap. In these matters, I think that CEA has let the President and the country down.

Certainly, the President cannot decide upon correct economic policies without being influenced by the Council's analysis of where the distortions and imbalances in the economy have occurred, and what needs to be done to correct them.

To take a specific example, I can well understand that the President's judgment as to political feasibility must have entered and should have entered into decisions as to the composition of recent tax cuts, and as to the distribution of the recent stimulative effort between tax cuts and more public spending. Allowing for this, it is my considered judgment, based upon more than a little experience in the public service, that the President might well have arrived at a considerably different ultimate judgment in these matters if CEA's analysis as revealed in its reports over the years had not deviated—without outside compulsion—from what I regard to be correct economic analysis in some important respects.

I have reluctantly reached the conclusion that CEA at times has rushed too rapidly into attempts to rationalize what it believes to be the view of others who make the more ultimate decisions, instead of helping to shape these views and decisions by more objective and independent analysis. The extent to which so-called political decisions may deviate from what the Nation and the people need is unnecessarily enlarged when too many people are trying to exercise political functions which are not appropriately theirs.

Certainly also, what I believe to be the Council's excessive stress upon purely aggregate approaches, without sufficient structural refinements, cannot be attributed to influences outside the Council.

Certainly also, the extreme vulnerability in the price-wage guideposts must be attributed in large measure to the Council itself. In this instance, the President could neither initiate nor approve what the Council did not start.

The Council itself is at fault in its rather scant recognition that the priorities of our national needs, insofar as they involve the reallocation of resources and incomes, are no less economic problems than those with which the Council has dealt so much more fully.

And certainly, the record over the years makes it clear that the Council of Economic Advisers itself must bear the preponderance of responsibility for failing to lift the scope and content of analysis and defined objectives under the Employment Act to the levels contemplated by the act itself from its moment of origin.

I do not believe that, if the Council moved gradually but with determination toward the kind of American Economic Performance Budget which I have long advocated and advocate again in this statement, the President and others would be irresponsive to the value of this approach, nor even doubt its practical feasibility.

Lord Keynes said, many years ago, that the world is shaped by the actions of men of affairs who move in accord with the ideas of economists whose books they have never read. His own influence was long deferred, and his teachings are inadequate for today. The President's economists have more influence and power than economists dreamed of in the times of the great Englishman. They need to use it fully and well.

On this basis, I now proceed to my evaluation of the Council of Economic Advisers' report.

(1) CEA's gingerly goals for reduction of unemployment

The CEA forecast is that the unemployment rate should decline to about 3¾ percent during 1966 (p. 54). It is not made entirely clear whether this is the contemplated rate for 1966 as a whole, or by the end of that year.

CEA sets no goal for the needed level of employment consistent with maximum employment. This is an outright evasion of the express mandate of the Employment Act. And without this goal for maximum employment, there can be no goal for reduction of unemployment to a level consistent with maximum employment.

Even if viewed as a goal, the 3¾-percent CEA forecast is a very gingerly one, in that an unemployment rate consistent with the maximum employment objectives of the Employment Act would be somewhat below 3 percent, even if viewed conservatively. It probably ought to be 2½ percent or even lower, in view of the pressures for a high rate of economic growth exerted by our international and domestic imperatives, and in view of the increasingly explosive nature of unemployment among those groups whose unemployment rate tends to be twice or more the nationwide average.

The gingerly nature of the CEA approach is further indicated by its statement that "the advance into the new territory of still lower unemployment must be made with care" (p. 32). This statement, in the context of the CEA report as a whole, obviously means that CEA is committed to balancing the desirability of further reductions in unemployment against its own estimates of how much price inflation this might involve.

In terms of pure economic analysis, the proposition that vigorous efforts to reduce unemployment substantially below current levels involve a sizable increase in inflationary pressures can hardly be supported, for reasons which I shall disclose later on in my statement. And from the viewpoint of a defensible social policy, I have always rebelled at any thought that we should ask people by the millions to suffer unemployment, in order that some affluent person might have more assurance of not paying a higher price for a third car in his garage, another fur coat, or even a few more steak dinners. We must and can find better ways of fighting inflation than this, and I shall come to a discussion of these in due course.

The gingerly attitude toward further reduction of unemployment is fed by euphemistic statements that the unemployment rate may soon be lower than at any time since 1953; the more proper statement would be that even 4 percent unemployment, which is the lowest we have had for 8 years or longer, is still 30–60 percent above the maximum-employment rate of unemployment which, under the Employment Act, should be set as an imperative goal for achievement by early 1968 at the latest. We have already tolerated excessively high rates of unemployment for an unconscionably long time, measured against our know-how capabilities to reduce it.

Appropriate measurements of unemployment

A compelling reason for this conclusion is that, as I have pointed out insistently on many previous occasions, the measurement of full-time unemployment alone grossly understates the problem. In December 1965, as shown on chart 1, while full-time unemployment was only 4 percent, the true level of unemployment was about 7 percent or about 5½ million, taking into account the full-time equivalent of part-time unemployment and the concealed unemployment resulting from nonparticipation in the labor force due to scarcity of job opportunity. This is a huge and tragic waste of human resources.

Moreover, even looking only at the full-time rate of unemployment, its severity in human terms is multiplied by the rotation of employment in the course of a year. If full-time unemployment averages 4 percent for a year, perhaps at least 15 percent of the civilian labor force suffers unemployment in the neighborhood of 3 months during the course of the year. In addition to the impact upon their morale, this loss of work opportunity drags the annual incomes of many of them below the poverty-income ceiling, even if they are not there even when fully employed throughout the year, due to substandard wages.

And finally, as we all know, the rate of unemployment has tended to be about twice as high among Negroes, and about three to four times as high among the youngest potential workers, as the nationwide average unemployment rate. This concentration of unemployment among the vulnerables creates, especially in the face of legitimately rising expectations, tensions and resentments which have already erupted with volcanic force in some parts of California, and which are seething just below the surface in many other cities. Under these circumstances, the CEA statement (p. 39) that the unemployment rate among adult males fell to 2.6 percent by the end of 1965 masks the seriousness of the unemployment problem. And the data on page 72 of the CEA report, showing the wider swings of the unemployment rate among the vulnerables, are highly indicative in this connection.

Explanations which try to minimize the unemployment problem by saying that unemployment among the vulnerables is due primarily to personal deficiencies beg the whole question (quite aside from the fact that CEA has correctly propounded the proposition that most of these vulnerables now unemployed would have jobs if the level of demand were high enough). For no matter what the cause of the unemployment among those still unemployed, even if it be that they need training or retraining, no one of them can get a job (unless he takes it away from somebody else) without additional spending or demand to create that job, which means a more rapid rate of GNP growth.

(2) CEA's inadequate goals for economic growth

CEA's gingerly approach to the reduction of unemployment, and its gross underestimate of the size of the task because it takes into account full-time unemployment only, leads CEA to a serious underestimate of our economic growth needs, both short range and long range. As a matter of fact, CEA does not set any genuine goals or targets for economic growth, but merely makes a forecast for the advance of the economy in 1966, compared with 1965. This substitution of a forecast for a goal or target is not in accord with the mandate of the Employment Act that CEA define needed levels of production consistent with maximum production.

Growth rate still too low

First of all, CEA takes large satisfaction in the real economic growth rate averaging 4.5 percent during the period 1960–65. But this rate, as shown also on chart 1, is somewhat lower than the rate averaged during previous periods of substantial duration when maximum resource use was reasonably maintained, under conditions when technology was advancing less rapidly than in the more recent years. Very much more importantly, even the 5.5-percent growth rate in real terms during 1964–65, and the real growth rate from 1965 to 1966 as projected by CEA in the neighborhood of 5 percent, should be compared with a real growth rate of about 7.1 percent needed 1965–66, and an annual average of about 6.5 percent 1965–68, to restore maximum production and employment by early 1968 at the latest. Taking this into account, CEA's forecast for 1966 should not be viewed nearly so optimistically as CEA would have it.

Growth-rate potential

Somewhat subsidiary to this, but important nonetheless, I must dissent from CEA's finding that our growth-rate potential is now only 3¾ percent, meaning that this rate of growth in future would hold unemployment constant (p. 40). This cannot be squared with the projected growth rates for the civilian labor force in the years immediately ahead and the likely productivity trends which I shall discuss a bit later on. I do note that CEA has raised its estimate of the growth-rate potential from 3½ percent to the 3¾ percent just referred to, and this is a partial step toward my insistence during the past few years that previous CEA estimates were far too low. I submit that the growth-rate potential is now in the neighborhood of 5 percent,[2] and it is this rate that we should use in determining goals after committing ourselves to a much higher rate of growth until maximum resource use is restored.

Current GNP gap

The foregoing errors, in my view, lead CEA into another error, embodied in its finding that "we are approaching full use of our resources" (p. 4 of the President's report), and that "now a stimulus

[2] Average annual growth rate in productivity of about 3.6 percent (as actually registered during 1961–65, plus projected growth in civilian labor force.

[of demand] is no longer appropriate" (p. 11 of the President's report). I cannot square this with a true level of unemployment which is still about 7 percent, nor with the fact that even in December 1965 manufacturing industries as a whole were operating at 89 percent of rated capacity (see p. 68 of Council report).

These varieties of underestimates of the size of the task still confronting us lead CEA to the estimate that the GNP gap was only in the neighborhood of $10 billion (annual rate) in fourth quarter 1965 (p. 40). As shown on my chart 1, I estimate the GNP gap for 1965 as a whole as in excess of $85 billion, or about 11.6 percent of maximum production. I arrive at this by projecting from 1953 forward at an estimated growth-rate potential which seems to me realistic, with some write-down for practical reasons. CEA projects only from 1957 forward, in accord with its incorrect assumption that the inadequate growth problem came upon us in chronic form only with the commencement of the recession in 1957, and in accord also with its serious underestimates of the growth-rate potential.

My chart 2 brings up to date through 1965 my estimates of the deficits in economic performance which we have suffered during the period 1953–65 as a whole, in consequence of the chronically inadequate economic growth rate. Some of these estimates may be debatable, but it is much less debatable that we forfeited about 38 million man-years of employment opportunity.

(3) My own analysis of imbalances preventing equilibrium at maximum resource use

Ratio of capital investment to ultimate demand

As I shall indicate more fully later on, I believe that CEA has never even attempted a comprehensive and consistent analysis of just why our economic performance has been so inadequate since 1953. But before doing this, I shall bring up to date my own analysis of the imbalances militating so seriously against economic equilibrium at maximum resource use, because this analysis is just as pertinent to the very recent and current situation as to any earlier period since 1953.

The core of my analysis is that, during the boom periods, investment in the plant and equipment which add to production capabilities far outrun any sustainable relationship to ultimate demand represented by private consumption plus total public outlays for goods and services at all levels of government. This has led in due course to serious cutbacks in plans for investment, and these, combined with the more enduring deficits in ultimate demand, have sparked the recurrent periods of recession or stagnation.

My chart 3 illustrates this thesis during the various periods preceding the various recessions, but I shall concentrate here only upon the most recent experience. As the chart shows, from first quarter 1961 to fourth quarter 1965, investment in plant and equipment grew about twice as fast as ultimate demand, and grew more than twice as fast from fourth quarter 1964 to fourth quarter 1965. I believe that this imports very serious difficulties in future—I will not hazard a guess as to just when—unless vigorous policies correct this imbalance.

As I have just stated, the controlling deficiencies in ultimate demand have been in the form of inadequate consumer expenditures and public outlays. Without spending a large amount of time on this point, I call attention to chart 4, which contains my estimates of the dominant deficiencies in private consumer spending, running at an estimated annual rate of almost $70 billion even in 1965; chart 5 demonstrates that the deficiencies in consumer spending have stemmed from a practically corresponding inadequate growth in total consumer income; and my chart 6 makes the important point that the deficiency in consumer income has been accomplished by a pronounced upward trend in consumer credit outstanding in ratio to income and GNP.

Importance of income distribution

Given the deficiencies in consumer income, a less rapid rate of expansion in credit would have meant even more unemployment. But we would have been and would still be on much safer ground, if more of the consumer spending came from income rather than from borrowings. I find entirely too optimistic and too unanalytical the statement of the Council of Economic Advisers (p. 46) that household borrowings and savings have both been stepped up, unaccompanied by a distributional analysis of whose borrowings have increased and whose savings have increased. I submit that millions of families in the low-income and lower middle income groups have been forced to dissave and to assume far too much debt, especially at rising interest rates, while the excessive concentration of the saving among higher income groups has provided excessive funds for investments which have contributed to the imbalances between investment and ultimate demand.

Indeed, throughout the whole the Council of Economic Advisers report, I detect a deliberate avoidance of the whole problem of income distribution, which, in my view, is central to the whole problem of economic equilibrium, resource allocation, and social justice. I shall have more to say about this later on in my testimony. Meanwhile, I call attention to my chart 7, which shows that we have made very little progress since World War II toward improved income distribution as distinguished from income growth. I submit that the current pattern of income distribution is still unacceptable by all fair tests, both purely economic and social, and that we can neither grow adequately nor reduce poverty at an acceptable rate unless national policies pay much more attention to the problem of income distribution than the Council of Economics Advisers has been willing to consider.

Chart 8 demonstrates the deficiencies in the public outlays aspect of ultimate demand. Relatively, the total Federal budget has trended downward over the years: Measured in ratio to total national production, total budget outlays have fallen from about 18.65 percent in fiscal 1954 to 16.19 percent in fiscal 1962, 15.20 percent in fiscal 1966, and 15.05 percent as projected in the 1967 Federal budget when compared with estimated gross national product for that fiscal year. On a per capita basis, measured in 1964 dollars, the estimate of $521.70 for fiscal 1967 is somewhat higher than the $516.94 in fiscal 1966, but drastically lower than the $578.56 in fiscal 1964.

My chart 9 serves us well as a summary of the very serious imbalances in the economy. Let us pass over for the moment the demonstration of these imbalances for the period 1961–65 as a whole, although

I trust that this committee will give them careful scrutiny, and concentrate upon the developments from fourth quarter 1964 to fourth quarter 1965. As the chart shows, private investment in plant and equipment grew considerably more than twice as fast as gross national product, measured in uniform dollars. The relatively slow growth in gross private domestic investment was attributable in part to the totally inadequate expansion of residential construction and related activities, a problem of towering importance to which I shall return later on in my testimony. Private investment in plant and equipment grew almost twice as fast as private consumer spending. Corporate profits grew much more than twice as fast as wages and salaries or labor income, and much more than twice as fast as the transfer payments which in the main accomplished desirable income redistribution. Farm proprietors' net income grew very rapidly indeed, and desirably so. But in this instance, the farm income deflation had been so serious for so many years, and the farm family is still so far from income parity with others, that we still have a long way to go. Government outlays for goods and services at all levels grew much less rapidly than either total national production or private consumer spending, when it should be growing at least as rapidly as either in terms of (*a*) the priorities of our national needs and (*b*) the deficit in gross national product which still calls for a rapid expansion in public outlays. Even if I am wrong as to (*b*), our priority needs require that we step up public outlays for domestic purposes very considerably, and cut back somewhere else. I shall have much more to say about this later on in my statement.

(*4*) *CEA's analysis of the problem of balance and economic equilibrium*

Weaknesses in analyses of investment function

Some portions of the CEA report would indicate acceptance of a thesis which I have been propounding before this committee and elsewhere for a number of years. After pointing out that "the major reason for the unforeseen gain [in 1965] was the unusually large revision in investment plans" (p. 38), CEA states that "it is obvious that business fixed investment cannot continuously grow twice as fast as GNP, as it did in 1964 and 1965, and that it cannot always be a propelling sector of demand" (p. 57). Later on in its report, CEA says "cyclical fluctuations can be explained as a result of imbalances between the rate of growth of productive capacity and the rate of growth of final demands that make use of productive capacity" (p. 180). It is to these imbalances that CEA attributes both the 1957 and the 1960 recessions (p. 181). I wish that CEA had made this finding some years earlier, as this would have helped a lot to cast doubt upon policies designed to stimulate saving and investment. The chart on page 43 of the CEA report shows a large excess of "high-employment private saving" over actual investment for almost every year from 1958 through 1964. I called attention to this throughout this period, but CEA did not listen.

But after saying this, as I have said it for many years, CEA appears to turn in a diametrically opposite direction. It urges that, as we may be near full resource use now, we can accelerate the rate of economic growth only by devoting more resources to capital formation, and that this can be accomplished only by more restraints upon current consumption in the form of higher personal income taxes or other measures (p. 183). This, to my mind, approximates confusion. For after having observed that the recessions which have interfered with the rate of economic growth have been occasioned by relatively excessive capital formation, and that such capital formation is proceeding at a relatively excessive and nonsustainable rate now, CEA nonetheless concludes that we can improve our rate of economic growth by lifting greatly the ratio of such capital formation to gross national product. And to cap the climax of these inconsistencies, CEA states in another portion of its report that at high employment, private investment and saving should be in balance at a fairly uniform ratio to gross national product of 15.5 to 16 percent (p. 42).

I have pointed out on earlier occasions, and repeat here, that it is entirely fallacious to take the position that a higher sustained rate of economic growth requires a higher ratio of private capital formation and investment in plant and equipment to GNP than would be required by a lower sustained rate of economic growth. Whether the rate of economic growth on a sustained basis is higher or lower, the ratio of this capital formation and investment to GNP must be determined by technological factors which in turn determine how much additional output is generated by each dollar of such investment. If we want to expedite further the rate of economic growth, we must expand both investment and ultimate demand in equilibrium ratios. And, in view of the increasing productivity of capital, it is likely that a lower rather than a higher ratio of investment to ultimate demand will be required.

It follows that, if we want a higher rate of economic growth, we must first determine the sustainable ratios, and then adopt policies to bring about balanced expansion of investment and ultimate demand at these established ratios. My own view is that we should concentrate, if a higher rate of economic growth is our objective, upon policies which expand ultimate demand. For all experience indicates that, given this, investment tends to expand at a relatively excessive rate without costly special inducements. We should have learned this from the tax reductions and other measures of recent years, which are now confronting us with the danger of a rate of investment expansion about twice as high as the rate of expansion of ultimate demand, to which I have already called attention.

In any event, even if we accept the more rational of CEA's conflicting statements on this score, we would then need to point out that CEA was wrong in its previous reports, which I challenged when it advocated policies to induce a much higher ratio of investment to GNP. And correspondingly, I suggest that it is derelict today, when it proposes no policies to restore equilibrium by restraining overexuberant investment and stimulating ultimate demand.

To be sure, CEA does feel that "when tax reduction once again becomes feasible, particular attention must be given to those at or near poverty levels of income" (p. 18 of President's report). Considering the nature of tax reductions to date, this is a rather belated confession of CEA error. Meanwhile, CEA proposes an expedited collection of social security taxes paid by the self-employed (pp. 53–54). In view of the regressive nature of these taxes, and their adverse impact upon consumption, this would work counter to economic balance.

Excessive reliance on aggregate approaches, without structural refinements

More generally, I find CEA heavily overcommitted to aggregate approaches to stimulating or restraining total demand, without appropriate attention to the structural distribution of the demand which bears upon both economic equilibrium and social justice. Thus, on page 34 of its report, CEA notes with satisfaction that, in 1964 and 1965, the "sluggishness in residential construction outlays" was more than outweighed by the advance in personal consumption and business fixed investments. Quite aside from the nonsustainable rate at which business fixed investment was and is still advancing, what about the fact that the great declarations of intent to rebuild our cities and rehouse our slum dwellers fall rather flat when policy and program pay so little attention to adequate reallocation of resources in this direction? I shall return later on in my testimony to this basic and neglected issue of resource allocation from the viewpoint of our great national priorities.

I do want to make one more important point about the excessive reliance of CEA upon the aggregate approach, without regard for structural problems. As I have pointed out on many earlier occasions before this committee and elsewhere, the amount by which x dollars of additional spending, whether generated by tax reduction or otherwise, will add to employment depends upon various technological trends in various sectors of the economy. In some industries, output per man-hour is increasing more rapidly than any likely increase in the demand for products, regardless of what consumers have to spend. Here, there is no opportunity to make very sizable inroads upon the 22 to 27 million new jobs that the Government says we need over the next 10 years to absorb the annual increments in the civilian labor force and to provide new types of jobs for those displaced by technological change and changing consumer choices. This is very well illustrated by chart 10, depicting through 1964 the ratio of the volume of employment to the physical volume of production.

The clear import of my studies on this score is that, in order to meet the employment problem in the years ahead, we will need to remold the structure of demand so that a much larger part of our total output is in those areas where our unmet national needs are still so huge that the annual volume of our increased national output in these areas can and should far exceed the annual gains in output in these areas. This bears closely upon our needs in the public sector, and calls for an entirely different mix of fiscal policies than those to which we have been committed. CEA shows little awareness of the need for this profound change—a change which, in terms of our unmet priority needs, cannot be deferred until the economy is less tight than it is now or may become in the year ahead. If the economy is as tight as CEA estimates—which I doubt, for reasons stated above—then we should still go ahead with these great national priorities at an adequate pace, and use vigorous tax measures and other measures to restrain the scores of billions of dollars of least necessary consumption and the investment which feeds such consumption.

(5) *The CEA's indefensible price-wage guideposts*

Broad aspects of deficiencies in the guideposts

The CEA's price-wage guideposts have been indefensible from their moment of origin, for specific reasons which transcend detailed examination of the guideposts themselves. This is because the guideposts, in their practical application, have been designed only to prevent excessive wage increases, and not to encourage adequate wage increases. Neither universally recognized economic theory nor practical considerations can justify looking at wages only as a factor in business costs, and not at all as a factor in consumer purchasing power. Any asseveration by CEA that the guideposts have had both purposes cannot be sustained when one reads CEA discussions on this subject in its reports, and takes note also of almost all other discussions of the guideposts. All such examination makes it clear beyond contest that the guideposts have been used solely toward the avowed end of restraining inflation by avoiding excessive increases in wage costs.

This statement on my part is borne out on pages 76–78 of the CEA's report, which attempts to show that the guideposts have been eminently successful because, during the period 1960–65, compensation per man-hour (including fringe benefits) rose only slightly faster than productivity, so that average unit labor costs were virtually stable.

The first deficiency in this CEA claim, which demonstrates conclusively that CEA is looking at wages mainly as a factor in business costs rather than as a factor in consumer purchasing power, is that CEA looks at money wage-rate trends rather than real wage-rate trends in determining whether wage-rate gains on a nationwide basis and productivity gains on a nationwide basis have been kept in approximate balance. This is a wrong way to look at it. For one of the main reasons why wage-rate gains should approximate productivity gains is that the growth in the predominant factor of consumer purchasing power represented by wages per man-hour should grow apace with labor output per man-hour. When it does not, a deficiency in consumer purchasing power results. And even looking at wages only as a factor in business costs, neglect of cost-of-living increases in determining appropriate wage-rate gains works against economic equilibrium and is also unfair, because at times when the cost of living is rising the likelihood is that money profits are also benefiting in money terms by a rising price level at least to the extent that money wages are rising faster than real wages.

I do not say this in defense of a rising cost of living. Every legitimate effort should be made to prevent it. But insofar as public policy fails to prevent a rise in the cost of living, wage earners should not be left holding the bag in a manner which results in relatively excessive profits for reasons which will be further discussed. As a matter of fact, assuming a moderately rising price level, it is better from all points of view that wage-rate increases take account of this. Viable relationships among income flows to various sectors are even more important than absolute price stability.

A second reason why the guideposts have been wrong from their initiation, even aside from their neglect of the cost-of-living factor, is this: The guidepost formula attempts to hold wage-rate gains in the industries where productivity is rising fastest to the nationwide average of productivity gains. This policy might be economically and socially defensible, if the relatively excessive profits which result were drained off by substantial price reductions which would be beneficial to consumers generally (including those working for low or substandard wages), or if the excessive profits were taxed away and the proceeds used to finance public programs to help the poor. But nothing substantial has been done in this direction; indeed, the industries enjoying these excessive profits have benefited further by a series of tax reductions and concessions. Moreover, while there has been considerable success in holding wage-rate gains in the very high productivity gain industries rather close to the nationwide average productivity gains, no method has been developed to bring wage-rate gains in those industries where the productivity gains are below the nationwide average productivity gains up to this average. In consequence, the guideposts operate to hold the nationwide average of real wage-rate gains far below the nationwide average of productivity gains. This is bad on every count.

The serious lag in wages, due in part to the guideposts

This is demonstrated very clearly by my charts 11 and 12. Chart 11 shows that, in the total private nonfarm economy from 1961 through 1964, the average annual rate of increase in output per man-hour was 3.5 percent, and in wages and salaries only 3 percent in real terms. In manufacturing, the figures were 3.9 percent and 2.5 percent, respectively. For the period as a whole, as shown on chart 12, the respective gains were 10.8 percent and 9.4 percent in the total private nonfarm economy, and 12.2 percent and 7.7 percent in manufacturing.

The seriously disparate trends which have resulted in part from the distorted price-wage guideposts appear vividly on chart 13, depicting trends during the current economic upturn from first quarter 1961 to third quarter 1965 (later data not available for all elements). For various key industries this chart shows that, even with prices trending somewhat downward, profits after taxes rose enormously. On the average, investment in plant and equipment rose considerably less than profits, indicating that the profits were excessive even without regard for the fact that investment was rising at an unsustainable rate. And in all cases, investment in plant and equipment rose fantastically more rapidly than wage rates. This examination through the most recent quarterly period for which data are available shows that the restraints upon wage-rate increases have been indefensibly severe, even when measured in terms of business costs. Wages and profits are both incomes, and the relationships between the two determine in large measure the equilibrium or disequilibrium between investment and consumption.

This phase of the analysis leads to the general conclusion that guideposts for wages, with no guideposts for profits, are economically unsound, and unfair and exacerbating to boot.

Wage trends and price trends are not comparable in this sense; besides, there are no real and effective guideposts for prices, but only vague exhortations.

Charts 14 and 15 are included merely because they display these same imbalances between the growth of investment and the growth of the wage element in consumer purchasing power during the periods leading up to the recession of 1957–58 and 1960–61.

My chart 16 contains my estimates of the deficiencies in wages and salaries which have resulted in consequence of a wide range of policies which have seriously underplayed the role of adequately expanding wages in promoting an adequately expanding U.S. economy. For 1965 as a whole, I estimate the wage and salary deficiency at almost $69 billion, measured in 1964 dollars.

The arbitrary 1966 change in computing the guidepost for wages

The original deficiencies in the price-wage guideposts have been compounded by the changes in the formula in CEA's 1966 report. CEA argues, on pages 92 to 93, that the 3.2 percent guideposts for wages (based originally upon the CEA estimate that productivity gains averaged about 3.2 percent during the 5 years 1959 to 1963, inclusive), or the 5 years 1960 to 1964, inclusive, were sound because these periods included the recessionary year 1960 when productivity gains were low and later sharp upturn years when productivity gains were high. But the CEA abandons this 5-year formula now, on the ground that the 5-year period 1961 to 1965, inclusive, does not include a recessionary year, and that, therefore, the 3.6-percent average annual gain in productivity which occurred during this 5-year period is nontypical and nonsustainable in view of the fact that we no longer have the benefit of a rapid working down of a very large employment slack. Then, CEA declares that the long-term average annual productivity-gain trend has been about 3 percent, and that, therefore, the 3.2 percent guidepost for wages should remain in effect. Thus, CEA substitutes, for a formula which was so highly vulnerable for the reasons stated above but nonetheless based upon experience, a new formula which is based upon nothing but CEA's own guesses as to productivity gains in the future.

Apart from the fact that this change of the rules in the middle of the game undermines confidence in the guideposts and their very credibility, the change is insupportable on other grounds. It is true that the experience during the past decade or so prompts the conclusion that, in general, productivity gains tend to be higher during years when unemployment is being worked down at a fairly rapid rate than during years when unemployment is rising. But the reason for this phenomenon, insofar as it is indicated by looking at the years 1960 and 1962, is not mainly that unemployment was rising in the former year and falling in the latter year. The reason is rather that a higher percentage of the labor force and of plant capacity was being utilized in 1962 than in 1960. Indeed, I have for many years been pointing out to this committee and elsewhere that a higher degree of utilization would tend to improve the productivity picture, and bring the gains in actual output more nearly into accord with the gains in what I have called the productivity potential. It was on this very basis that I criticized the guideposts in the past, in that they made no allowance for this tendency of productivity to respond favorably to a higher degree of utilization. But CEA for several years paid no attention to my observations on this score; and now that my observations have been shown to be correct, the new guideposts make distorted use of what these observations reveal.

For if productivity tends to advance more favorably under conditions of high utilization of manpower and plant than under conditions of low utilization—a proposition that makes more sense than observing merely that productivity tends to advance more favorably under conditions of rising utilization than under conditions of falling utilization—how can anyone jump to the conclusion reached by CEA, that average annual productivity gains during the next few years (which we must assume for purposes of policy will be marked by high rather than low resource use) will average lower than during the 5-year period 1961 to 1965, inclusive, marked on the average by more slack in plant and manpower use than we should strive for and anticipate over the next few years? Thus, CEA has completely mangled the interpretation of the phenomenon which at long last they are taking a look at after repeated urging on my part.

And on the basis of this mangled interpretation, what conclusions does CEA reach? It really rejects entirely any empirical observation of what has been happening to productivity in recent years, and reverts to the proposition that the 3.2-percent guidepost for wages is really to be defended in terms of a very long-term or "historic" 3-percent annual average for productivity gains. The reliance of CEA upon this 3-percent "historic" average makes about as much sense as if we were to attempt to estimate the gains in science or technology during the next few years by looking at the average gains during the last 40 or 50 years. My chart 17 demonstrates, I think conclusively, a long-range trend toward accelerating productivity gains, except when the economy is handicapped by excessive economic slack. The average annual advance in productivity for the entire private economy was 0.5 percent during 1910–20; 2.4 percent during 1920–30, 2.5 percent during 1930–40, and 3.1 percent during 1940–50. It tended to average downward during 1950–61, but this was due to the chronic economic slack from 1953 forward which CEA at long last has come to recognize as having had an adverse impact upon productivity gains. But the average annual gains in productivity were 3.7 percent during 1947–53, and 3.7 percent again during 1961–64. Considering also that the average was about 3.6 percent during 1961–65, how in the world does CEA now conclude that 3 percent is the established trend for the purpose of adhering to the 3.2 percent guideposts for wages, and despite the fact that this adherence violates even the method which the guideposts themselves used until the 1966 report?

To be sure, our actual productivity in future may fall short of the growth in the productivity potential, if various policies conspire to prevent the economy from performing at an optimum. But under such circumstances, to adjust wage rate gains downward to far below the potential productivity gains would serve only to feed the deficiencies in consumer purchasing power which would stand in the way of our actualizing these potentials.

I would like to indicate some other examples of the errors of CEA on the entire wage problem. It defends the new 3.2 percent guidepost for wages on the ground that this will strengthen our competitive purchase in the world (p. 93). Whether this be true or not—and it is debatable—how long should we continue the fallacy of doing scores of billions of dollars' worth of damage to the American economy in efforts to improve our balance-of-payments position to the tune of a few billion dollars at best? I cannot discuss the balance-of-payments problem fully in this testimony. But we must stop dragging our feet in devising more workable ways of dealing with this problem through improved international mechanisms, instead of dealing with it in ways which throw out the baby with the bath.

On the same page 93 of its report, CEA defends the new 3.2 percent guidepost for wages on the ground that employers are saddled with increasing taxes under the medicare program, which will also increase further benefits to employees. The program will also saddle employees with increasing costs, and of a very regressive nature. Nor do any of the data I have set forth above support the proposition that profits are in such jeopardy that they need to be benefited further by one-sided guideposts.

Then, on page 91 of its report, CEA says this: "Public policy is and should remain neutral with respect to wage and price decisions that attempt to change the distribution of industry's income between labor and capital. But when such decisions lead to inflationary pressures, they properly become a subject of public concern." In the first place, the guideposts have not been "neutral"; they have served—as all of my previous data show—to fatten profits at the expense of wages and to create gross distortions throughout the economy. In the second place, the priority accorded by CEA to a stable price level, without regard to the problem of income distribution and economic equilibrium, is without merit. In the third place, national policy should not remain "neutral" with respect to income distribution, because the problem of income distribution is a core aspect of the whole economic problem. And in the fourth place, no actual economic policy is "neutral." Neither new tax policy nor new monetary policy is "neutral"; any substantial change in either is likely to change income distribution profoundly, and the proper question is whether the changes are desirable.

On page 90 of its report, CEA buttresses its argument for "neutrality" with the observation that the sharing of gross corporate income between labor and management has remained virtually unchanged since World War II. But the record of inadequate performance since 1953 does not demonstrate conclusively that whatever has been remains good. And in moving toward improved stability and growth, we must concern ourselves not with the relative shares in the very long run, but rather with whether the shares during particular short-term periods are conducive to equilibrium. The trends during the most recent years, and the relationships now, certainly do not meet this prime test.

CEA views on minimum-wage improvement

My final point on the CEA price-wage guidepost relates to minimum wage legislation. On page 91 of its report, CEA say that, "Wage increases above the general guideposts may be desirable * * * where wages are particularly low." But page 13 of the President's report, presumably in line with CEA thinking, says that, "Fair labor standards legislation and Government pay increases should be consistent with the guideposts." Aside from this seeming inconsistency, how can a war against poverty, or other considerations of economic equilibrium and social justice, be reconciled with the proposition that a breadwinner who earns only $1 an hour, or 36.1 percent below the poverty ceiling for a family as established by the Government, should be permitted to move upward at the rate of only 3.2 percent a year? What could be a better example of the unreality of the CEA's aggregate or average approach which takes no account of structural considerations?

Viewing the Council's peculiar attitude toward minimum wage legislation, and its reluctance to advocate specific increases in the minimum wage, I ought to say something about this problem. My chart 18 depicts income requirements for modest but adequate budgets. My chart 19 depicts the numbers of our people in 1964 living below the poverty-income ceiling (more than 34 million), and the number living below modest but adequate budgets (about 47 million). With this as background, my charts 20 and 21 measure hourly minimum wages at various levels against these annual income requirements, based upon various assumptions as to amount of employment during the year and as to whether there is one breadwinner or also a supplementary breadwinner. For example, chart 20 shows that at $1.25 an hour, even with a 40-hour week and 50 weeks of work per year, the annual yield is 20.1 percent below the poverty income ceiling for a family, and 58.3 percent below the modest but adequate budget. I recommend that these charts be examined carefully by CEA and any others who deem that minimum wage increases should be kept within the 3.2 percent guideposts.

This again underscores the unworkability of any approaches to economic policy which do not take account of income distribution. If bringing substandard wages up to an adequacy level would exert inflationary pressures upon the economy, then restraints should be exercised elsewhere. And if bringing substandard wages up to an adequacy level would impose excessive burdens upon a few industries or firms, other supplementary public policy should be adopted to make war against poverty nonetheless. All of these points are developed much more fully in my February 1966 study, "The Role Of Wages In A Great Society," published by the Conference on Economic Progress.

H.R. 10518, reported favorably by the House Committee on Education and Labor on August 25, 1965, proposes to lift the $1.25 minimum wage, as to workers already covered, to $1.40 as of July 1, 1966; $1.60 as of July 1, 1967; and $1.75 as of July 1, 1968 (as to newly covered nonfarm workers, the $1.60 an hour would be reached as of July 1, 1969, and $1.75 as of July 1, 1970). I favor these proposals, and indeed believe that the lift should be to $2, one year after the lift to $1.75. But it appears from reliable press reports that CEA wants to delay lifting the minimum wage to $1.60 until 1970. An increase from $1.25 an hour in 1965 to $1.60 an hour in 1970 would be an increase at an average annual rate of only 5.1 percent, allowing for compounding; taking account of likely increases in the cost of living, which must certainly be done in considering appropriate increases in the minimum wage, the annual average rate of real increase might be only in the neighborhood of 3 percent. Further, the $1.25 an hour went into effect in 1963. Using this appropriately as the base year, an increase to $1.60 an hour by 1970 would represent an annual average rate of increase 1963–70 of only about 3.6 percent, and perhaps only in the neighborhood of 1.5 percent in real terms allowing for past and estimated increases in the cost of living. And this from a CEA which propagandized from coast to coast the high desirability of personal tax cuts which increase by about 16 percent immediately the disposable income of a married couple with two children having an annual income of $200,000 (see my chart 28). And what kind of war against poverty is this, which would take a breadwinner, earning $1.25 an hour in 1965, 5 long years to reach $1.60 and which would yield him, if he worked 40 hours a week and 50 weeks a year, an annual income barely above the $3,130 poverty-income ceiling for a family as established by the Office of Economic Opportunity (and much below this ceiling if allowance is made for likely future increases in the cost of living, and below this ceiling even without allowing for changes in the cost of living, if he suffered a few weeks of unemployment during the year), and about 47 percent below the modest but adequate budget requirement of $6,000 for a family which I derive from studies of the Department of Labor, even without allowing for changes in the cost of living?

What studies has CEA made available in support of its current resistance to the very moderate increase in the minimum wage proposed by the House committee? My study, "The Role of Wages in a Great Society," estimates that lifting the minimum wage even to $2 by 1970 would impose an additional total wage cost averaging less than 1½ percent a year upon employers affected by such an increase, and add an annual average of only about $2.6 billion to the total wage bill of these employers. Would this be "inflationary" from the standpoint of aggregate demand, in an economy whose GNP will average far more than $700 billion between now and 1970? This $2.6 billion annual average should be contrasted with the fact that rising interest rates transferred (mostly from lower to higher income groups) an annual average of $4.6 billion during 1953–63 (see my chart 30). Would this increase in the minimum wage to $2 by 1970 make it necessary for the particular employers affected to increase their prices? In most of the cases it would not. And in the very few cases when it might, this would be in accord with the principle of the guideposts themselves that price increases in such instances would be justified and should be counterbalanced by price decreases in the very high productivity and profit industries (which price decreases CEA has developed no effective method of bringing about).

(6) Defects in CEA's approach to problem of inflation

There is no need for me to discuss at length CEA's approach to the problem of inflation, because I have substantially covered what I think ought to be said on this subject in earlier parts of my testimony.

Need for much more selective approach to anti-inflation efforts

In summary, the aggregate approach of CEA to the problem of inflation neglects this element of prime importance: Except in periods characterized by factors very different from those in recent years or in prospect, we do not find ourselves in situations where all major sectors of economic activity need to be stimulated or restrained by aggregate policy, whether fiscal, monetary, or in other forms. Quite to the contrary, the problem of sustained economic equilibrium at maximum resource use almost invariably requires adjustments involving simultaneous restraints upon some major lines of activity and stimulus of others.

As I have shown, most of the upward-movement years since 1953 have called for some restraint upon overexuberant investment toward expanding production capabilities, coupled with more stimulus to ultimate demand in the form of consumer outlays and public outlays at all levels of government. But in varying degrees at varying times, policies have usually placed the emphasis upon fanning the fires of overexuberant investment, and either dampening private consumption and public outlays or stimulating them only to an inadequate degree.

In terms of the value judgments which must enter into the economic policies of a great nation, the same comments are applicable, and doubly so. Today, many small competitive businesses need more favorable fiscal and monetary treatment to prosper or even survive, even while the giants which are the prime contributors to the overexuberant investment boom need to be restrained.

Some advances in some consumer incomes need to be restrained; but not among the poor.

And many relatively superfluous types of economic activity need to be restrained, in order to leave enough resources available for meeting the great priorities of our national needs which are intimately associated with the aspirations of the Great Society.

Powerful though we are, we do not have the resources in prospect to do everything at once. We cannot, without some restraints upon some sectors much more telling than those now in effect, move at an appropriate speed to rescue our decaying cities; rehouse the one-sixth of our people who now live in slums; rebuild our obsolescent transportation systems; replenish our national resources; clear our polluted airs and waters; improve social security and other welfare payments; modernize the minimum wage under the Fair Labor Standards Act; provide the facilities and personnel required to provide adequate medical care at costs within their means for the 40 percent or so of the population who still do not enjoy this, despite Medicare for our senior citizens; expand our educational facilities and personnel and pay at all levels; open the door of colleges to those among our young people who have the ability and ambition to go there but lack the means; and make effective war against poverty on all fronts.

A purely aggregate policy, which seeks only to speed up the economy when it is moving too slowly and to slow it down when it is moving too rapidly, neglects the even more basic question of where we want to go and what needs we should serve. And this error is compounded when, as in recent years, fiscal and monetary policies have combined to allocate too much income and resources where the need for supplementation is least, and to allocate far too little income and resources to areas where needs are greatest and most urgent.

Need for new analysis of the inflationary process

In order to gain more freedom and flexibility toward correcting these errors of commission and omission, we must first of all take a sober rather than an exaggerated or even frantic attitude toward the problem of inflation itself. The truth is, as shown by my chart 22, that the American economy, aside from periods of building up rapidly to a large-scale war or reconversion therefrom, has shown amazing price stability. And even if these phenomenal wartime eras are included, the average annual gain in prices from 1929 through 1965 has been moderate, and far less than in some eras of great economic progress earlier in our history as a Nation.

More important still, my studies over the years seem to me to have offered substantial evidence that, short of the hyperpressures created by full-scale war, there is little support for the conventional theory that higher rates of economic growth and lower rates of unemployment are more inflationary than the reverse. Just as an automobile operates more efficiently (burns less gas per mile) when running at 50 miles an hour than when running at either 90 or 30, so our economy seems to me to be less prone to inflation when growing at an optimum rate than when growing either at the World War II extreme or the recession-stagnation rate of the late 1950's and early 1960's. This is clearly shown on chart 23, which compares the trends in prices and in various aspects of economic activity during a number of subperiods running from 1963 to 1965.

While this chart and my other studies may not conclusively prove my thesis, they at least prove that we should not let inordinate fear of inflation turn us from the course of maximum employment and production. I am glad that at long last CEA on page 64 of its report begins to acknowledge that my thesis may have validity, but CEA then trails off with the comment that "more detailed analysis is necessary." I think that CEA should have made this more detailed analysis long ago, in view of how important it thinks the problem of inflation is.

Taking into account the immense demands placed upon us by our unmet needs at home and our open-ended obligations overseas, there is nothing more essential now across the whole field of economics than a systematic and sophisticated study of the whole problem of inflation by CEA. This should include a more realistic appraisal of the relative values of absolute price stability and other objectives, combined with an unalterable determination to augment the things we need most, and by cutting back on the things we need least when serious inflationary pressures really confront us.

(7) CEA's scant attention to the great priorities of our national needs

All economic policy and programs affect the allocation of resources and incomes. The operations of the CEA are not a private performance in economic academics, but rather a high level aspect of the evolution of the economic policies of a great nation. As such, CEA's economic work and reports must increasingly take account of the priorities of our national needs, even though these may be defined in large degree by others. These priorities have been eloquently and courageously stated in many messages of the President, but our economic thinking, analysis, and programs have not yet become attuned to these goals.

Human resources

Chapter 3 of the CEA report, on pages 94–115, discusses the strengthening of our human resources, in such areas as education and health.

It is a competent catalog of actions already taken, combined with interesting information about some problems of human need. But it contains no real quantification of goals, integrated with objectives for the economy as a whole, and without these the exercise is not sufficiently meaningful in the context of a CEA report.

Housing and urban development

As I have already indicated, CEA seems not particularly disturbed about the lag in residential construction during 1964 and 1965, on the ground that this was more than compensated for by the upswing in private investment and consumer spending. But this takes no account of the high priority attached to the rebuilding of our cities and the replacement of slums in many messages of the President. It may well be that tremendous acceleration of efforts on this front would make the largest single contribution to the underpinning of optimum economic growth and maximum production, the maintenance of maximum employment, and the reduction of poverty in the decade ahead. Measured against this, the quantitative aspects of the housing and urban renewal programs now in being and contemplated are a mere bagatelle. I am convinced that CEA should develop a long-range budget for housing and urban renewal, in the perspective of the overall American Economic Performance Budget which I describe toward the end of this statement. The new Department of Housing and Urban Development cannot alone do this, for obvious reasons.

War against poverty

The treatment of the war against poverty in the current CEA report is almost in the nature of an afterthought or appendage. I submit that, fully conceived, the war against the poverty which still afflicts 34 million Americans, and against the deprivation which afflicts another 49 million Americans living above poverty but below a "modest but adequate" budget, coupled with a related war against deficiencies in the public sector which bear so directly upon the poverty problem, are in fact at the very core of our entire economic and related social efforts. For what could do more toward sustained maximum employment and production than to cultivate the underdeveloped market within our own boundaries which consists of 81 million Americans? I therefore believe that every report of the Council of Economic Advisers should make this its central theme, and budget in quantitative terms both objectives and policies for the liquidation of poverty in America by 1968, and of a large part of the deprivation as well.

Transportation

The same comments are generally applicable to chapter 4 of the CEA report, on pages 116–130, specifying areas for further legislative progress in 1966. This is a catalog of what has already been determined upon, rather than a comprehensive appraisal of needs and resources.

The discussion of transportation policy in this chapter is to be commended for urging more cost-oriented rates, more responsiveness to technological change, and the need for a single Department of Transportation. But it avoids what to my mind is the most important issue of current transportation policy: Whether railroad mergers should be allowed to continue without regard for the problem of monopoly, and even more importantly without regard for the fact that most of these mergers project fewer facilities and services upon the hypothesis of a stagnating economy, rather than building facilities and services to the levels required for a U.S. economy moving forward at maximum employment and production. The kind of "guideposts" most needed from the CEA are those which would identify for the specialized administrative and regulatory agencies the broad quantifications of needs in each area which would be consistent with an overall pattern of economic progress meeting our manifold needs in sound and just proportion.

Agriculture

The discussion by CEA of progress and problems in agriculture, in chapter 5 on pages 131–139, is mainly in the nature of historical review. But what is needed most is an indicative budget by CEA of adjustments in our agricultural resources, production, and requirements, all geared to the new concept of abundance and rationalized with an adequate income policy for farmers. How far CEA lags in this respect is indicated on pages 138–139 of its report, where it defends the retirement of farm resources contemplated under the Food and Agriculture Act of 1965, even while the President has inspired the country more recently in 1966 with his new "Food for Freedom" approach.

International economy

The discussion by CEA of the international economy on pages 140–169 in chapter 6 falls away from the task of integrating our international programs and objectives with forward projections for the U.S. economy at large. The discussion evaluates a number of proposals, but points out no ultimate decisions.

(8) Toward improving operations under the Employment Act

All of the comments which I have made in the preceding section boil down to my recommendation, made many times before, that CEA cannot rise to its full responsibilities under the Employment Act until it develops the equivalent of what I have called an American Economic Performance Budget. This Budget would be no more or less than what the original Employment Act intended. It would project long-range goals for needed employment, production, and purchasing power in specific quantitative terms, breaking these down into meaningful components in terms of economic equilibrium, priorities of need, and social justice. More details on all of this are contained in numerous studies which I have done for the Conference on Economic Progress, and perhaps as good an example as any is "Progress or Poverty," published in December 1964.

Indicative goals

As an indication of these goals as developed and integrated within my American Economic Performance Budget, I have a few more charts. Chart 24 projects, from the base year 1965, goals for 1970 and 1975 with respect to the major components of national product and national income. These goals are well within our economic resources, and their composition is consistent with quantifications of priorities as contained not only in my studies but in many other responsible studies.

Chart 25 projects through 1970 and 1975 what might be called a model Federal budget, as the most important single instrumentality for achieving the goals of an American Economic Performance Budget. Taking into account both the spending side and the tax programs built into this model Federal budget (which in 1975 would provide some Federal surplus), the conventional budget in ratio to total national production at sustained maximum resource use would decline from a 15 percent in fiscal 1967 (estimated) to 15.4 percent in calendar 1970 and 13.8 percent in calendar 1975. This makes clear that the model Federal budget is not designed to intrude Federal activities excessively upon spheres now occupied by private endeavor and State and local action.

Chart 26 goes one step further, and allocates this model Federal budget among the priorities of our national needs, both domestic and international, on a per capita basis and in ratio to GNP. A comparison of these magnitudes for the years 1970 and 1975 with the magnitudes in the actual fiscal 1967 budget shows clearly that we have thus far in most instances made only a very limited approach toward serving these great priorities well, in terms of our burgeoning economic resources.

As to where the revenues would come from to support the outlays proposed in this model Federal budget, my chart 27 contains my estimates that, at actually existing tax rates, governments at all levels would have collected during the period 1953–65 as a whole about $200 billion more under conditions of sustained maximum resource use than were actually collected. The chart also indicates what portions of these additional revenues might have been applied to the great priorities of our national needs. This chart is highly indicative for the future.

Looking at the same problems in another way, my charts 28, 29, and 30 show the composition of the tax cuts in recent years, and the transfers in income occurring through the upward spiraling of interest rates since 1952. The lesson to be learned from these charts is that, even in the past as distinguished from the future, with a sounder and more equitable reallocation of resources and incomes, we could even in financial terms have had enough to have made tremendous inroads upon the poverty of 34 million Americans in their private lives, and upon the great and growing unmet needs in the public sector.

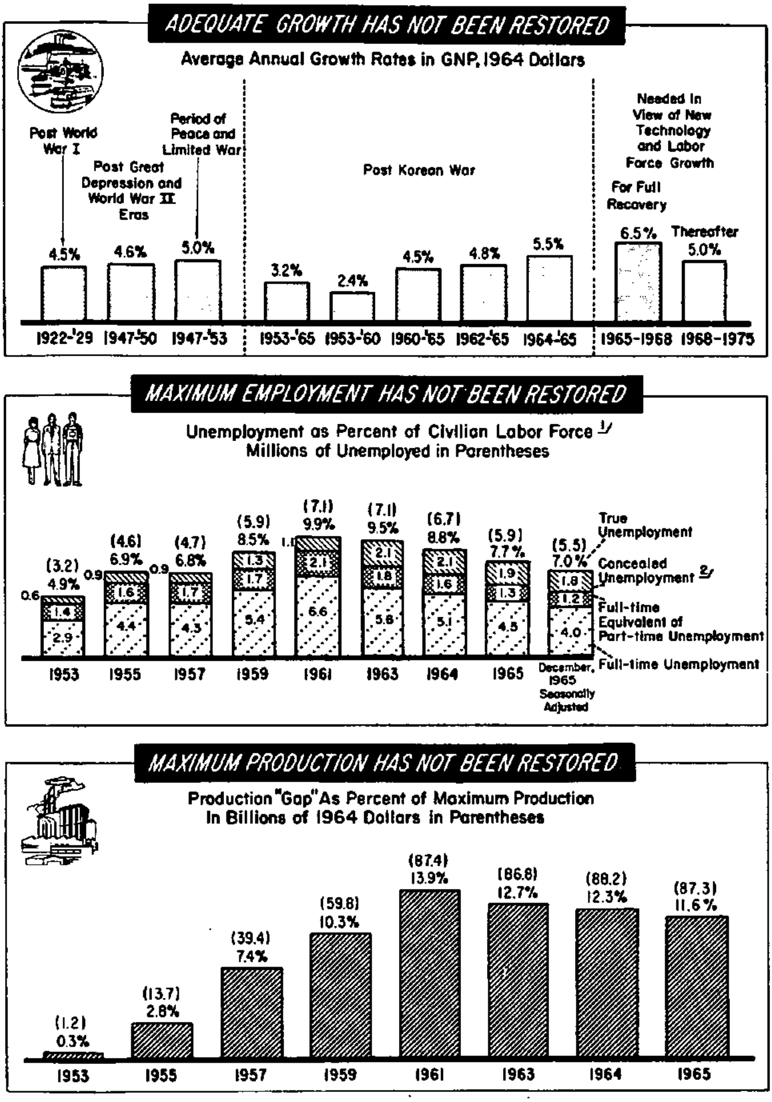
Toward achievement of what I have outlined, and in view of the long-enduring reluctance of CEA to observe fully the original mandate of the Employment Act of 1946, I favor, in broad outline, enactment of Senator Joseph S. Clark's bill, S. 3237, introduced in consequence of his magnificent inqury into "The Nation's Manpower Revolution."

We are thus this year celebrating the 20th anniversary of the historic Employment Act. I hope that this year will be an occasion for us to resolve to make the changes in national economic policies and programs which will bring to fruition the wonderful purposes of this great legislation.

(The charts referred to in the preceding text follow in numerical order.)

CHART NO. 1

DEFICIENT U.S. PERFORMANCE, 1953-1965



1/ 1965 estimated

2/ In Deriving these percentages, the Civilian Labor Force is estimated as the officially reported Civilian Labor Force plus concealed unemployment. Full-time unemployment of 2.9% and true unemployment of 4.5% would be consistent with maximum employment.

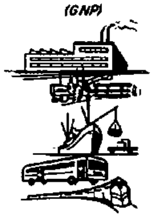
3/ Estimated as the difference between the officially reported Civilian Labor Force and its likely size under conditions of maximum employment.

CHART NO. 2

LARGE NATIONAL ECONOMIC DEFICITS DURING PERIOD 1953-1965

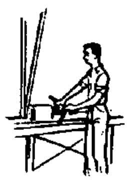
Dollar Items in 1964 Dollars

TOTAL NATIONAL PRODUCTION (GNP)



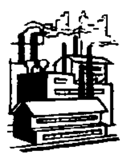
$733 Billion Too Low

MAN YEARS OF EMPLOYMENT



38 Million Too Low

PRIVATE BUSINESS INVESTMENT (Incl. Net Foreign)



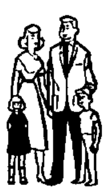
$165 Billion Too Low

PRIVATE AND PUBLIC CONSUMPTION [1]

$568 Billion Too Low

. . . THESE HAVE LED TO LARGE LOSSES TO ALL ECONOMIC GROUPS

AVERAGE FAMILY INCOME



$9,200 Too Low

FARM OPERATORS' NET INCOME

$101 Billion Too Low

WAGES AND SALARIES

$489 Billion Too Low

UNINCORPORATED BUSINESS AND PROFESSIONAL INCOME

$56 Billion Too Low

[1] Includes personal consumption expenditures plus government (Federal, state, and local) expenditures ($509 and $59 billion, respectively)

CHART NO. 3

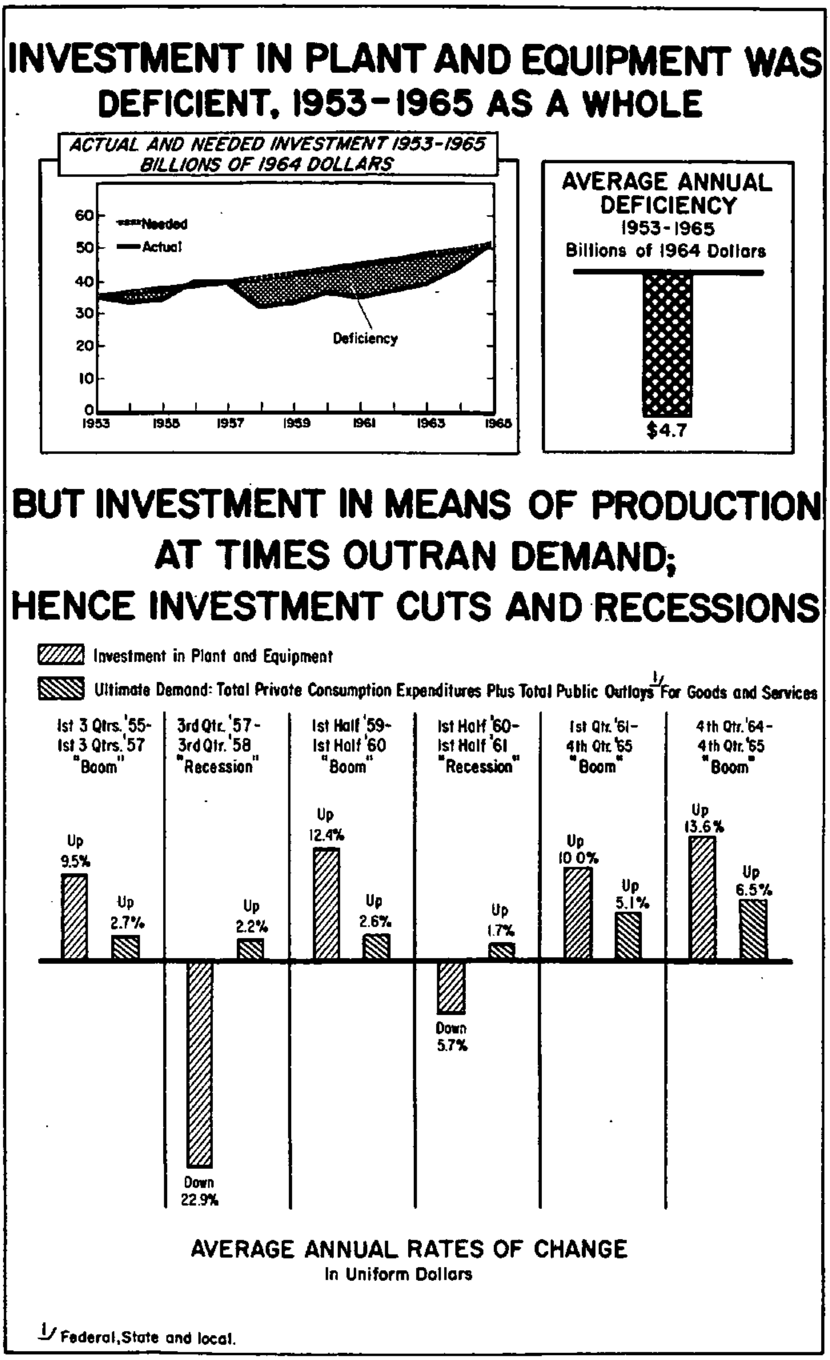

INVESTMENT IN PLANT AND EQUIPMENT WAS DEFICIENT, 1953-1965 AS A WHOLE
ACTUAL AND NEEDED INVESTMENT 1953-1965
BILLIONS OF 1964 DOLLARS
Needed
Actual
Deficiency
60
50
40
30
20
10
0
1953
1955
1957
1959
1961
1963
1965
AVERAGE ANNUAL DEFICIENCY
1953-1965
Billions of 1964 Dollars
$4.7
BUT INVESTMENT IN MEANS OF PRODUCTION AT TIMES OUTRAN DEMAND;
HENCE INVESTMENT CUTS AND RECESSIONS
Investment in Plant and Equipment
Ultimate Demand: Total Private Consumption Expenditures Plus Total Public Outlays 1/ For Goods and Services
1st 3 Qtrs. '55-
1st 3 Qtrs. '57
"Boom"
Up
9.5%
Up
2.7%
3rd Qtr. '57-
3rd Qtr. '58
"Recession"
Down
22.9%
Up
2.2%
1st Half '59-
1st Half '60
"Boom"
Up
12.4%
Up
2.6%
1st Half '60-
1st Half '61
"Recession"
Down
5.7%
Up
1.7%
1st Qtr. '61-
4th Qtr. '65
"Boom"
Up
10.0%
Up
5.1%
4th Qtr. '64-
4th Qtr. '65
"Boom"
Up
13.6%
Up
6.5%
AVERAGE ANNUAL RATES OF CHANGE
In Uniform Dollars
1/ Federal, State and local.

CHART NO. 4

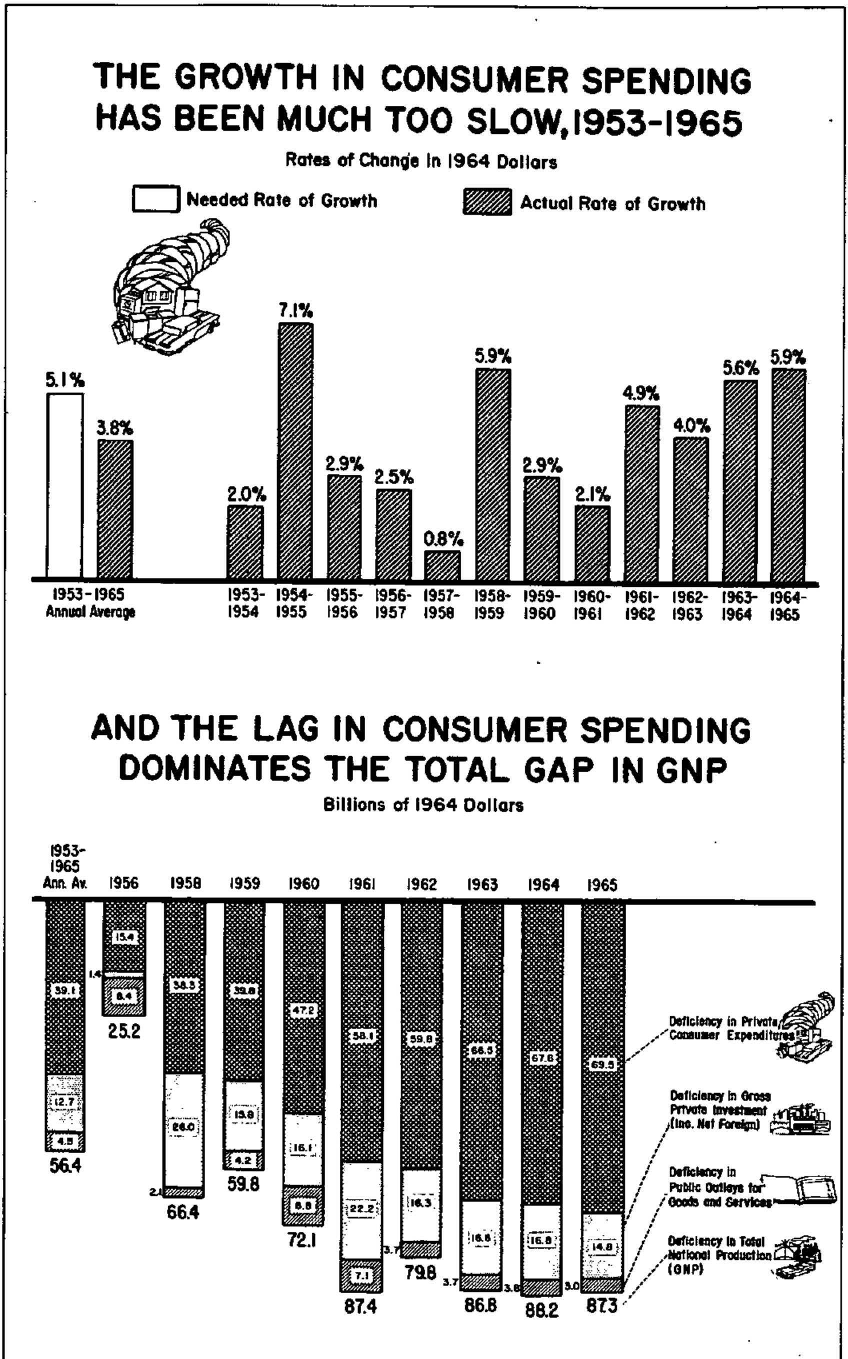
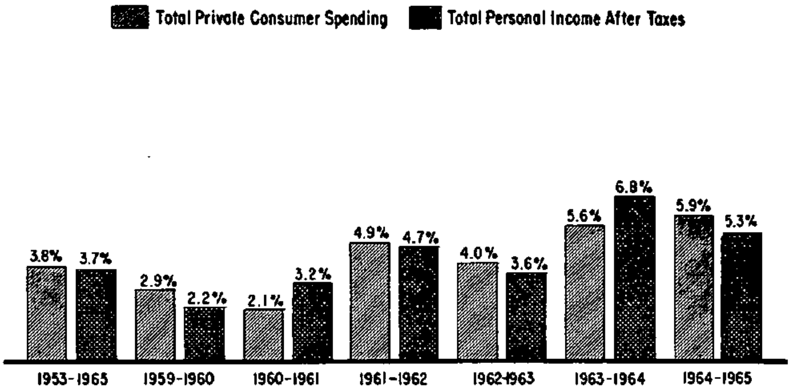

THE GROWTH IN CONSUMER SPENDING HAS BEEN MUCH TOO SLOW, 1953-1965
Rates of Change in 1964 Dollars
Needed Rate of Growth
Actual Rate of Growth
5.1%
3.8%
1953-1965 Annual Average
2.0%
1953-1954
7.1%
1954-1955
2.9%
1955-1956
2.5%
1956-1957
0.8%
1957-1958
5.9%
1958-1959
2.9%
1959-1960
2.1%
1960-1961
4.9%
1961-1962
4.0%
1962-1963
5.6%
1963-1964
5.9%
1964-1965
AND THE LAG IN CONSUMER SPENDING DOMINATES THE TOTAL GAP IN GNP
Billions of 1964 Dollars
1953-1965 Ann. Av.
39.1
12.7
4.5
56.4
1956
15.4
1.4
8.4
25.2
1958
38.3
26.0
2.1
66.4
1959
39.8
15.8
4.2
59.8
1960
47.2
16.1
8.8
72.1
1961
58.1
22.2
7.1
87.4
1962
59.8
16.3
3.7
79.8
1963
66.5
16.6
3.7
86.8
1964
67.6
16.8
3.8
88.2
1965
69.5
14.8
3.0
87.3
Deficiency in Private Consumer Expenditures
Deficiency in Gross Private Investment (Inc. Net Foreign)
Deficiency in Public Outlays for Goods and Services
Deficiency in Total National Production (GNP)

CHART No. 5

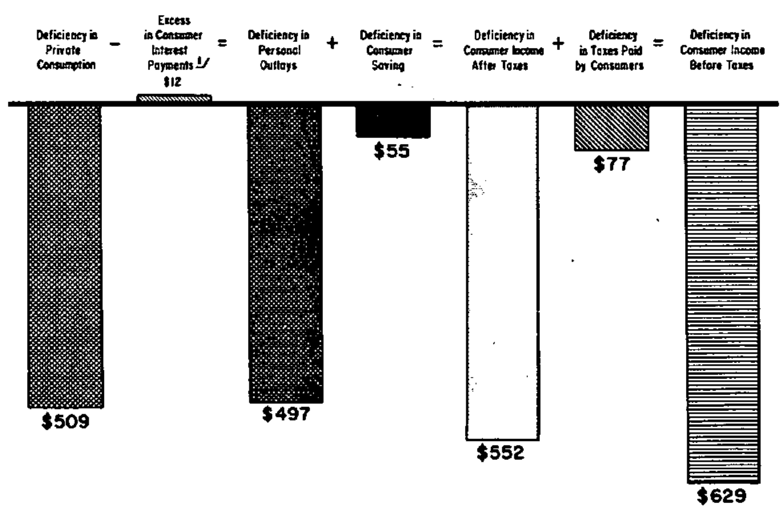
INADEQUATE CONSUMPTION GROWTH STEMS FROM INADEQUATE INCOME GROWTH

Rates of Change in 1964 Dollars



THE PRIVATE CONSUMPTION DEFICIENCY OF $509 BILLION, 1953-1965 REFLECTED A $629 BILLION INCOME DEFICIENCY

Billions of 1964 Dollars



1/ Also includes Personal Transfer payments to foreigners, which is a minimal amount.

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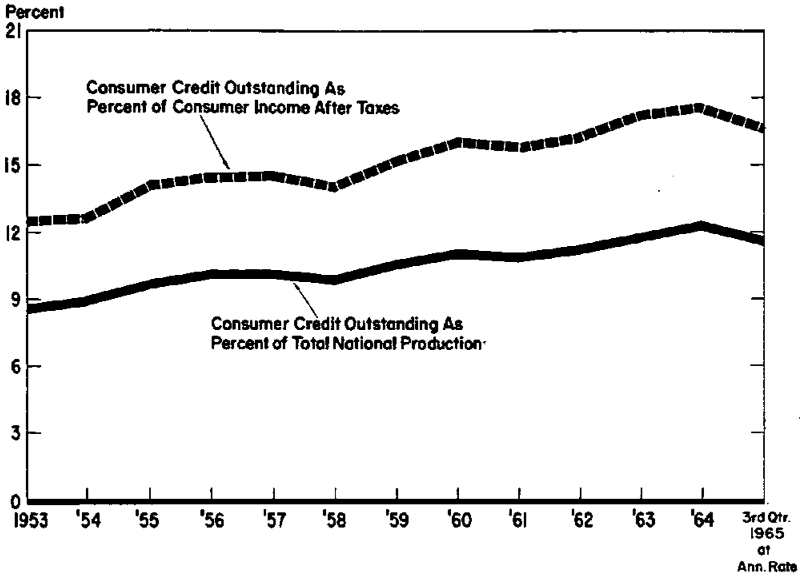
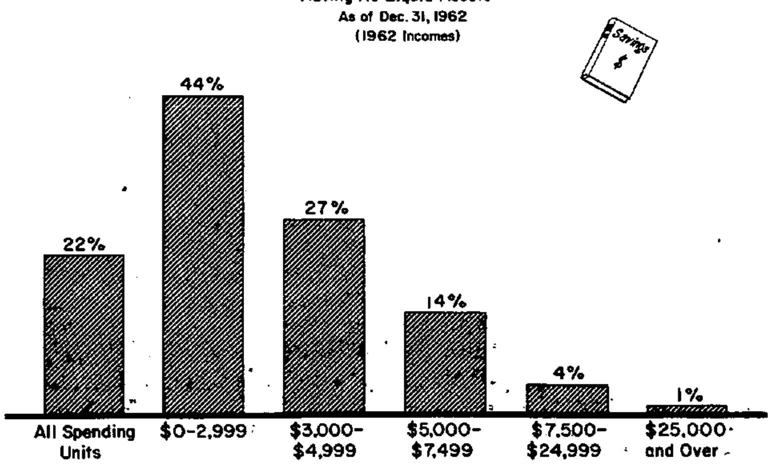
CHART NO. 6

THE SQUEEZE ON CONSUMER INCOMES MEANS RAPIDLY RISING CONSUMER DEBTS



...AND LITTLE SAVING BY LOW INCOME PEOPLE

Percent of Spending Units at Various Income Levels Having No Liquid Assets 1/
As of Dec. 31, 1962
(1962 Incomes)



1/ From 1963 Survey of Consumer Finances, Board of Governors, Federal Reserve System

CHART No. 7

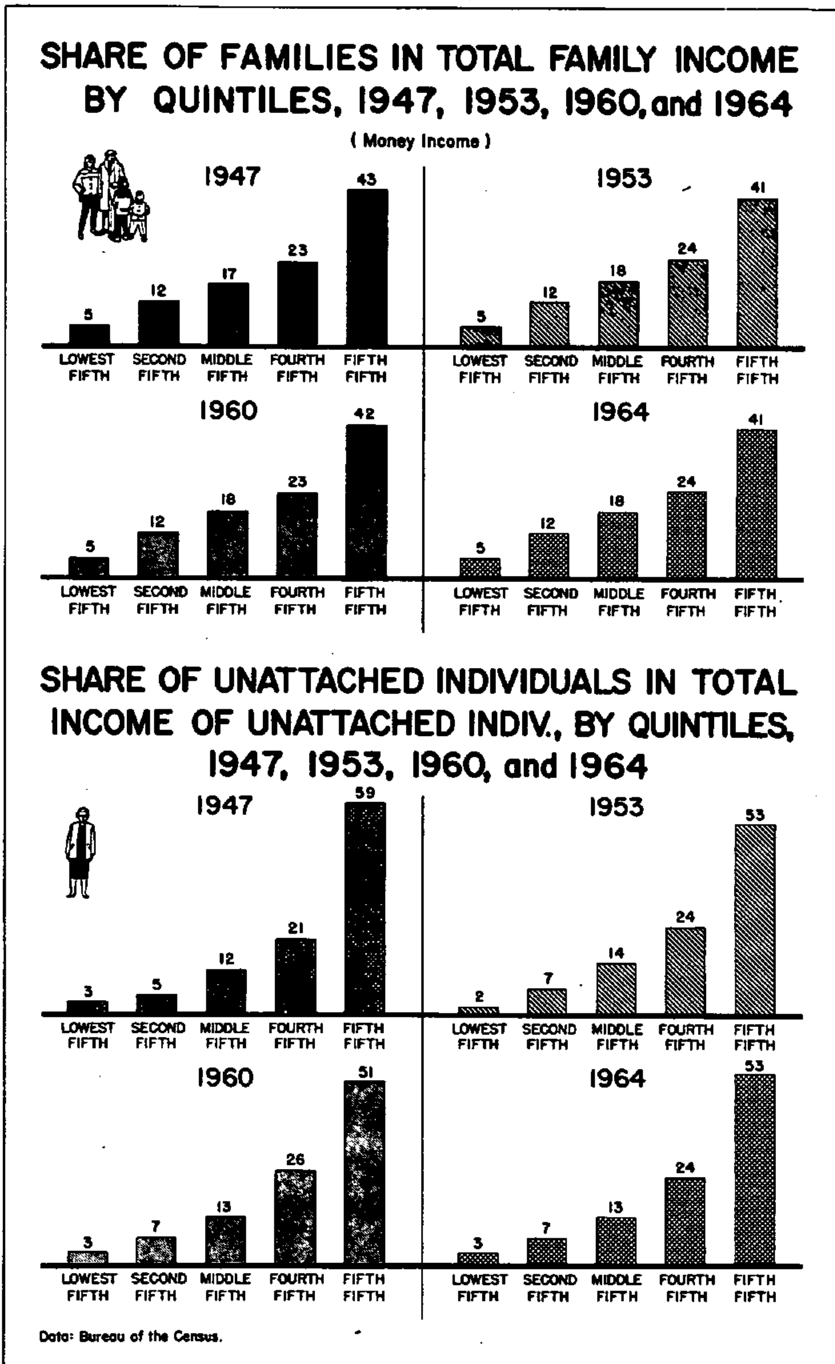
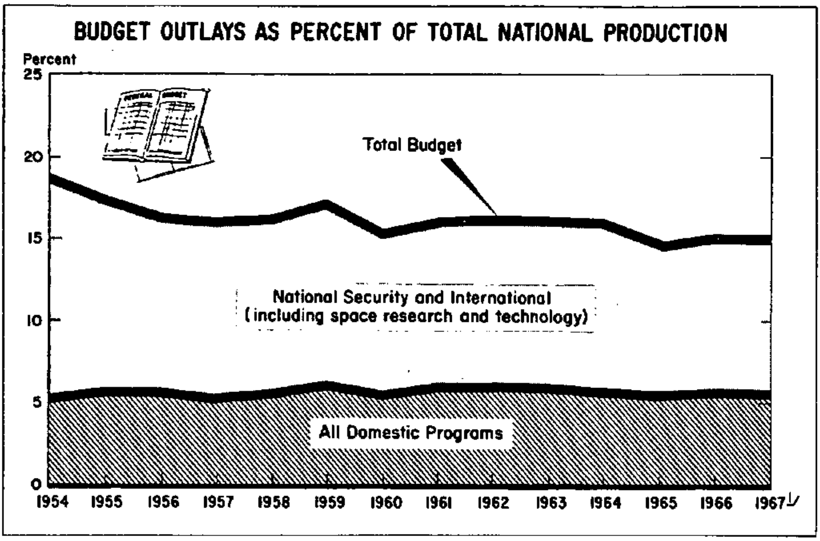
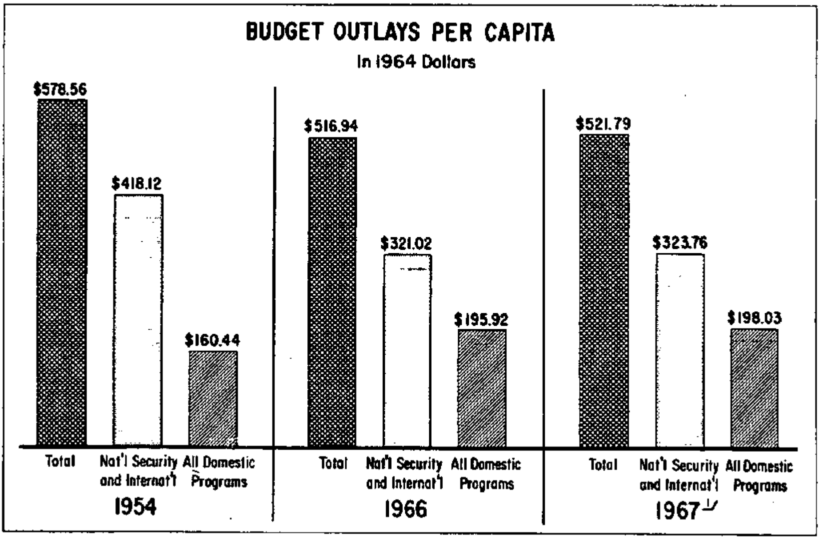

SHARE OF FAMILIES IN TOTAL FAMILY INCOME BY QUINTILES, 1947, 1953, 1960, and 1964
(Money Income)
1947
5 12 17 23 43
1953
5 12 18 24 41
1960
5 12 18 23 42
1964
5 12 18 24 41
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
SHARE OF UNATTACHED INDIVIDUALS IN TOTAL INCOME OF UNATTACHED INDIV., BY QUINTILES, 1947, 1953, 1960, and 1964
1947
3 5 12 21 59
1953
2 7 14 24 53
1960
3 7 13 26 51
1964
3 7 13 24 53
Data: Bureau of the Census.

CHART No. 8

FEDERAL BUDGET HAS SHRUNK RELATIVE TO SIZE OF ECONOMY AND NEEDS, 1954–'67

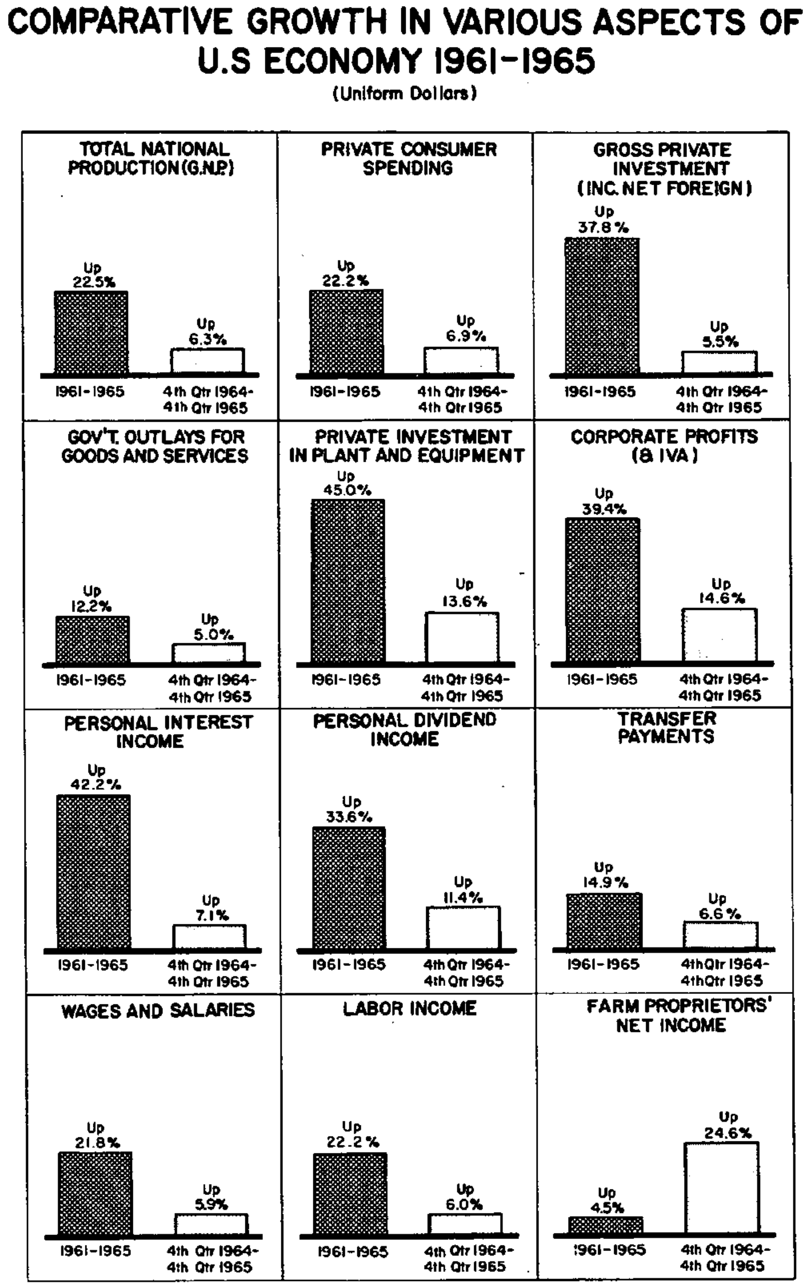
Fiscal Years





1/ Administration's proposed Budget as of Jan. 24, 1966; G.N.P estimated at $750.0 billion, CEP.

CHART No. 9



Source: Dept. of Commerce, Office of Business Economics and CEP.

CHART NO. 10

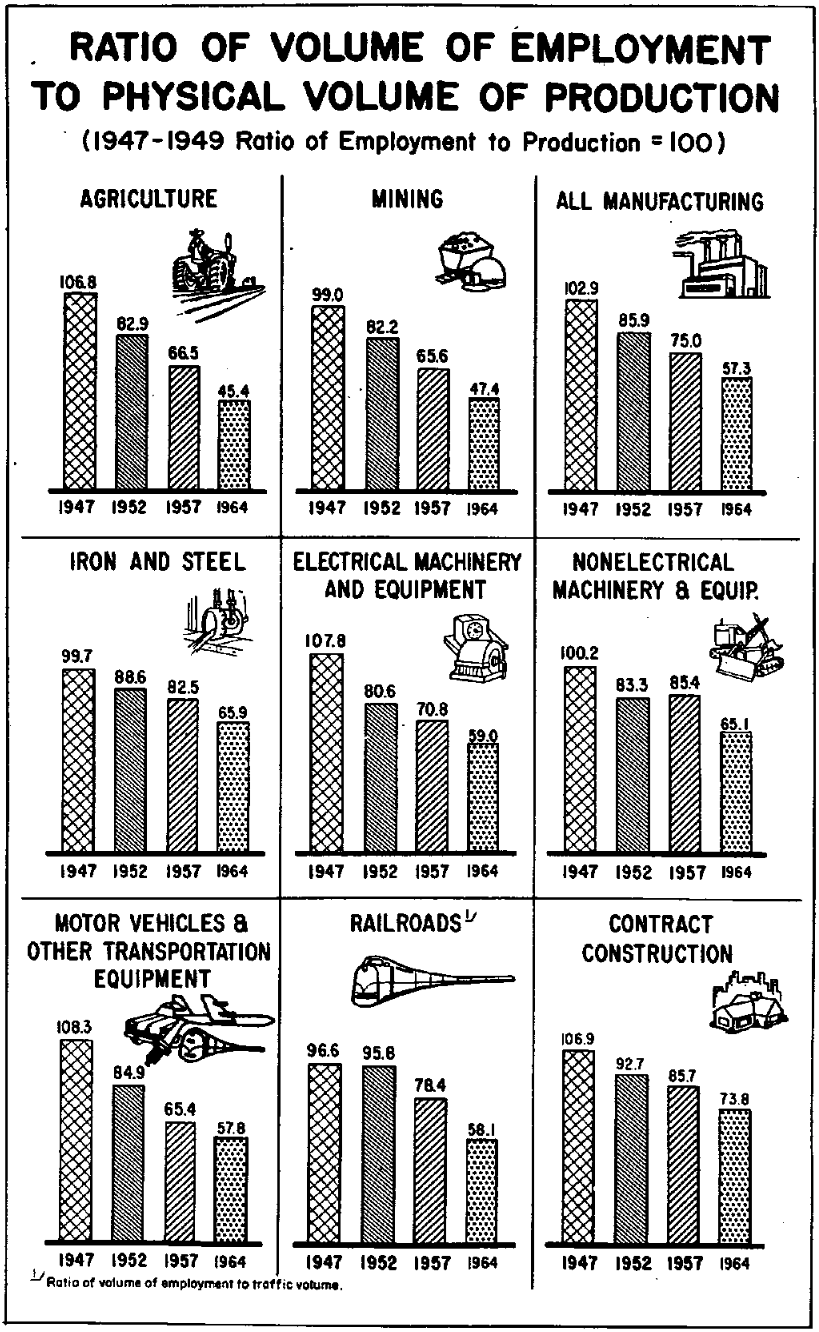
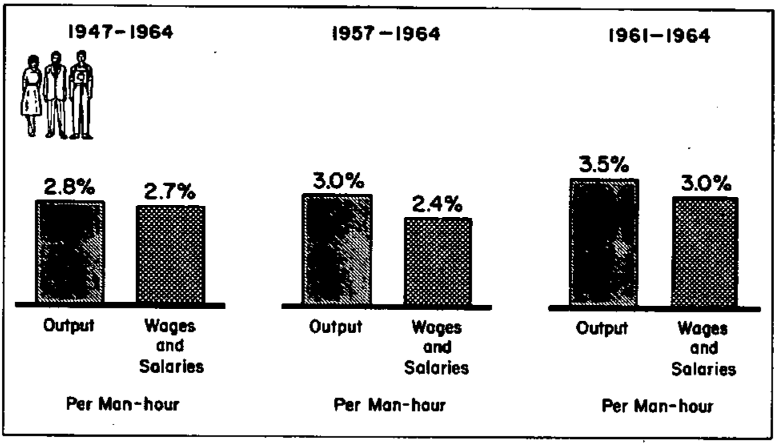

RATIO OF VOLUME OF EMPLOYMENT TO PHYSICAL VOLUME OF PRODUCTION
(1947-1949 Ratio of Employment to Production = 100)
AGRICULTURE
106.8
82.9
66.5
45.4
1947 1952 1957 1964
MINING
99.0
82.2
65.6
47.4
1947 1952 1957 1964
ALL MANUFACTURING
102.9
85.9
75.0
57.3
1947 1952 1957 1964
IRON AND STEEL
99.7
88.6
82.5
65.9
1947 1952 1957 1964
ELECTRICAL MACHINERY AND EQUIPMENT
107.8
80.6
70.8
59.0
1947 1952 1957 1964
NONELECTRICAL MACHINERY & EQUIP.
100.2
83.3
85.4
65.1
1947 1952 1957 1964
MOTOR VEHICLES & OTHER TRANSPORTATION EQUIPMENT
108.3
84.9
65.4
57.8
1947 1952 1957 1964
RAILROADS[1]
96.6
95.8
78.4
58.1
1947 1952 1957 1964
CONTRACT CONSTRUCTION
106.9
92.7
85.7
73.8
1947 1952 1957 1964
[1] Ratio of volume of employment to traffic volume.

CHART NO. 11

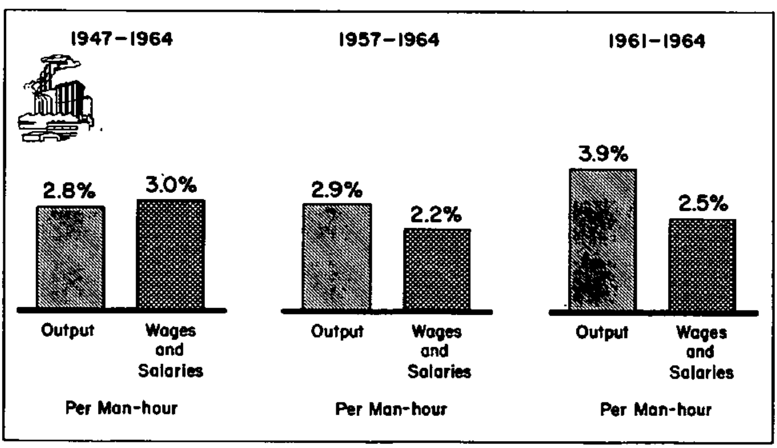
RATES OF CHANGE IN PRODUCTIVITY AND IN WAGES AND SALARIES. TOTAL PRIVATE NONFARM, 1947-1964

Average Annual Rates of Change, In Uniform Dollars



RATES OF CHANGE IN PRODUCTIVITY AND IN WAGES AND SALARIES TOTAL MANUFACTURING, 1947-1964

Average Annual Rates of Change, in Uniform Dollars

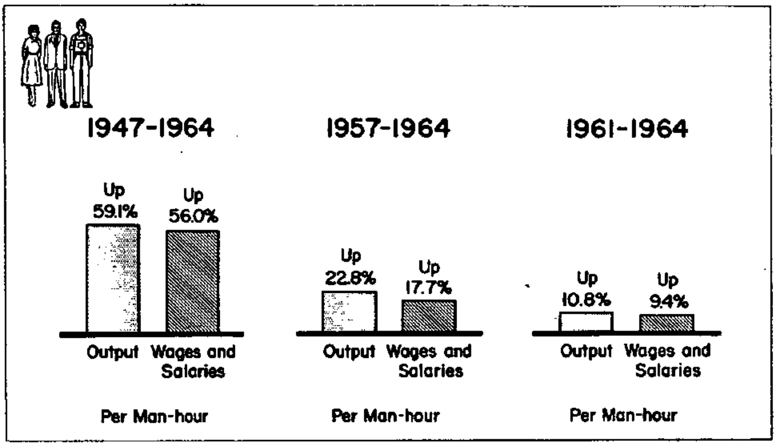


Data: CEP estimates based on U.S. Dept. of Labor, Establishment data; data from U.S. Dept. of Commerce, Office of Business Economics; and data from U.S. Dept. of Agriculture

CHART NO. 12

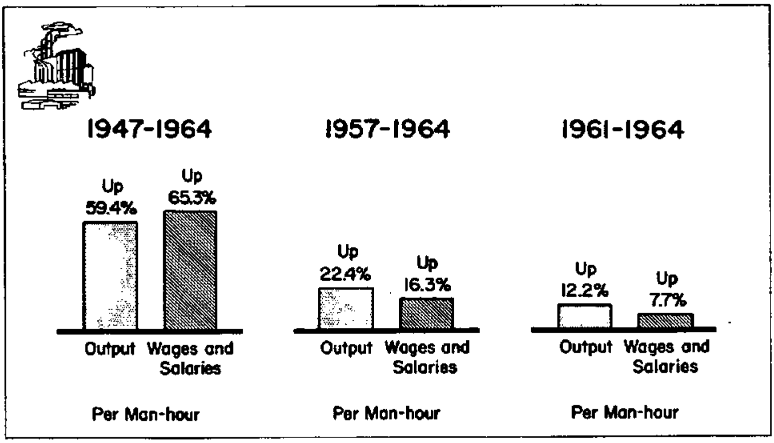
TOTAL GAINS IN PRODUCTIVITY AND IN WAGES AND SALARIES TOTAL PRIVATE NONFARM ECONOMY, 1947-1964

(In 1964 Dollars)



TOTAL GAINS IN PRODUCTIVITY AND IN WAGES AND SALARIES, TOTAL MANUFACTURING, 1947-1964

(In 1964 Dollars)



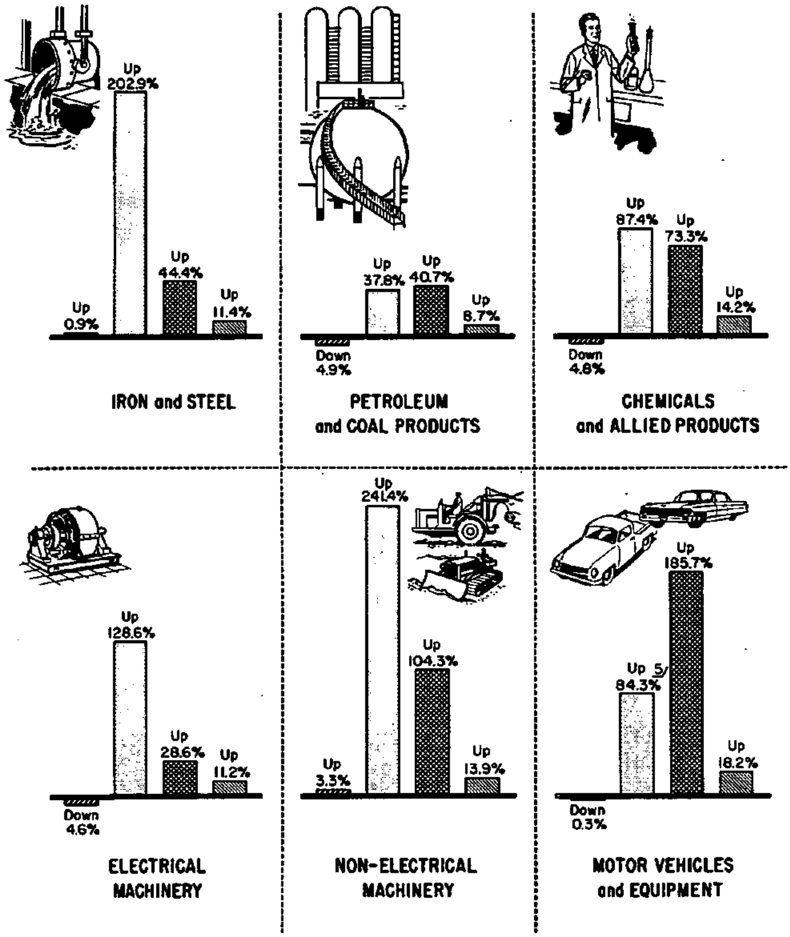
Data: CEP estimates based on U.S. Dept. of Labor, Establishment data; data from U.S. Dept. of Commerce, Office of Business Economics; and data from U.S. Dept. of Agriculture.

CHART No. 13

PRICE, PROFIT, INVESTMENT AND WAGE TRENDS DURING CURRENT ECONOMIC UPTURN

Annual Rates 1st Quarter 1961–3rd Quarter 1965

Prices 1/ — Profits after Taxes 2/ — Investment in Plant and Equipment 3/ — Wage Rates 4/



1/ Data: U.S. Dept. of Labor, wholesale commodity price indexes.

2/ Data: Federal Trade Commission–Securities and Exchange Commission.

3/ Data: U.S. Dept. of Commerce and Securities and Exchange Commission; seasonally adjusted.

4/ Data: U.S. Dept. of Labor, Bureau of Labor Statistics; Average hourly earnings of production workers.

5/ Seasonally low due to vacation and model change over; the increase from 1st Q. 1961 to 2nd Q. 1965 was 316.1%.

CHART No. 14

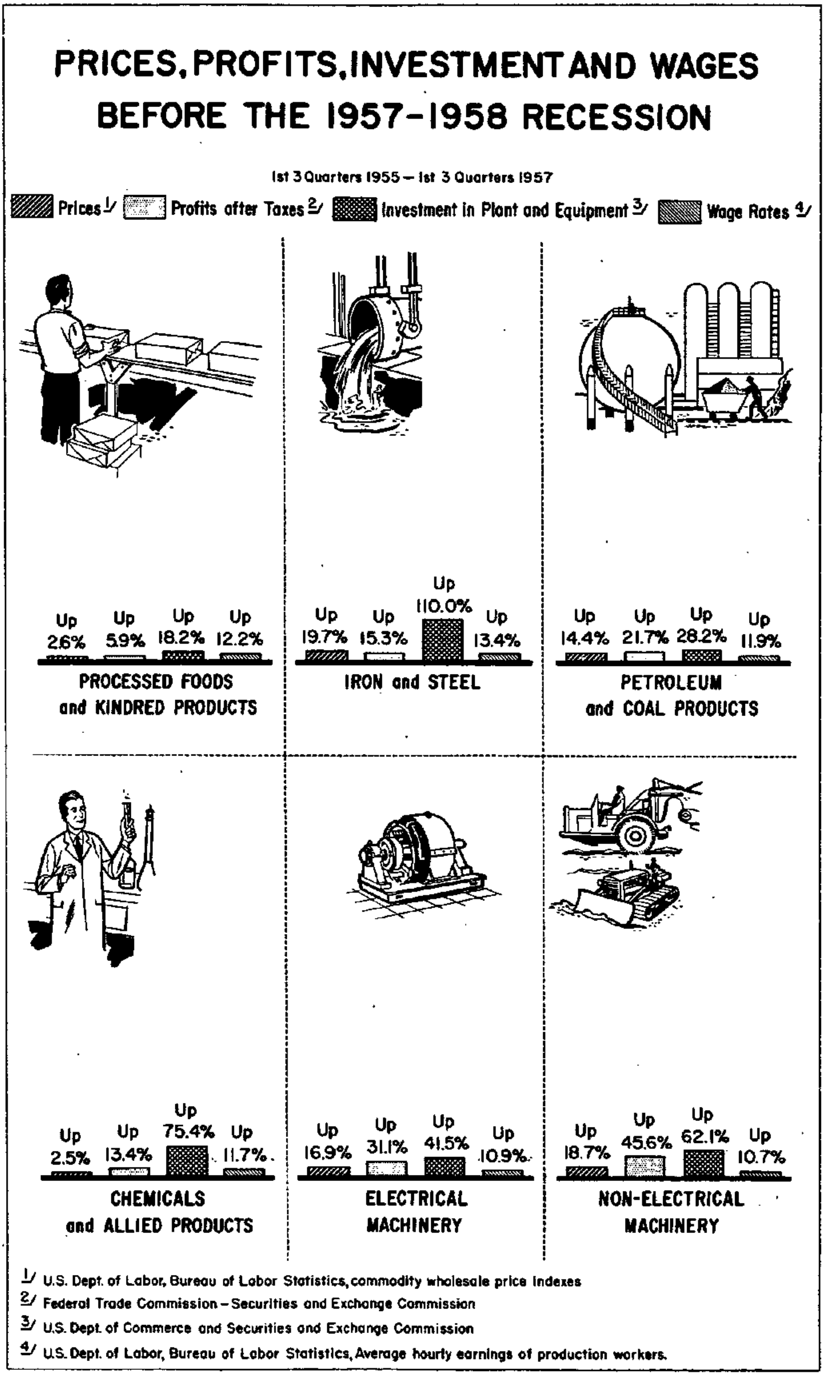
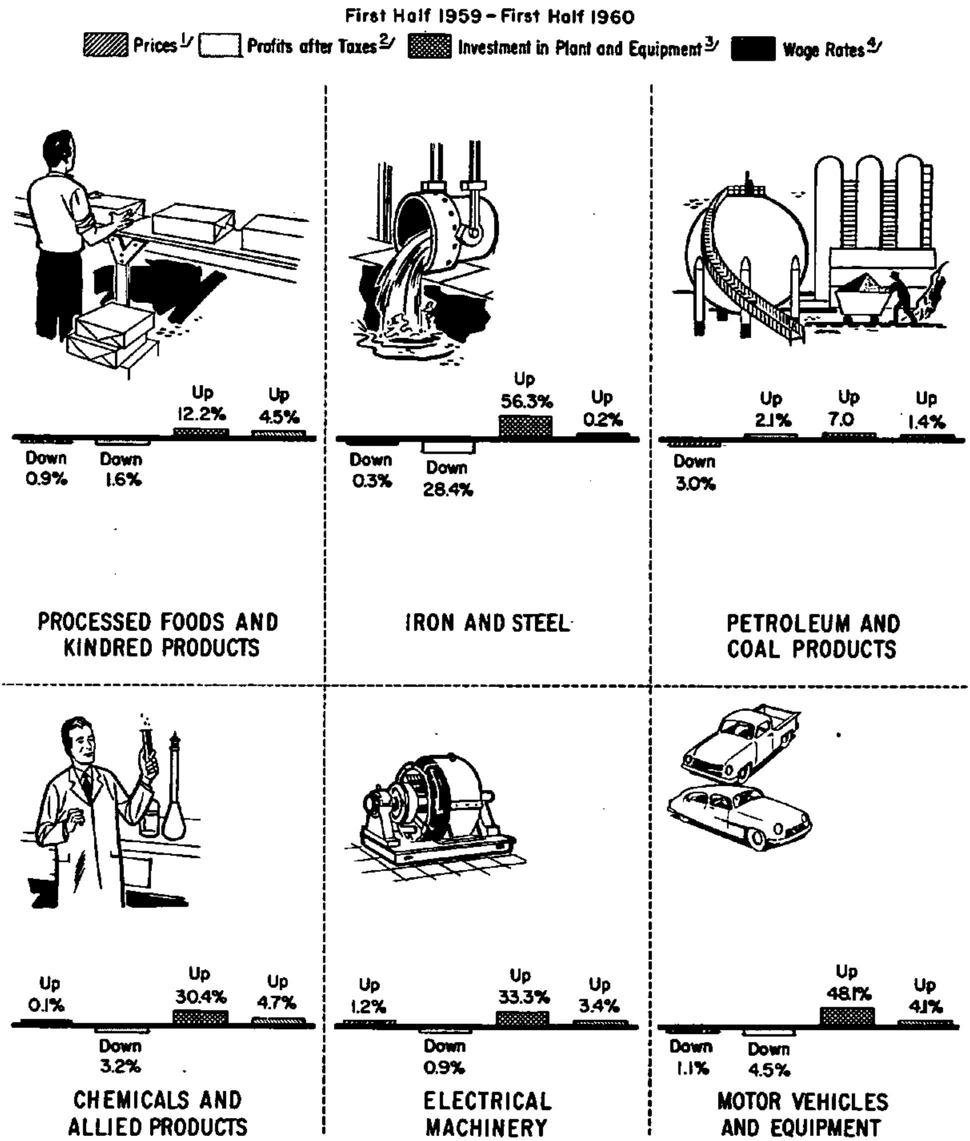

PRICES, PROFITS, INVESTMENT AND WAGES
BEFORE THE 1957-1958 RECESSION
1st 3 Quarters 1955 — 1st 3 Quarters 1957
Prices 1/
Profits after Taxes 2/
Investment in Plant and Equipment 3/
Wage Rates 4/
Up 2.6%
Up 5.9%
Up 18.2%
Up 12.2%
PROCESSED FOODS and KINDRED PRODUCTS
Up 19.7%
Up 15.3%
Up 110.0%
Up 13.4%
IRON and STEEL
Up 14.4%
Up 21.7%
Up 28.2%
Up 11.9%
PETROLEUM and COAL PRODUCTS
Up 2.5%
Up 13.4%
Up 75.4%
Up 11.7%
CHEMICALS and ALLIED PRODUCTS
Up 16.9%
Up 31.1%
Up 41.5%
Up 10.9%
ELECTRICAL MACHINERY
Up 18.7%
Up 45.6%
Up 62.1%
Up 10.7%
NON-ELECTRICAL MACHINERY
1/ U.S. Dept. of Labor, Bureau of Labor Statistics, commodity wholesale price indexes
2/ Federal Trade Commission – Securities and Exchange Commission
3/ U.S. Dept. of Commerce and Securities and Exchange Commission
4/ U.S. Dept. of Labor, Bureau of Labor Statistics, Average hourly earnings of production workers.

CHART NO. 15

PRICES, PROFITS, INVESTMENT, AND WAGES BEFORE THE 1960-1961 RECESSION



1/ U.S. Dept. of Labor, Bureau of Labor Statistics, commodity wholesale price indexes
2/ Federal Trade Commission - Securities and Exchange Commission
3/ U.S. Dept. of Commerce and Securities and Exchange Commission
4/ U.S. Dept. of Labor, Bureau of Labor Statistics, Average hourly earnings of production workers.

CHART NO. 16

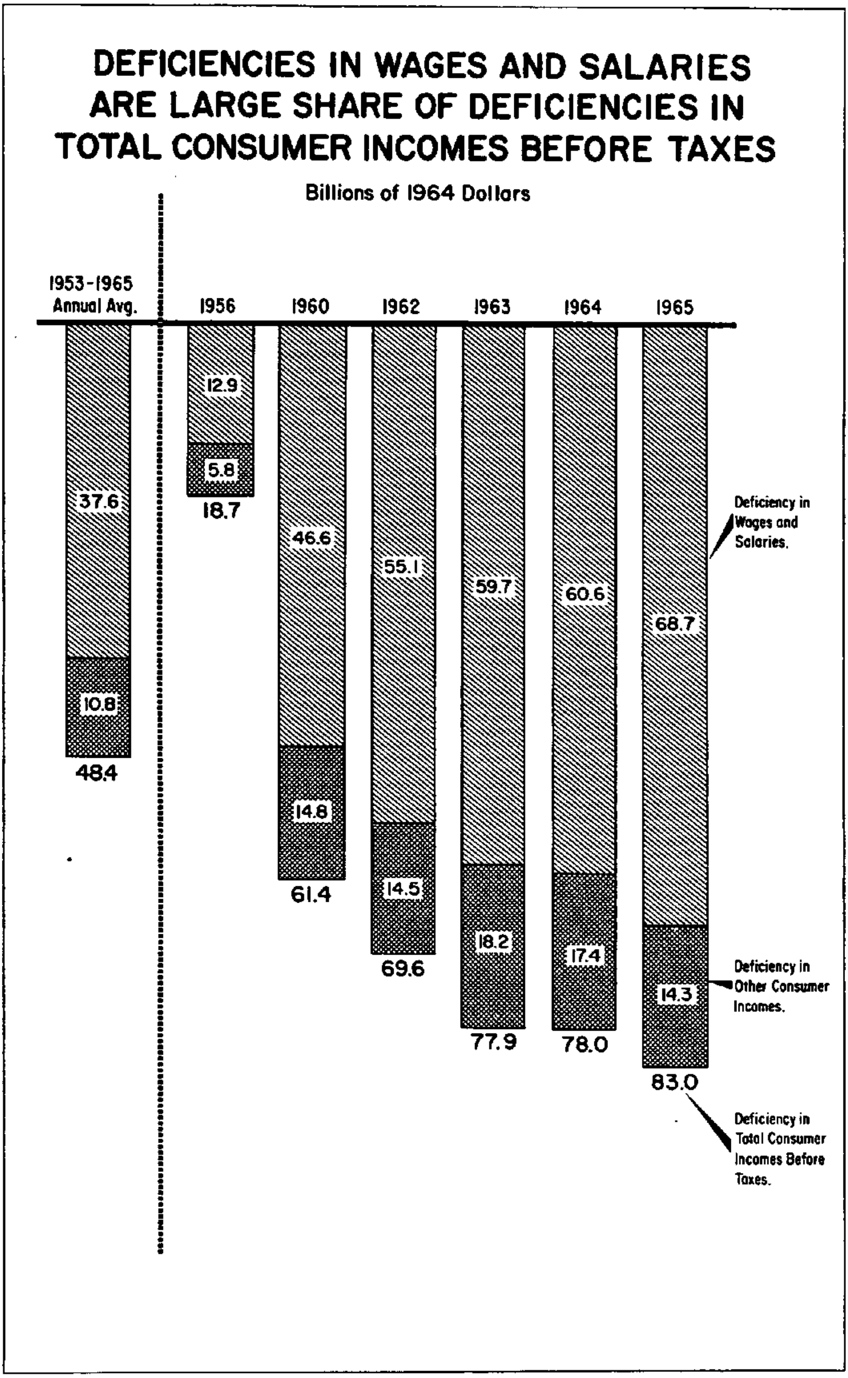
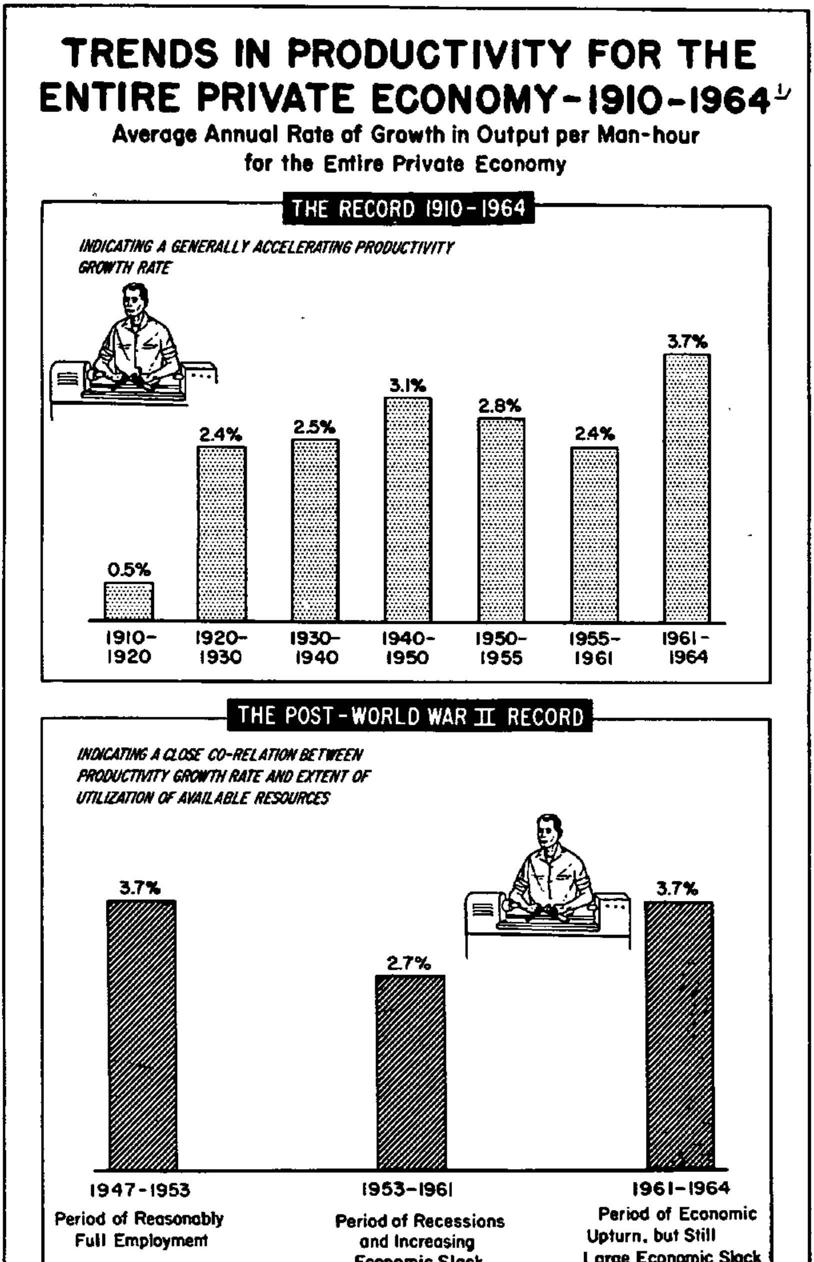

DEFICIENCIES IN WAGES AND SALARIES ARE LARGE SHARE OF DEFICIENCIES IN TOTAL CONSUMER INCOMES BEFORE TAXES
Billions of 1964 Dollars
1953-1965 Annual Avg.
1956
1960
1962
1963
1964
1965
37.6
10.8
48.4
12.9
5.8
18.7
46.6
14.8
61.4
55.1
14.5
69.6
59.7
18.2
77.9
60.6
17.4
78.0
68.7
14.3
83.0
Deficiency in Wages and Salaries.
Deficiency in Other Consumer Incomes.
Deficiency in Total Consumer Incomes Before Taxes.

CHART NO. 17



[1] From 1947 on, the new Dept. of Labor series relating to output per man-hour was used, not strictly comparable with the earlier years.

Source: Dept. of Labor estimates relating to man-hours worked (Establishment basis).

CHART No. 18

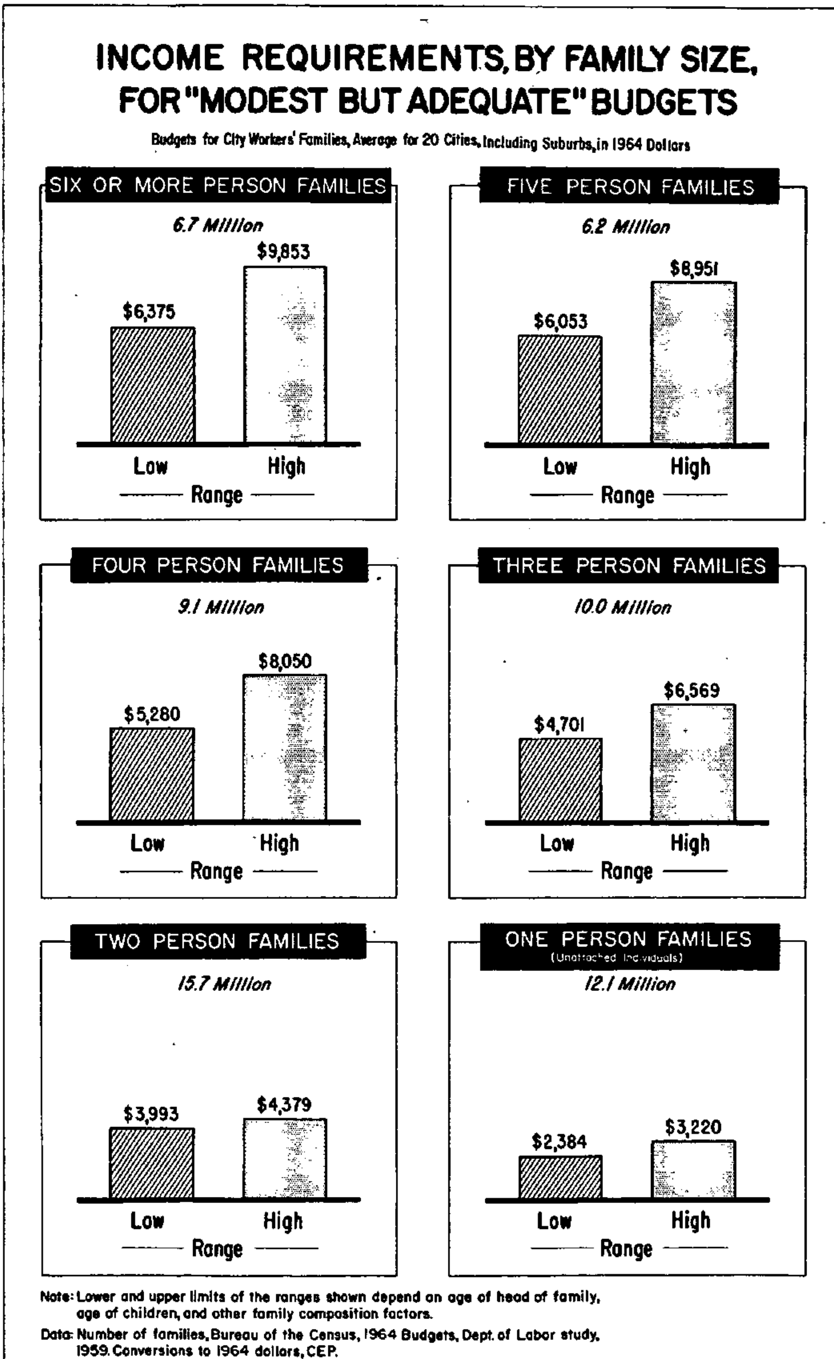
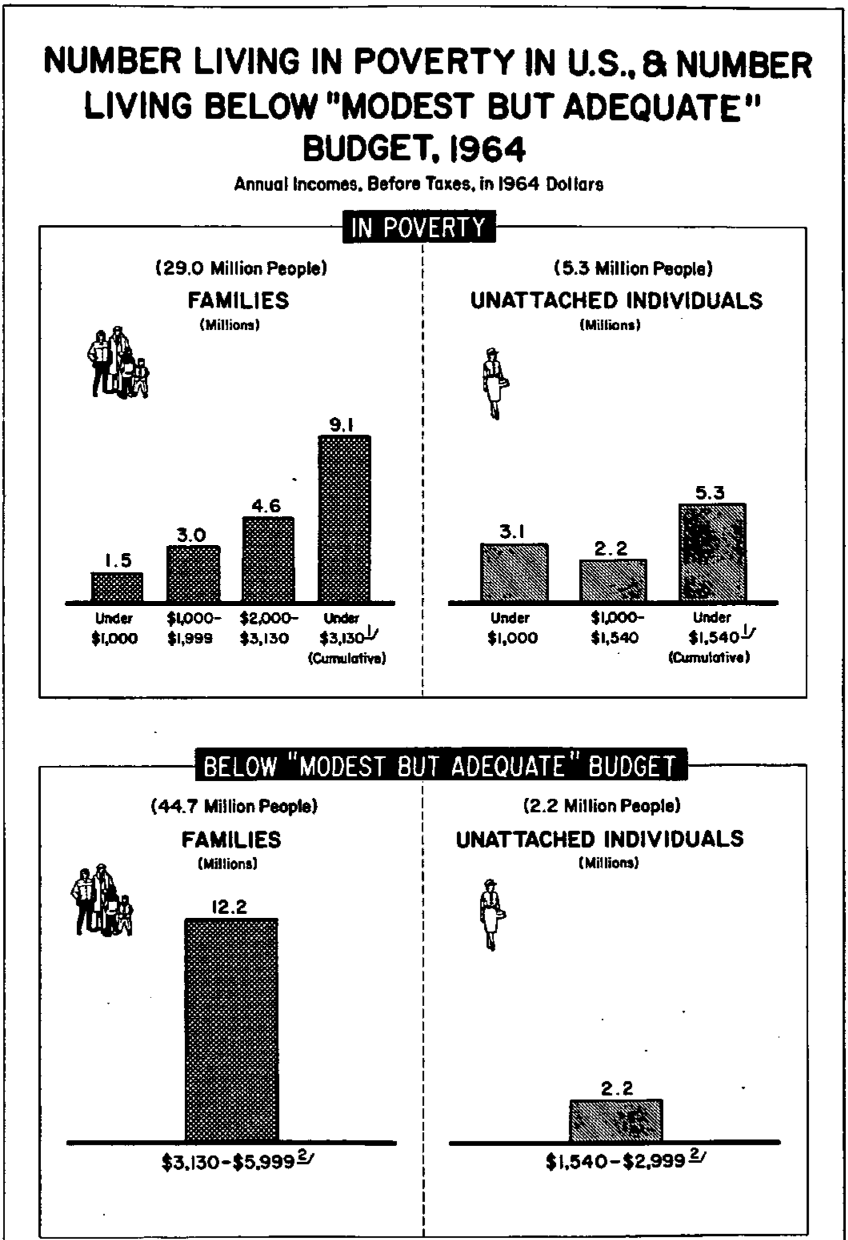

INCOME REQUIREMENTS, BY FAMILY SIZE, FOR "MODEST BUT ADEQUATE" BUDGETS
Budgets for City Workers' Families, Average for 20 Cities, Including Suburbs, in 1964 Dollars
SIX OR MORE PERSON FAMILIES
6.7 Million
$6,375
$9,853
Low
High
Range
FIVE PERSON FAMILIES
6.2 Million
$6,053
$8,951
Low
High
Range
FOUR PERSON FAMILIES
9.1 Million
$5,280
$8,050
Low
High
Range
THREE PERSON FAMILIES
10.0 Million
$4,701
$6,569
Low
High
Range
TWO PERSON FAMILIES
15.7 Million
$3,993
$4,379
Low
High
Range
ONE PERSON FAMILIES
(Unattached Individuals)
12.1 Million
$2,384
$3,220
Low
High
Range
Note: Lower and upper limits of the ranges shown depend on age of head of family, age of children, and other family composition factors.
Data: Number of families, Bureau of the Census, 1964 Budgets, Dept. of Labor study, 1959. Conversions to 1964 dollars, CEP.

CHART No. 19



1/ The figures of $3,130 and $1,540 are the most recent estimates of the Office of Economic Opportunity as to the respective poverty ceilings.

2/ These figures are CEP estimates based upon chart on page 69.

Source: Office of Economic Opportunity and U.S. Dept. of Commerce, Bureau of the Census.

CHART No. 20

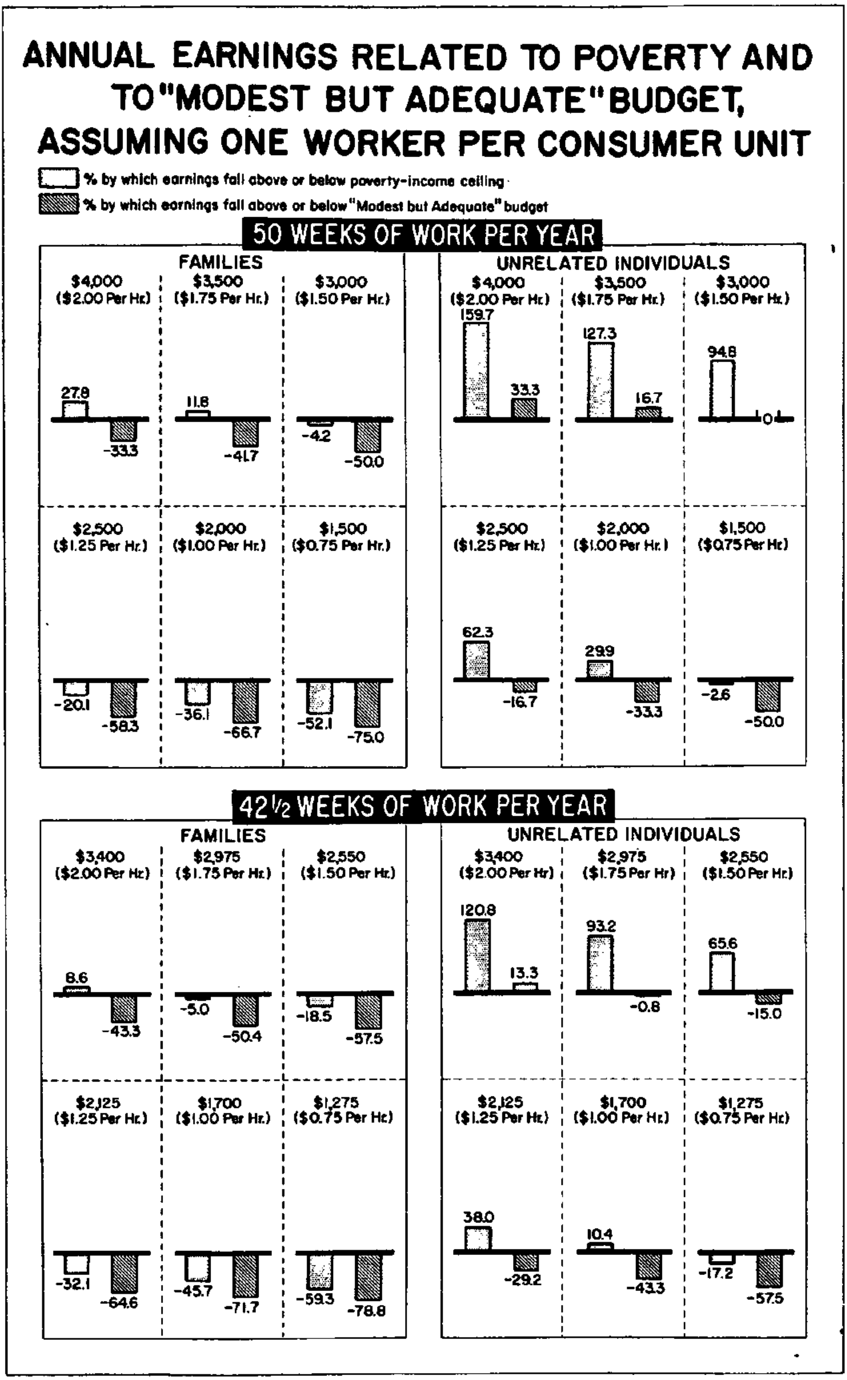

ANNUAL EARNINGS RELATED TO POVERTY AND TO "MODEST BUT ADEQUATE" BUDGET, ASSUMING ONE WORKER PER CONSUMER UNIT
% by which earnings fall above or below poverty-income ceiling
% by which earnings fall above or below "Modest but Adequate" budget
50 WEEKS OF WORK PER YEAR
FAMILIES
$4,000 ($2.00 Per Hr.)
27.8
-33.3
$3,500 ($1.75 Per Hr.)
11.8
-41.7
$3,000 ($1.50 Per Hr.)
-4.2
-50.0
$2,500 ($1.25 Per Hr.)
-20.1
-58.3
$2,000 ($1.00 Per Hr.)
-36.1
-66.7
$1,500 ($0.75 Per Hr.)
-52.1
-75.0
UNRELATED INDIVIDUALS
$4,000 ($2.00 Per Hr.)
159.7
33.3
$3,500 ($1.75 Per Hr.)
127.3
16.7
$3,000 ($1.50 Per Hr.)
94.8
0
$2,500 ($1.25 Per Hr.)
62.3
-16.7
$2,000 ($1.00 Per Hr.)
29.9
-33.3
$1,500 ($0.75 Per Hr.)
-2.6
-50.0
42½ WEEKS OF WORK PER YEAR
FAMILIES
$3,400 ($2.00 Per Hr.)
8.6
-43.3
$2,975 ($1.75 Per Hr.)
-5.0
-50.4
$2,550 ($1.50 Per Hr.)
-18.5
-57.5
$2,125 ($1.25 Per Hr.)
-32.1
-64.6
$1,700 ($1.00 Per Hr.)
-45.7
-71.7
$1,275 ($0.75 Per Hr.)
-59.3
-78.8
UNRELATED INDIVIDUALS
$3,400 ($2.00 Per Hr)
120.8
13.3
$2,975 ($1.75 Per Hr)
93.2
-0.8
$2,550 ($1.50 Per Hr)
65.6
-15.0
$2,125 ($1.25 Per Hr.)
38.0
-29.2
$1,700 ($1.00 Per Hr.)
10.4
-43.3
$1,275 ($0.75 Per Hr.)
-17.2
-57.5

CHART No. 21

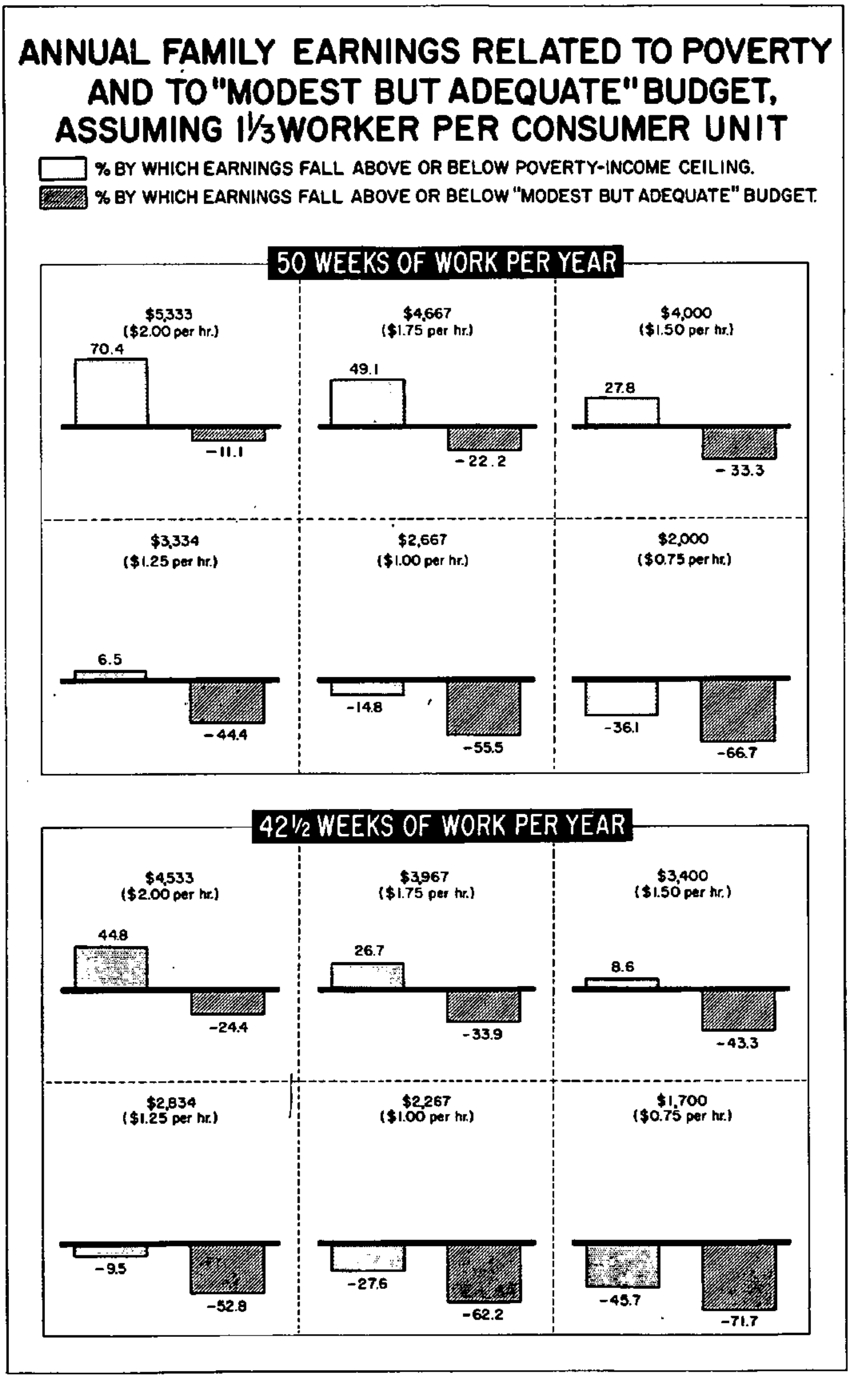
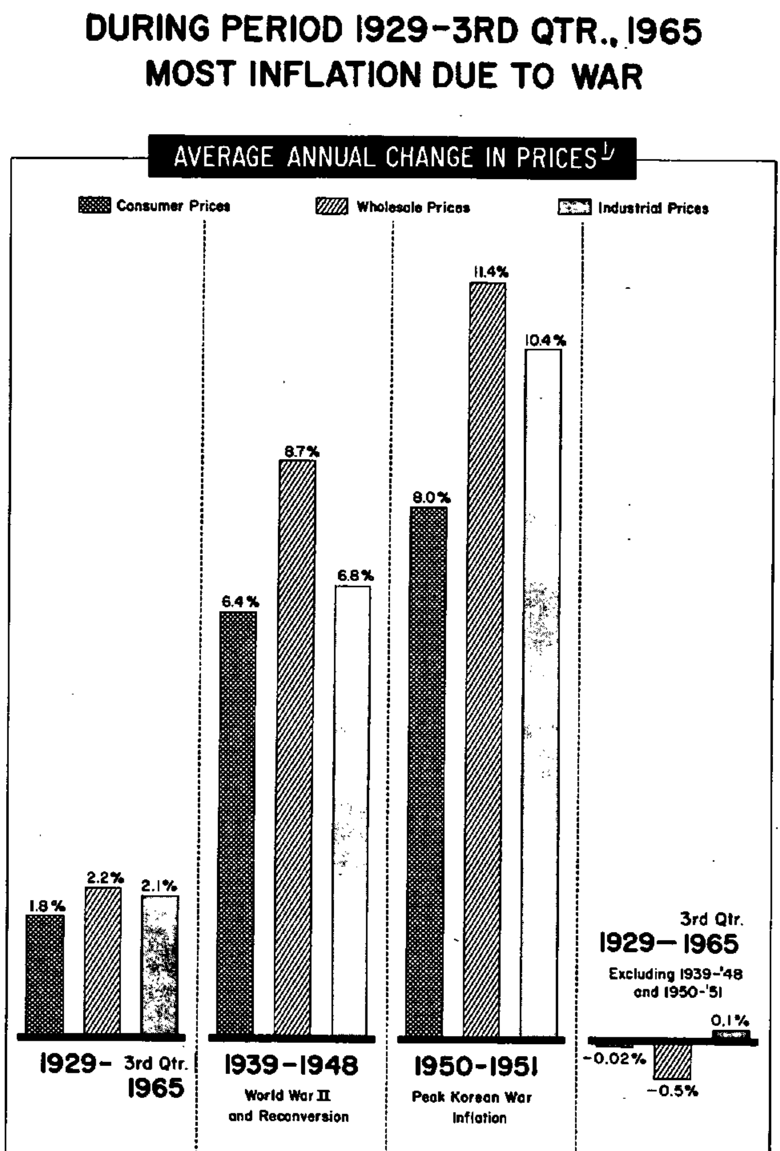

ANNUAL FAMILY EARNINGS RELATED TO POVERTY AND TO "MODEST BUT ADEQUATE" BUDGET, ASSUMING 1⅓ WORKER PER CONSUMER UNIT
% BY WHICH EARNINGS FALL ABOVE OR BELOW POVERTY-INCOME CEILING.
% BY WHICH EARNINGS FALL ABOVE OR BELOW "MODEST BUT ADEQUATE" BUDGET.
50 WEEKS OF WORK PER YEAR
$5,333 ($2.00 per hr.)
70.4
-11.1
$4,667 ($1.75 per hr.)
49.1
-22.2
$4,000 ($1.50 per hr.)
27.8
-33.3
$3,334 ($1.25 per hr.)
6.5
-44.4
$2,667 ($1.00 per hr.)
-14.8
-55.5
$2,000 ($0.75 per hr.)
-36.1
-66.7
42½ WEEKS OF WORK PER YEAR
$4,533 ($2.00 per hr.)
44.8
-24.4
$3,967 ($1.75 per hr.)
26.7
-33.9
$3,400 ($1.50 per hr.)
8.6
-43.3
$2,834 ($1.25 per hr.)
-9.5
-52.8
$2,267 ($1.00 per hr.)
-27.6
-62.2
$1,700 ($0.75 per hr.)
-45.7
-71.7

CHART No. 22



1/ The averages are based upon application of an arithmetic method to the changes from year to year, rather than upon comparisons of end years with allowances for compounding, in order to facilitate the exclusions of certain years as shown on the chart.

CHART No. 23

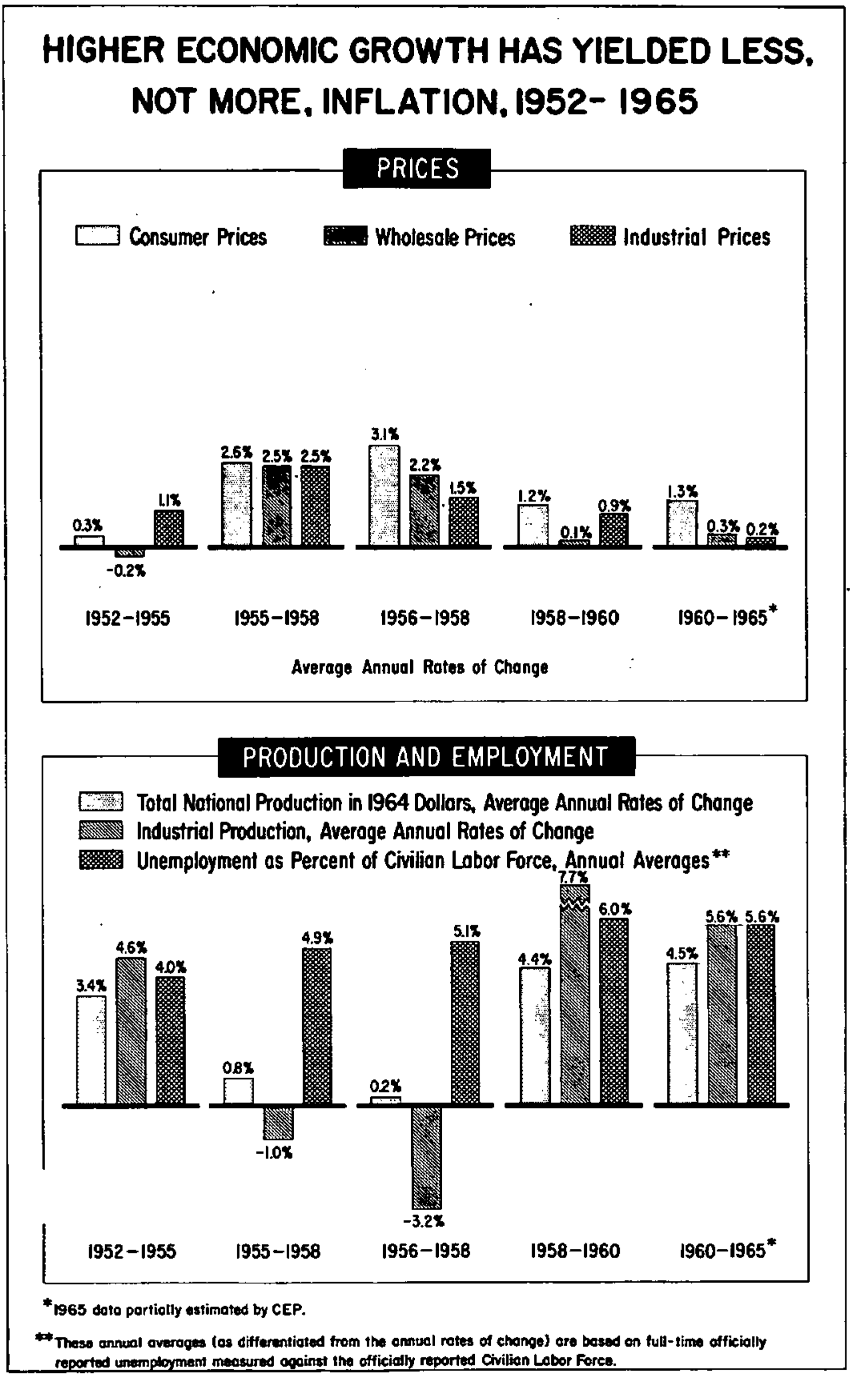

HIGHER ECONOMIC GROWTH HAS YIELDED LESS, NOT MORE, INFLATION, 1952- 1965
PRICES
Consumer Prices
Wholesale Prices
Industrial Prices
0.3%
-0.2%
1.1%
2.6%
2.5%
2.5%
3.1%
2.2%
1.5%
1.2%
0.1%
0.9%
1.3%
0.3%
0.2%
1952-1955
1955-1958
1956-1958
1958-1960
1960-1965*
Average Annual Rates of Change
PRODUCTION AND EMPLOYMENT
Total National Production in 1964 Dollars, Average Annual Rates of Change
Industrial Production, Average Annual Rates of Change
Unemployment as Percent of Civilian Labor Force, Annual Averages**
3.4%
4.6%
4.0%
0.8%
-1.0%
4.9%
0.2%
-3.2%
5.1%
4.4%
7.7%
6.0%
4.5%
5.6%
5.6%
1952-1955
1955-1958
1956-1958
1958-1960
1960-1965*
*1965 data partially estimated by CEP.
**These annual averages (as differentiated from the annual rates of change) are based on full-time officially reported unemployment measured against the officially reported Civilian Labor Force.

CHART No. 24

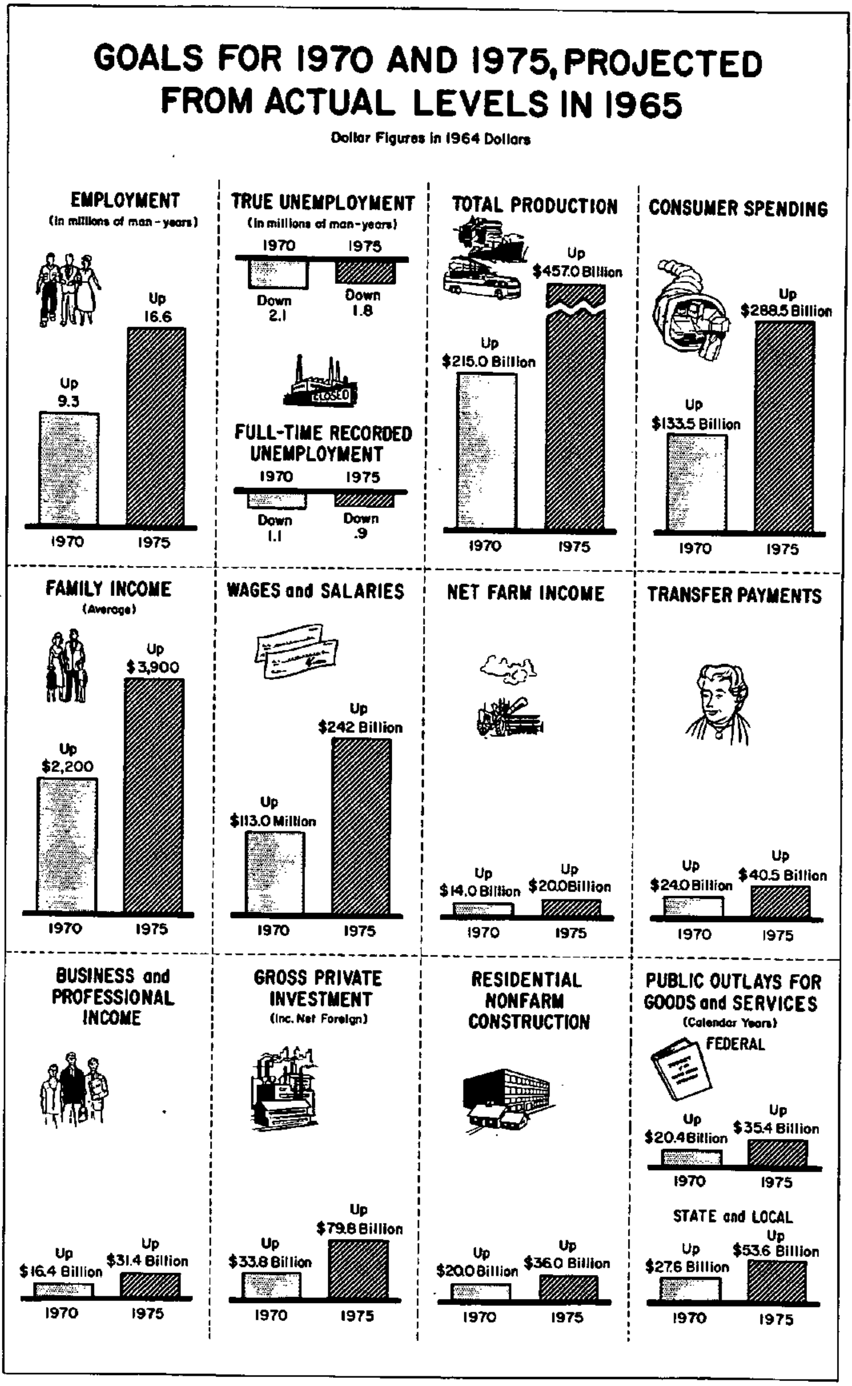
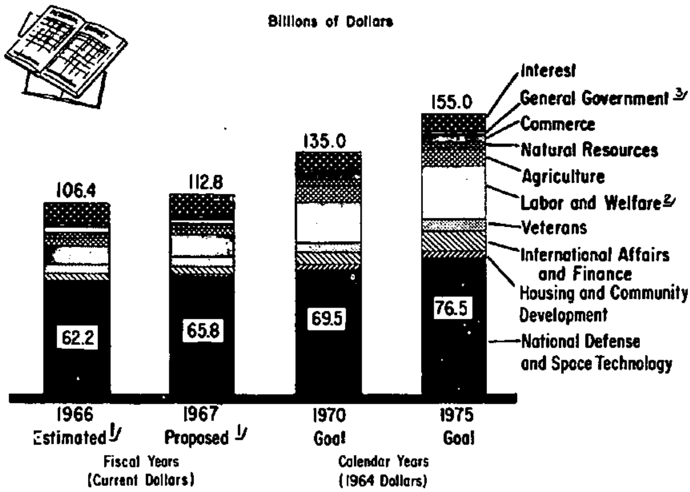
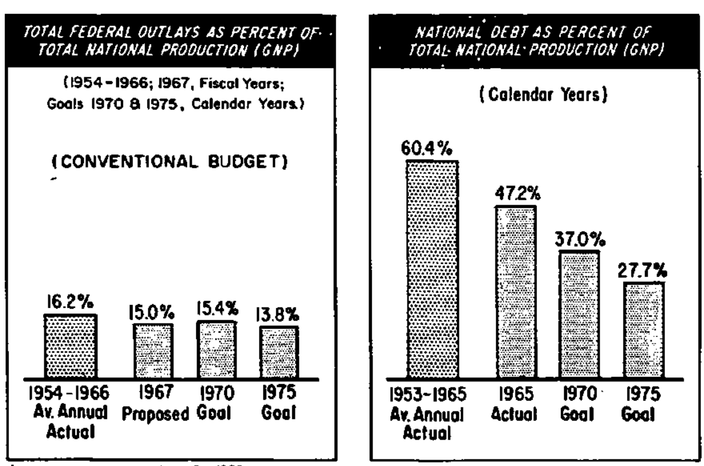

GOALS FOR 1970 AND 1975, PROJECTED FROM ACTUAL LEVELS IN 1965
Dollar Figures in 1964 Dollars
EMPLOYMENT
(in millions of man-years)
Up 9.3
Up 16.6
1970 1975
TRUE UNEMPLOYMENT
(in millions of man-years)
1970 1975
Down 2.1
Down 1.8
CLOSED
FULL-TIME RECORDED UNEMPLOYMENT
1970 1975
Down 1.1
Down .9
TOTAL PRODUCTION
Up $215.0 Billion
Up $457.0 Billion
1970 1975
CONSUMER SPENDING
Up $133.5 Billion
Up $288.5 Billion
1970 1975
FAMILY INCOME
(Average)
Up $2,200
Up $3,900
1970 1975
WAGES and SALARIES
Up $113.0 Million
Up $242 Billion
1970 1975
NET FARM INCOME
Up $14.0 Billion
Up $20.0 Billion
1970 1975
TRANSFER PAYMENTS
Up $24.0 Billion
Up $40.5 Billion
1970 1975
BUSINESS and PROFESSIONAL INCOME
Up $16.4 Billion
Up $31.4 Billion
1970 1975
GROSS PRIVATE INVESTMENT
(Inc. Net Foreign)
Up $33.8 Billion
Up $79.8 Billion
1970 1975
RESIDENTIAL NONFARM CONSTRUCTION
Up $20.0 Billion
Up $36.0 Billion
1970 1975
PUBLIC OUTLAYS FOR GOODS and SERVICES
(Calendar Years)
FEDERAL
Up $20.4 Billion
Up $35.4 Billion
1970 1975
STATE and LOCAL
Up $27.6 Billion
Up $53.6 Billion
1970 1975

CHART NO. 25

TOWARD A FEDERAL BUDGET CONSISTENT WITH MAXIMUM EMPLOYMENT AND THE PRIORITIES OF NATIONAL PUBLIC NEEDS



BURDEN OF FEDERAL OUTLAYS IN A FULLY GROWING ECONOMY WOULD BE LOWER THAN IN RECENT YEARS



1/ As of Budget Message of Jan. 24, 1966.

2/ Including education and health services

3/ Including contingencies and less interfund transactions

CHART No. 26

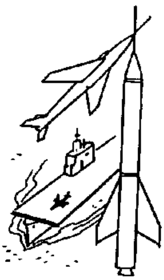
GOALS FOR A FEDERAL BUDGET GEARED TO ECONOMIC GROWTH AND PUBLIC NEEDS

1967 Fiscal Year; 1970 and 1975, Calendar Years
Per Capita Outlay in 1964 Dollars

TOTAL FEDERAL OUTLAYS

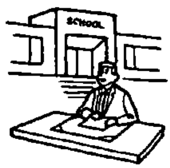
Year	% of Total Output	$ Per Capita
1967 Adm.[1]	15.05	$521.79
1970 Goal	15.38	645.93
1975 Goal	13.84	685.84

NATIONAL DEFENSE, SPACE TECHNOLOGY, AND ALL INTERNATIONAL



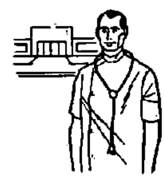
Year	% of Total Output	$ Per Capita
1967 Adm.[1]	9.34	$323.77
1970 Goal	8.83	370.82
1975 Goal	7.81	387.17

EDUCATION



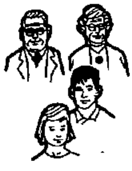
Year	% of Total Output	$ Per Capita
1967 Adm.[1]	.38	$13.10
1970 Goal	.80	33.49
1975 Goal	.85	42.04

HEALTH SERVICES AND RESEARCH



Year	% of Total Output	$ Per Capita
196 Adm.[1]	.48	$16.74
1970 Goal	.55	22.97
1975 Goal	.62	30.97

PUBLIC ASSISTANCE

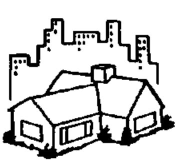


Year	% of Total Output	$ Per Capita
1967 Adm.[1]	.45	$15.55
1970 Goal	.46	19.14
1975 Goal	.40	19.91

LABOR, MANPOWER, AND OTHER WELFARE SERVICES

Year	% of Total Output	$ Per Capita
1967 Adm.[1]	.18	$6.37
1970 Goal	.30	12.44
1975 Goal	.27	13.27

HOUSING AND COMMUNITY DEVELOPMENT



Year	% of Total Output	$ Per Capita
1967 Adm.[1]	.02	$0.57
1970 Goal	.38	16.03
1975 Goal	.34	16.81

ALL DOMESTIC PROGRAMS AND SERVICES

(Includes also Agriculture; Natural Resources; Veterans; Commerce; Interest; General Government, etc.)

Year	% of Total Output	$ Per Capita
1967 Adm.[1]	5.71	$198.04
1970 Goal	6.55	275.12
1975 Goal	6.03	298.67

[1] Administration's proposed Budget as of Jan. 25, 1965

CHART No. 27

WITH FULL PROSPERITY, 1953-1965, TAX REVENUES AT ALL LEVELS WOULD HAVE BEEN $200 BILLION HIGHER AT EXISTING TAX RATES

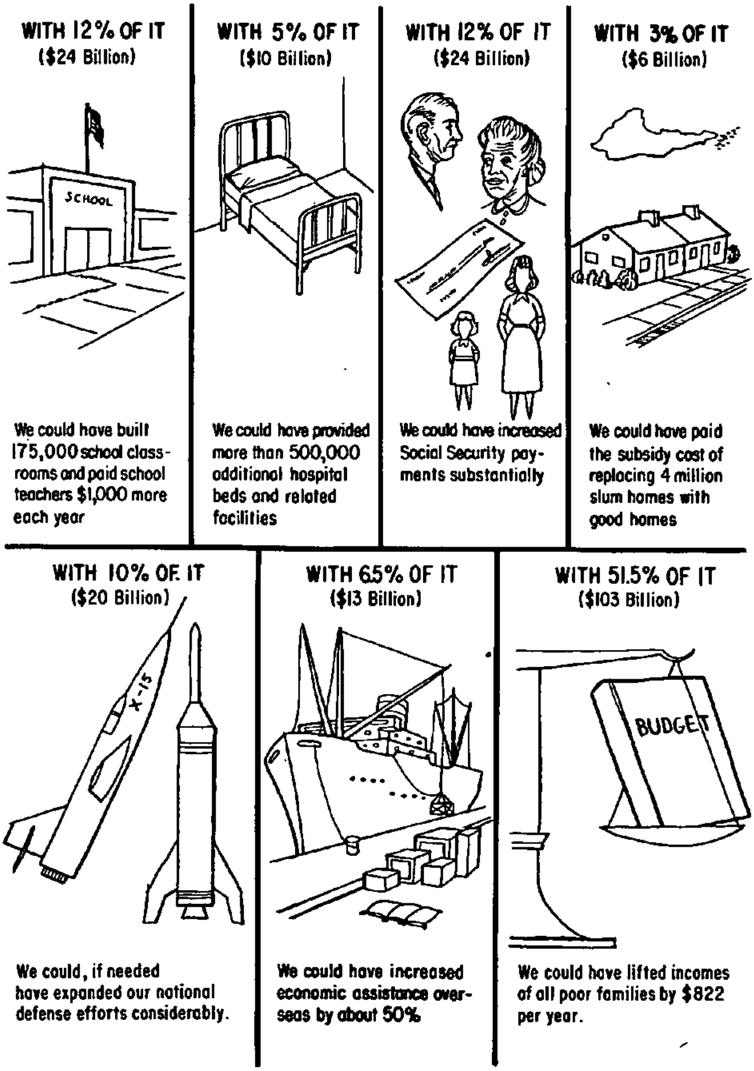
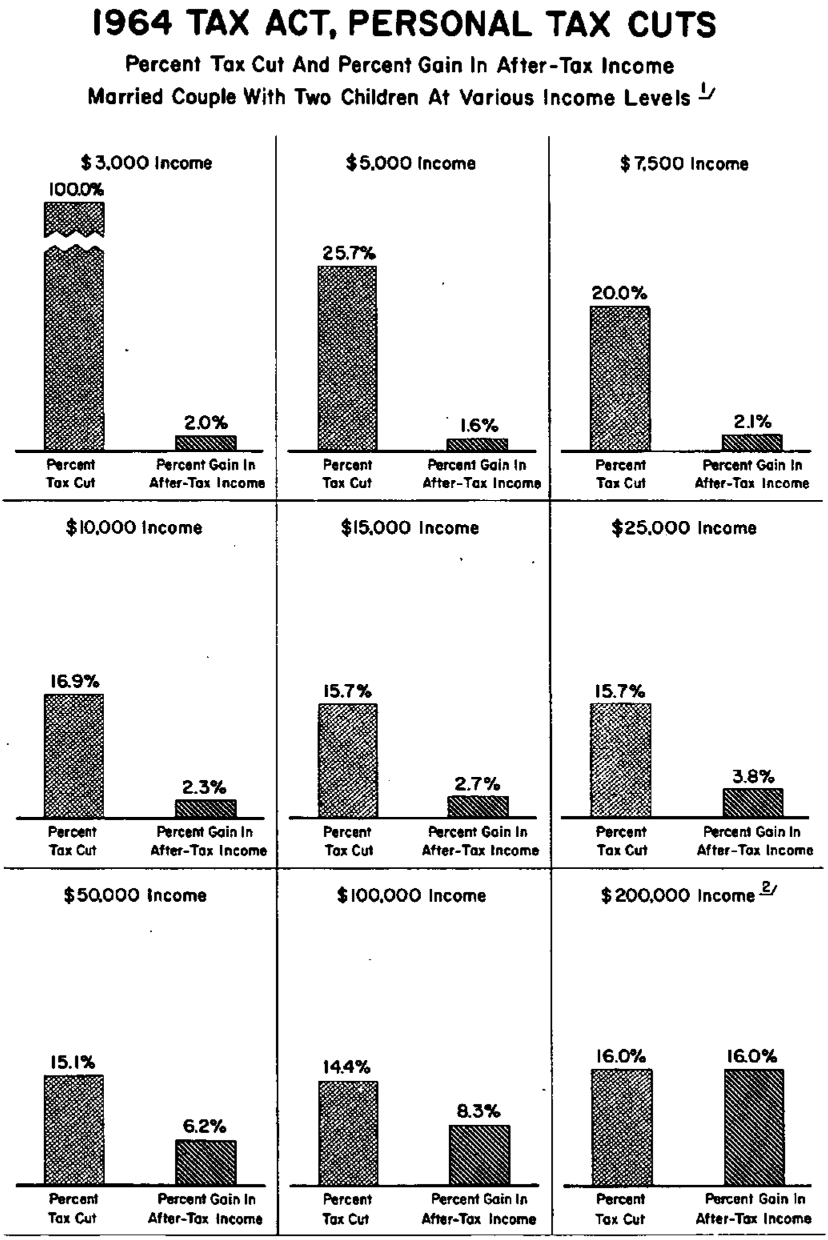


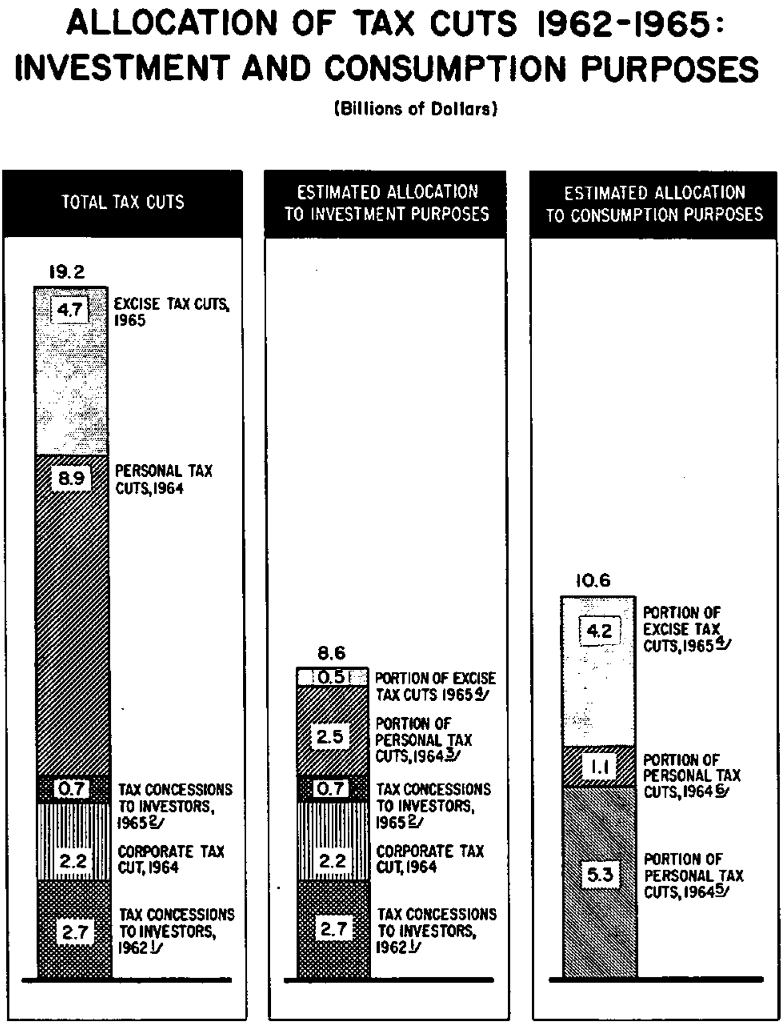
CHART NO. 28



1/ Adjusted gross income levels. 2/ Estimated

Note: Standard deductions for $ 3,000 income level. Typical itemized deductions for other income levels.

CHART NO. 29



1/ Through Congressional & Executive Action

2/ Through Executive Action

3/ Estimated portion of personal tax cut, for those with incomes of $10,000 and over, which they would save for investment purposes.

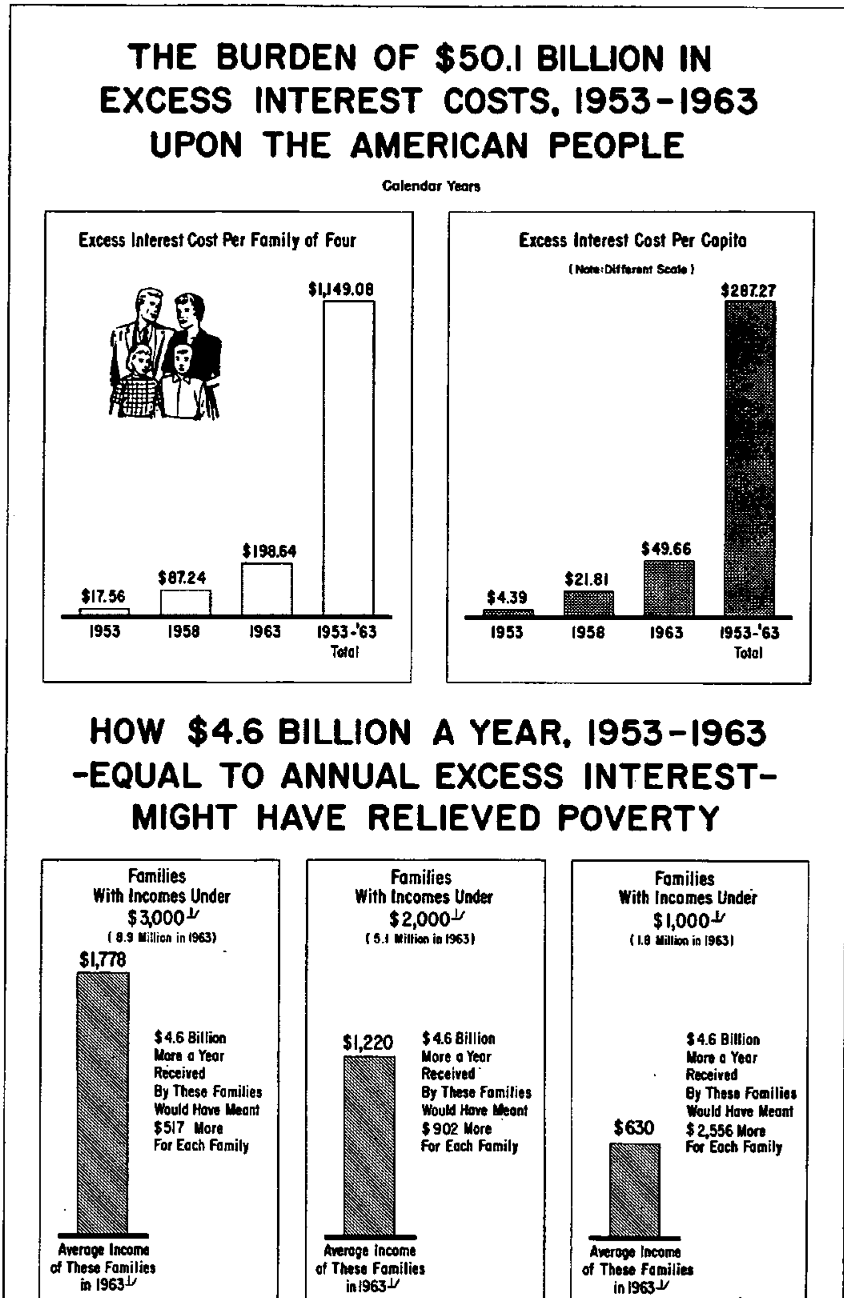
4/ Based on estimates of excise tax cuts passed on to consumers through price cuts.

5/ Personal tax cuts for those with incomes under $10,000.

6/ Estimated portion of personal tax cuts for those with incomes of $10,000 and over, which they would spend for consumption.

Note: Estimates of excise tax reduction allocation by C.E.P. (amount might be passed on to consumers by price reductions.) However, a large portion of this did not go to low income consumers.

CHART No. 30



Note: Family and Income data from Bureau of the Census.

1/ Income distribution analysis is stated in 1962 dollars because the original determination of the income needed to lift families above the poverty level was made in terms of 1962 dollars.

COOPERATIVE LEAGUE OF THE U.S.A.

BY JERRY VOORHIS, EXECUTIVE DIRECTOR

I

The generally optimistic tone of the 1966 Economic Report is understandable in the light of the rather remarkable growth achieved by the U.S. economy during the past 5 years.

Especially welcome signs are the increases in prices received by farmers, the reduction in the percentage of workers who are unemployed and the narrowing of the so-called gap between actual and potential gross national product.

Personal incomes continue on the average to increase at the almost incredible rate of about 7 percent a year—for most of the population. But to the great credit of the President and his advisers, the almost strident optimism of the report is tempered, made realistic and almost compassionate by the repeated emphasis upon the disadvantaged groups in our society and the problems still to be solved before anything like complacency can be justified. We are beginning, at least, to learn to measure American prosperity and welfare in terms of the conditions and hopes of our poorest people, rather than our richest ones. This is a social gain of immeasurable significance.

II

Some progress is reported in the Nation's most important and challenging task—the war on poverty. The percentage of poor persons is reported to have declined from 22.3 percent in 1960 to 18.0 percent in 1965, a significant reduction on its face. Certain somber qualifications, however, should be noted. While at present somewhat less than a fifth of the total population lives below the poverty line, almost a quarter of all the Nation's children do so.

Both poverty and unemployment are today afflicting especially the young, the new generation of Americans.

Further, the outlook for young people is a grim one, despite the general prosperity of the Nation. They must grow up in a disturbed world, over which hangs the menace of nuclear destruction. Boys face the probabilities of the draft and the possibilities of having to fight in far-off lands. Moreover, jobs are hard to find. And the kind of jobs which young people without special training could, in past years rather confidently expect to obtain, "for a start in life," are disappearing before the march of automation.

Overall, the fact that unemployment has been reduced as much as it has in the face of automation, is indeed a great achievement. But America's youth, especially disadvantaged young people, have not shared in this improvement.

The Economic Opportunity program is pointed in the right direction with its emphasis on education and training. The fact that half a million poor children benefited from Head Start experiences, preparing them to start school on a more nearly equal basis with the rest of the children, is perhaps as fine a note as is to be found in the entire report. But the total scope of the education and training programs is far less than the need of our young people calls for—almost tragically less. And further, it is indeed questionable how many of presently disadvantaged children and young people can be expected to become proficient in the kind of skills which modern so-called productive employment increasingly demands.

Not only is a vastly broadened program of education and training called for if the war on poverty among our young people is actually to be won, but more than that, there must be plans, programs, taxation, and expenditure of public funds, both local and Federal, to create the kind of job opportunities which our young people, even as high school graduates, need.

These jobs are not going to come out of the sector of the economy that employs people to produce or manufacture things. Employment in this kind of work is barely holding its own, if not declining. Unemployment has been reduced because of increases in employment in service industries and above all, in work aimed at improvement of our society—jobs in education, health services, community services of one kind and another. There is need for further great increase in such employment. It should be deliberately planned for, and young people trained to assume it.

III

Related to the foregoing is the portion of the report that discusses the rebuilding of our cities, housing, transportation, and the elimination of the slums.

All these are part and parcel of the war on poverty. And planning with respect to them must be people-oriented, rather than building-oriented.

The President has set forth as one national goal "a decent home for every American family." We are far from achievement of that goal.

Were we to undertake it in earnest, much of the unemployment problem that afflicts our young people, minority groups, and those who lack modern technical training, could be solved for many years to come. For the construction of homes for the millions of families who now live in substandard housing, the rehabilitation of the core cities, and the development of efficient rapid transportation—all of which are actually of one piece—can offer the very kind of jobs that are most needed if we are to employ the presently unemployed.

The section of the report which deals with urban improvement recognizes all these factors. But some further emphases seem appropriate. One is that the entire program must be people-oriented rather than building-oriented. For example, before a slum area is cleared—as many of them must be—provision of good housing for the people now living there must be made. Only then can and should whole blocks of slums be demolished and replaced in part, at least, with parks and playgrounds and feasible commercial enterprises, thus restoring values and the quality of core-city environments. The best way to accomplish this is to provide mass transportation (not automobile expressways) to outlying areas where upon cheaper land, whole new suburban communities of low-cost housing for cityworkers can be built.

Important to bear in mind is the fact that by tried and proven methods of cooperative housing, the relocated families can be given opportunity to become homeowners at monthly charges substantially less than they formerly paid in rent, even for slum housing. Furthermore, cooperative housing encourages and has shown itself capable of developing a whole gamut of relationships and activities among the people which are the stuff of which true community is made.

The interrelationship between low-cost housing for middle and lower income families, mass transportation, slum clearance, rehabilitation of core cities, and the development of the kind of jobs unemployed young people and members of minority groups need and can fill, thus becomes clear. Coordinated planning of all these elements is needed.

IV

The report properly observes that costs for medical care have been rising twice as fast as the average for all consumer costs. Medical services now take about 6 percent of all family expenditures and ever-mounting outlays of public money.

The report also honestly faces the fact that, with the beginning operation of the medicare program, there will be further pressure upon hospital facilities and upon doctors' and nurses' services so that costs may begin to rise even more rapidly.

What the report fails to note is the contribution which group practice, prepayment health plans, providing comprehensive preventive, as well as curative care can do toward reducing costs of medical care. It has been carefully estimated that had all Federal employees been enrolled in such plans instead of only a small fraction of them, the reduction in costs to the Federal employees health program would have been as much as 40 percent of the amount of money spent on hospitalization of covered employees. This is because the cooperative group health plans, where costs of needed care are already prepaid, where prevention is emphasized, show sharply and uniformly reduced rates of hospital utilization compared to those of either the general population or the population covered simply by indemnity insurance.

Such improved organization of medical care and such improved methods of medical economics will become more and more needed, and hopefully used, as costs of medical care continue to threaten to take even larger chunks of disposable income and even larger amounts of tax resources.

V

Turning to the countryside, the report shows a mixed picture in the section on progress and problems in agriculture. The recent increases in prices received by farmers are indeed an encouraging and long overdue sign.

One note of great and encouraging portent is the fact that the family farm is not passing nor declining in importance. In fact, the percentage of family farms, which are part of what the report calls the expanding section of our agriculture, is increasing.

The report fails to give a fundamental reason why this is so. That reason is cooperation. Because of their ownership together of farm credit, rural electric, marketing, supply and other types of cooperative enterprise, it has been and is possible for family farmers to enter the marketplace with a reasonable chance of being able to protect their interests well. Furthermore, such cooperative businesses have the effect of recapturing for the rural areas part of the earnings from the profitable segments of the total food and fiber business of the country, instead of having absentee ownership drain these earnings to the larger centers.

The report emphasizes also the other side of the picture of American rural life. It faces the fact that 30 percent of our rural families live below the poverty line compared to 18 percent from the population as a whole. Few of these people are engaged in commercial agriculture; that is, production of crops for major markets. Here is a hard-core poverty problem that must be solved, but which is likely to prove even more difficult than that of urban areas. But here again with proper assistance and encouragement, cooperation could go a long way toward improving conditions and there should be no hesitation about using it—as today, in some quarters, there unfortunately is.

Further, there is tremendous need for improvement of the educational opportunities in rural areas.

For it is a cruel deception to say any longer that a solution to the problems of rural poverty lies in having rural people move to the already overcrowded cities. The kind of jobs which they are equipped to handle simply no longer exist. Rural schools should educate for development of rural—not necessarily farm—job opportunities. And rural area development in all its aspects must be pushed with greater vigor.

A long-run fact about American agriculture—and one recognized by the President in his recent food for freedom message—is that the days of restricted production are indeed numbered and the time is here when all the productivity of all the farmers and most of the acres of our country will be needed if famine is to be prevented in many parts of the world.

VI

In one respect it is to be feared that the report is more optimistic and less concerned than it should be.

Nowadays, few people longer believe that it is necessary or even desirable to balance the Federal budget every year. But to abandon all concern about the debt burden, regardless of how big it becomes, is quite another matter.

The question should, at least, be raised as to whether our economic advances are too much dependent upon a sharply rising indebtedness on the part of consumers—especially poorer ones.

And the size of governmental and private debt can become serious—even a menace to continuing growth—under certain circumstances.

The principal circumstance is a high interest rate.

At present, the national (Federal) debt stands at more than $320 billion. If average interest rates on that debt were at 3 percent, as they were not long ago, the annual charge against taxpayers would be $9,600 million. But in recent months, largely as a result of deliberate action by the Federal Reserve Board, interest rates, including inevitably those paid by the Government—which means the taxpayers—have been rising steadily. Should they reach 6 percent, the interest on the national debt at its present figure would amount to more than $19 billion, which is one-fifth of the present total Federal budget.

Sometimes it is said that the size of national debt doesn't matter because, after all, "we owe it to ourselves." But this is not exactly true. A more accurate statement is that all the people owe, and must pay interest and principal on the debt, to some of the more fortunate individuals and corporate entities.

Tables accompanying the report show the distribution of the $321 billion national debt. Of this, $40 billion is owed to the Federal Reserve banks, which ought to be—but are not—publicly owned institutions. Another $60 billion is owed to the commercial banks. Practically all of this $100 billion—almost one-third of the total national debt—has been purchased by the Federal Reserve or the Commercial banks with newly created deposits, or with what amounts to drafts upon the credit of the entire Nation. Yet, the nation owes the $100 billion to these privately owned banks. Another $16 billion of the debt is owed to corporations and $71 billion to individuals, the bulk of it to wealthy ones.

So the idea that we owe the national debt to ourselves is only true in a very limited sense.

Turning to private debt, we find that consumer indebtedness contracted for installment purchases has increased from $8,495 million in 1946 to the tremendous total of $74,700 million in 1965—a ninefold increase.

At the end of 1964, some 11.7 percent of all private disposable incomes was committed for payments on installment debts. And in general the poorer the family the larger this percentage. The report, in fact, states that, "surveys suggest that families which have a relatively small amount of liquid assets account for a large proportion of the installment debt outstanding."

The report adds, in the same section that: "the rate of mortgage foreclosures has shown a distinct upward trend during the past 15 years."

The conclusion seems inescapable, therefore, that the sustained expansion of the U.S. economy, the growth of gross national product, and the continuing prosperity have all depended far more upon an almost astronomical increase in consumer indebtedness and far less upon an adequate distribution of mass buying power through wages, salaries, and farm income than is healthy.

The report honestly points to the inherent danger, though in words which seem much too mild. On page 49 we find this paragraph:

> Nevertheless, a sharp drop in incomes could certainly have unfavorable financial repercussions. Despite the strong position of financial institutions and the insurance of various types of deposits and mortgages, the quantity of outstanding credit is an element increasing the economy's vulnerability to cumulative declines if aggregate demand is permitted to collapse. Well-timed fiscal and monetary policies to maintain economic stability hence become even more important.

In other words, the indebtedness of the people has reached the point where any significant down-turn in economic activity would be exceedingly dangerous. Implications of this fact are far-reaching indeed and should be of far greater concern to the Council of Economic Advisers than they appear to be.

VII

Our final area of comment relates to both the preceding one and to the "war on poverty."

If the debt problem is a serious one for the Nation generally, it can be—and all too often is—a disastrous one for the poor.

Unpayable debt has been, in all ages and among all people, a major cause of poverty, especially of continuing or "hereditary" poverty.

It is little wonder, therefore, that surveys by the Office of Economic Opportunity as well as by private workers in the "war on poverty" have found that the most widespread expressed desire of the poor is to be able to borrow money and to buy goods on terms as favorable as those obtainable by more fortunate segments of our society.

It is becoming common knowledge that actual annual interest charges imposed upon the poor as "financing charges" when they buy on credit are more often than not at rates that can only be described as extortionate usury. One wonders to what extent the burden of poverty could be lifted from hundreds of thousands of families if only they could borrow money and buy goods on decent terms. It would appear that programs of consumer education on how to conserve, save, and wisely spend even the money they do have could be of immeasurable benefit to the poor, and that organization of credit unions and cooperative associations among them to give them the protection they need should be at the very forefront of the antipoverty drive.

And finally, it is hard indeed to understand why Congress has not long since enacted the truth-in-lending legislation advanced by Senator Douglas of Illinois and the measures for reform of our monetary system proposed by Chairman Patman of the Joint Economic Committee.

FEDERAL STATISTICS USERS' CONFERENCE

The Federal Statistics Users' Conference appreciates the opportunity to comment on the Federal Government's statistical information which provides much of the data on which the President's Economic Report and the report of his Council of Economic Advisers are based.

Last year, the conference suggested to the committee that requirements relating to statistical information written into important legislation over the past several years have opened the door to new opportunities and to new problems. Specific congressional requirements for information embodied in this legislation give rise to new possibilities for an improved body of basic data relating to small geographic areas. At the same time there are new possibilities for duplication of effort, for waste of scarce resources, and for an undesirable growth in the paperwork burden on respondents to statistical inquiries in the absence of a coordinated approach to developing basic data needed for each of the new action programs.

The conference urged that early steps be taken to secure this needed coordination. "Otherwise," we noted, "it will be too late and the Nation will be paying for information which has limited usefulness, in limited areas, for limited purposes." The conference's concern of a year ago has not lessened. On the contrary, after devoting a large part of its last annual meeting to the statistical needs and plans of the various agencies responsible for implementing recently authorized programs, the conference and its members are even more concerned that the opportunities for a rational development of statistical programs to meet common needs will be lost and that the dangers of waste and duplication will be realized. We hope that the Joint Economic Committee will assure itself that an adequate and continuing effort to coordinate the statistical activities related to these new programs is developed and maintained.

As the conference noted in its statement last year:

> Comparability of basic data is important in order that one area may be compared with another, not just for the purpose of a single program, but for 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.

Productivity

The continuing debate about the administration's wage-price "guideposts" is unlikely to subside in the near future. While statistics on prices and measures of productivity have been improved over the past several years, the current controversy focuses new attention on these data—on their accuracy and reliability. These new concerns about price and productivity statistics suggest that it would be timely for the Joint Economic Committee to examine again the factual underpinnings for these important data—especially of those measures which do not flow directly from collected factual materials.

Balance of payments

Efforts to improve the balance of payments over the past several years have received only limited support from Congress. The President's budget again this year asks for some additional funds to carry forward an improvement program which is based upon the report of a special Review Committee on Balance-of-Payments Statistics released last year.

The Joint Economic Committee has already expressed its general support of the findings and recommendations of the Review Committee in hearings by its Economic Statistics Subcommittee.

A certain amount of reluctance to vote additional funds for work on balance-of-payments statistics appears to stem from a feeling that there are already enough statistics on this general subject and that this is a case of the proliferation of "numbers for numbers' sake." The fact that balance-of-payments statistics have been largely the domain of specialists who speak in technical terms not easily understood or appreciated by anyone who is not a technical specialist doesn't make the task of getting additional resources any easier.

In an effort to find out the views of practical businessmen on this matter, the Federal Statistics Users' Conference devoted a part of its last annual meeting to a discussion of balance-of-payments statistics. The principal business participants in this discussion, drawn from top management levels of firms involved in international activities, were not technical experts. They were not statisticians. They were, instead, men who are involved in their firms' most important business decisions. They unanimously expressed a strong view that improvements in balance-of-payments data are of critical importance in helping both business and Government decisionmakers to make sound judgments in matters dealing with this Nation's economic relations with the rest of the world.

The conference hopes that the Joint Economic Committee will continue its efforts to secure improved balance-of-payments statistics and that it will continue to make clear that these data have a practical relevance to matters of public and private policy formation.

INDEPENDENT BANKERS ASSOCIATION OF AMERICA

STATEMENT OF POSITION ON THE RURAL ECONOMY, BY THE AGRICULTURE-RURAL AMERICA COMMITTEE

A year ago the Agriculture-Rural America Committee of the Independent Bankers Association of America issued a statement warning that country bank loans to farmers were dangerously close to deterioration. The IBAA pointed out that since 1951 farmers have been using credit as a substitute for earned income because of depressed agricultural raw material prices. The association said that banks could not much longer supply this credit to take the place of farm income.

Today, the association is well aware of price improvements in some agricultural commodities. While collateral positions are improved by higher prices for the time being, the association cautions that without continued price improvement to where all agricultural commodities attain their rightful parity positions, farmers will continue to be hard pressed in meeting their financial obligations.

To support its contention of a year ago that improved farm prices would be in the public interest, the IBAA reasoned as follows:

> Termination of credit availability to thousands of farmers would directly affect the 30 percent of the population of the United States which lives in communities of 2,500 and under and on the farms surrounding them. Collapse in the agriculture sector of the economy, involving nearly one-third of the consuming public, could only lead to total economic disaster in America.
>
> The IBAA also demonstrated that the elimination of 2½ million farmers—a solution favored by some economists—would not solve the rural problem but would only create new problems of farmer displacement and urban crowding.
>
> The association urged that to prevent another farm-led and farm-fed depression, farm raw material prices be brought into balance with the prices of other segments of the economy. Because agricultural raw materials represent new wealth, the IBAA said, parity of income for farmers would expand America's economy to provide full employment, full plant capacity, balance the budget and commence retirement of the national debt.

This position statement was made official association policy by the membership in a resolution adopted at the IBAA's 31st annual convention in Hollywood, Fla., last April. The paper was widely distributed and acclaimed. It was inserted in the Congressional Record no less than three times.

The association has not withdrawn from the position expressed in this paper. Still needed is a program for agriculture that will assure a continuing price structure in balance with other segments of the economy.

However, the picture appears somewhat brighter largely due to a more favorable supply and demand situation that has improved prices of some farm products.

Yet to be tested is the sweeping new Food and Agriculture Act of 1965. The new impetus being given to distributing food as a tool of foreign policy can help control agricultural surpluses. Much is hoped for in these two areas.

Today country bankers are still concerned about their ability to supply the credit needs of rural people, and continue their concern for the lack of earned income in the rural sector. While expressing great admiration for the Federal Reserve Board, the committee believes the recent action increasing the maximum permissible interest rate to 5½ percent as an anti-inflationary measure has brought higher costs to the agricultural sector.

This problem is of immediate concern to the Agriculture-Rural America Committee of the Independent Bankers Association of America. The Fed has by its action imposed a higher cost on a hard-pressed agriculture. Banks throughout the country now find it necessary to increase both interest paid and charged. We suggest that the Federal Reserve Board has apparently created more problems than it solved in raising the ceiling on interest rates.

The fact remains that there is no basic long-range program for agriculture. Let us not be lulled into complacency by the moderate price increase for some agricultural materials.

The Agriculture-Rural America Committee of the Independent Bankers Association of America reiterates its declaration of 1 year ago that our economic future has been built on a weak foundation. We have prosperity in many segments of the economy in this country. But it has been achieved at the expense of the farmers.

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.

The farmer remains in a state of economic depression because he is not getting a consistently fair price for his production. That is, farm product prices, on a consistent basis, have not been in balance with the prices of other segments of the economy.

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

Our profit-starved rural economy has been dependent upon 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 out of necessity 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.

We are concerned with the manner in which our farm program is being administered in that the dumping of our farm commodities and lowering of farm payments have reduced instead of raised the income of farmers.

We repeat our recommendation that the Federal Government give top priority to farm prices. 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.

LIFE INSURANCE ASSOCIATION OF AMERICA

BY JAMES J. O'LEARY, VICE PRESIDENT AND DIRECTOR OF ECONOMIC RESEARCH

The 1966 Economic Report of the President and the Annual Report of the Council of Economic Advisers were prepared this year in the midst of swiftly changing forces in the national economy. The developing boom virtually engulfed the reports. The unemployment rate was declining rapidly; wholesale prices were moving upward at a much faster rate than in earlier months; interest rates were rising swiftly; and, as it turned out in data released subsequently, business inventories were being built at a sharply accelerated rate. It would be interesting to speculate how public policy measures, as outlined in the reports, would have changed if the reports had been prepared just a month later.

The key economic policy decisions in the Economic Report of the President and the Annual Report of the Council of Economic Advisers lie in the area of fiscal policy. The report of the Council states:

> Furthermore, rising defense requirements clearly complicate the task of economic policy. The stimulative fiscal policies of recent years have achieved their mission. Consumer spending and investment demand have both been invigorated. The same logic that called for fiscal stimuli when demand was weak now argues for a degree of restraint to assure that the pace of the economy remains within safe speed limits. Measures to moderate the growth of private purchasing power are needed to offset, in part, the expansionary influence of rising defense outlays if intensified price and wage pressures are to be avoided. * * * (Pages 31–32.)

It is extremely difficult to understand how the administration reached the judgment that the Federal budget for fiscal 1967 would provide a "degree of restraint." Rather, the budget is strongly expansionary—much too expansionary in view of the tight use of resources. The idea that the budget provides a "degree of restraint" is based, supposedly, upon the comparatively small estimated deficits in the administrative ($1.8 billion) and national income accounts ($0.5) budgets and the small surplus ($0.5) in the consolidated cash budget. In order to form a judgment about the degree of "fiscal restraint" in the budget, it is essential to analyze the way in which the narrow spread between receipts and expenditures was achieved. First, the budget calls for a very substantial rise in receipts to match the increase in expenditures. The increase of receipts is based on two main forces: (1) the rise of tax yields, at existing rates, as the national economy expands; and (2) a series of tax measures estimated to yield $4.8 billion in fiscal 1967. According to estimates in the report of the Council, the GNP is expected to rise to $722 billion in calendar 1966 (the estimate is presented as $722 billion plus or minus $5 billion). This would mean an increase of $46½ billion over the GNP of $675.6 billion in 1965, or about 6.8 percent. It is further estimated that of the 6.8-percent rise, 1.8 percent would be accounted for by the increase in prices, with real output expanding 5 percent. The budget message does not make available an economic forecast for the fiscal year 1967. However, the estimates of receipts in the budget are undoubtedly based on an assumed economic expansion in fiscal 1967 comparable to the rate of expansion projected in calendar 1966. The significant point to be made here is that the report of the Council cites rising defense needs of the Federal Government (along with vigorous investment spending, increasing spending by State and local government units, and a rising rate of consumer spending) as a prime force behind economic expansion in calendar 1966. This higher Federal spending contributes significantly to general economic expansion—and out of rising personal income and corporate profits come the higher Federal receipts (without any change in tax rates) to narrow the spread between expenditures and receipts. In this context, the comparatively small deficits in the administrative and national income accounts budgets, and the small surplus in the consolidated cash budget, are not a good measure of the strong expansionary force of increased Federal expenditures in fiscal 1967.

A second reason for the rising Federal receipts in the budget—in addition to the vigorous rate of economic expansion—is the series of tax measures recommended in the budget message and the report of the Council, as follows: (1) a plan for improving the pay-as-you go effectiveness of the withholding system on personal income taxes; (2) a corresponding plan to accelerate the transition of corporate income tax payments to a full pay-as-you go basis; and (3) a temporary reinstatement of the excise taxes on passenger automobiles and telephone service which were reduced at the beginning of this calendar year and deferral of the further reductions scheduled in the future. These measures are expected to yield about $4.8 billion of additional revenue in fiscal 1967. It is noteworthy that they do not involve any increase in tax rates. It is also significant that the plan to accelerate the transition of corporate income tax payments to a full pay-as-you-go basis will act to reduce corporate cash flow and will thus undoubtedly increase the need for corporations to expand their borrowing in the money and capital markets.

Another highly significant factor in the narrow spread between Federal expenditures and receipts in the budget for fiscal 1967 is the President's program for substituting private for public credit. Legislation is being recommended to make a much broader range of direct Federal loans available for private investment by authorizing sales of participation certificates in pools of such loans. In the past, such participation certificate sales have been successful in expanding the private market for loans of the Export-Import Bank, the Federal National Mortgage Association, and the Veterans' Administration. Under proposed legislation, the participation pool device will also be employed to tap private investment markets by means of the issurance of certificates against pooled assets of the Small Business Administration, the Farmers Home Administration, and assets held by the Government under college classroom and dormitory loan programs. Total sales of participation certificates and Government assets are estimated to rise from $1.6 billion in fiscal 1965 to $3.3 billion in fiscal 1966 and $4.7 billion in fiscal 1967.

Under Federal accounting practices, the $4.7 billion of sales of participation certificates and other assets in fiscal 1967 are entered in the budget as an offset to spending, not as a receipt of revenue. Thus, the device has been a potent means of holding down Federal expenditures. Without it the administrative budget deficit—instead of being a modest $1.8 billion—would have been $6.5 billion. The budget assumes that legislation will be enacted to permit sales of $4.7 billion. This is probably a good assumption but not a certainty. It also assumes that the private market will absorb this volume of offerings of certificates. This is also probably a good assumption, but with the tightness now existing in the money and capital markets it is likely that the rate of interest on the certificates will be a great deal higher than the rate of return being earned by the Government on the pooled assets.

In summary then, the small deficits in the administrative and national income accounts budgets, and the small surplus in the consolidated cash budget, are deceptive in that they seem to indicate that the Federal budget for fiscal 1967 will exert a modest degree of restraint upon the national economy. Actually, the budget will have a strong expansionary effect upon business activity. Under the budget, the sales of participation certificates will hold down Federal expenditures by $4.7 billion. Receipts are increased by $4.8 billion largely by means of putting personal and corporate income tax payments more nearly on a pay-as-you-go basis. But, there is no increase in tax rates. Finally, the budget will only avoid a large deficit if the economy expands strongly, thus substantially increasing Federal tax yields without any rise of rates.

The budget fits into "the new economics" which has been popularized by administration economists. The volume of Federal expenditures in the budget is deemed to be in the right order of magnitude toward encouraging a further expansion of the national economy, and a fuller utilization of productive resources, without touching off more than a "moderate" rise in the general price level. The accelerated rate of defense spending is thought of as an unwelcome alternative to a further tax cut which might have been possible in the absence of Vietnam, or a greater rise in Federal spending for the Great Society. The following quote from the report of the Council (p. 31) is revealing in this regard:

> Today, our vigorous economy is in a strong position to carry the new burdens imposed by expanded national defense requirements. With another large advance in total production ahead, defense needs will be met while consumer living standards again improve strongly and the capital stock is further enlarged. Indeed the increase in output available for civilian uses this year is expected to be one of the largest in our history.
>
> National security, of course, has first priority on the budget and the first claim on production. It certainly represents a less welcome use of our national output than would Federal civilian programs or the private spending that would come from tax reduction. Progress will continue in building the Great Society, but the pace of Federal civilian programs reflects the current urgency of national defense.

It is clear from both the report of the Council and the budget message that the primary objective of Federal budgetary policy is to assure sufficient total effective demand (both private and public) for goods and services to attain full employment of labor and industrial capacity and a strong rate of economic growth. In the Economic Report of 1962 the "full employment" goal of the administration was defined as a condition in which no more than 4 percent of the labor force was unemployed. This is the present unemployment rate. The 1965 Economic Report speaks of this as an "interim goal" and suggests that it is safe today—without running the risk of provoking more than a moderate rise in prices—to direct fiscal and monetary policies to a lower unemployment rate, for example, 3.5 percent. Indeed, W. Willard Wirtz, Secretary of Labor, told the Joint Economic Committee of the Congress on February 8 that to stop now in the effort to reach full employment, which he defined as "below 3 percent," would be stopping on "the 10-yard line."

It is recognized both in the budget message and in the Economic Report that the rate of expansion in the economy which is being forecast for 1966—to a GNP of $722 billion (plus or minus $5 billion)—may intensify upward pressures on the price level. Both documents emphasize the importance of maintaining price stability. Principal reliance seems to be placed upon the wage-price guideposts and "responsible" action by labor and management as the means for containing price increases, although both documents stress that restrictive fiscal and monetary policies will be employed if needed. It is indicated that wage-price ceilings will be a last resort. The impression one gets from reading both the budget message and the Economic Report is that if a somewhat higher rate of increase in the price level (say, an additional 1 percent per annum) were a necessary cost to pay for pushing the unemployment rate to 3.5 percent (or lower), the administration would be willing to pay this cost. In other words, it would be willing to trade off a lower unemployment rate against a somewhat greater increase of the price level than we experienced in 1965.

The report of the Council continues to treat rising prices as if they were solely the product of market power by business concerns and labor unions, and as if they were solely the result of less than fully responsible decisions by labor and management. This view of the inflationary process is fast becoming out of date. Rising prices in our economy today—with unemployment falling below 4 percent, with manufacturing plant capacity being operated nearly at preferred rates, and with a business inventory buildup developing—are the product of excessive demands in our economy. The inflationary process is becoming the "demand-pull" variety. The policy need is to slow down the rate of expansion of effective demand.

What, then, are the implications of the Federal budget and the Economic Report? The principal ones are as follows:

(1) It seems certain that the rate of economic expansion this year will be very strong. The rise in Federal spending, along with a further substantial increase in capital and consumer spending, makes it likely that the $722 billion forecast in the Economic Report will be too low. Indeed, many forecasts by business economists are more bullish than that of the administration. The higher forecasts are usually based on the assumption that defense spending will rise considerably more than estimated in the Federal budget, as well as the assumption of a larger increase in the price level than that assumed by administration economists. Since the report of the Council there

has already been a $3 billion upward revision of the GNP for the fourth quarter of 1965 due largely to the buildup of business inventories.

(2) The general price level is likely to rise at a faster rate this year than last. We are already beginning to see this development. The index of consumer prices has risen at a 2.8 percent annual rate since last August compared with a 1.7 percent rate in the preceding 12 months. The index of wholesale prices has risen at about a 4-percent annual rate since September, after having risen 2.6 percent over the preceding year. Changes in wholesale prices since August reflect particularly a sharp rise in prices of farm products and processed foods. The high rate of utilization of resources provides a condition conducive to strengthening pressures on the price level. The seasonally adjusted overall unemployment rate fell to 4 percent in January. The corresponding rate for experienced wage and salaried workers was 3.6 percent; for married men, 1.8 percent; for full-time workers, 3.5 percent.[1] All of these rates have been moving down steadily in the past several months and are at historically very low levels. Similarly, in the last quarter of 1965 manufacturing plant was being used at 91 percent of capacity, just slightly below the 92 percent widely regarded as the "preferred" operating rate. Forces which will alleviate the rate of price increases this year are (1) the bringing into operation of a very large increase in plant capacity, and (2) foreign competition.

(3) As the price level moves up at a faster rate, the general public is likely to become more inflation conscious and more attracted by savings media that promise a hedge against inflation. Moreover, as the public becomes more inflation conscious, this will intensify speculative excesses (such as greater inventory building) and will thus in itself accentuate upward price pressures.

(4) The decisions made with respect to the Federal budget are likely to place renewed upward pressures on interest rates in coming months. The strong general business expansion this year—in which Federal spending is a powerful influence—will contribute to rising demands for short- and long-term credit. The program for an acceleration of corporate taxpayments, if enacted, will undoubtedly require corporations to become greater borrowers this year in the money and capital markets. In fact, it is likely that the increased rate of corporate financing which we are already experiencing is partly in anticipation of an acceleration in taxpayments. Moreover, despite the fact that cash borrowing in fiscal 1967 will be small under the budget, the proposed sale of $4.7 billion of participation certificates will place a strain upon already crowded credit markets.

Perhaps most important from the standpoint of interest rate behavior, the continued expansionary posture of the Federal budget places greater responsibility upon the Federal Reserve authorities as the protector of the value of the dollar. President Johnson stated in his budget message that he would not hesitate to ask for an increase in personal and/or corporate tax rates if this were needed to restrain inflationary pressures. The likelihood is, however, that legislation to accomplish this would take some time. The monetary authorities, on

[1] These are December 1965 figures.

the other hand, are in a flexible position to move promptly to combat an intensification in price pressures. Since the increase in the discount rate by the Federal Reserve in early December, there has been a great deal of talk about the tightening of credit. There is no doubt that credit has tightened considerably, but the tightening is attributable to a sharp rise in demand rather than to a curtailment of supply.

Actually, monetary actions have been very expansionary from mid-1965 through January 1966. Money supply growth accelerated from what was already a rapid rate of expansion. Bank reserves grew sharply, and bank credit expanded considerably. The Nation's money supply (demand deposits plus currency) has increased at a 7-percent annual rate since last June. This was the fastest rate of expansion for a 7-month period in 13 years. The increase in money in the past 7 months has been facilitated by an expansion in the volume of bank reserves. The growth of reserves that member banks have available to support private demand deposits, the largest component of the money supply, has been at a high 6-percent annual rate since mid-1965. This recent rate compares with a 2-percent rate from September 1962 to mid-1965, and a 1.3-percent rate from 1951 to 1962. A major factor in the recent gain of reserves was net Federal Reserve purchases of Government securities. Commercial banks have expanded their holdings of loans and investments at an estimated 10-percent annual rate since last July. With the price level showing signs of moving up more rapidly, it is hard to see how the monetary authorities can delay much longer in taking steps to slow the expansion of bank credit. With the huge Treasury financing out of the way, the monetary authorities will undoubtedly begin to pull in the reins on credit expansion. In the face of the huge current demands for credit, and the tight loan position of nonbank financial intermediaries, the impact on interest rates of such an action by the monetary authorities is obvious.

The policy decisions in the Economic Report of the President and the report of the Council are not appropriate under current and developing conditions in the American economy. Four important steps need to be taken immediately to dampen the strengthening inflationary pressures: (1) Nondefense Federal expenditures should be reexamined with an eye to substantial cutbacks wherever possible; (2) the legislative process should be started to permit an increase in both personal and corporate income tax rates to yield about $5 billion annually; (3) the monetary authorities should move promptly to slow down the rate of expansion of bank credit—but at the same time care must be taken by the authorities to avoid measures that might precipitate a financial crisis; and (4) the administration should immediately urge the passage of legislation to remove the 4¼-percent interest ceiling on long-term Government bonds in order to permit the Treasury to do some of its financing in the long-term market and thus avoid the danger of restricting its financing to highly liquid short-term issues. It would be a serious mistake to delay on these measures until a faster rate of increase in the price level is already upon us.

MACHINERY AND ALLIED PRODUCTS INSTITUTE

From Guideposts to Guidelines to ?

Guidepost: A post (as at the fork of a road) with guideboards on it to direct travelers.
Guideline: An indication or outline of future policy or conduct (as of a government).

Webster's Third New International Dictionary.

INTRODUCTION

Guideposts

In January 1962, in his first Economic Report, President Kennedy introduced some guideposts for noninflationary wage and price behavior. The rationale behind these guideposts was set out as follows:

(1) Individual wage and price decisions assume national importance when they either involve large numbers of workers and large amounts of output directly or are regarded by large segments of the economy as setting a pattern.

(2) Accordingly, there is legitimate reason for public interest in their content and consequences.

(3) An informed public—one aware of the significance of major wage bargains and price decisions and equipped to judge for itself their compatibility with the national interest—can help to create an atmosphere in which the parties to such decisions will exercise their powers responsibly.

(4) A useful benchmark for wage and price behavior is the rate of change in productivity. Stated more formally:

(*a*) The general guidepost for wages is that "the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of overall productivity increase."

(*b*) The general guidepost for prices calls for "price reduction if the industry's rate of productivity increase exceeds the overall rate * * * for an appropriate increase in price if the opposite relationship prevails; and * * * for stable prices if the two rates of productivity increase are equal."

It is clear from President Kennedy's Economic Report that these guideposts were to be completely voluntary. To quote the report:

Mandatory controls in peacetime over the outcomes of wage negotiations and over individual price decisions are neither desirable in the American tradition nor practical in a diffuse and decentralized continental economy. Free collective bargaining is the vehicle for the achievement of contractual agreements on wages, fringes, and working conditions, as well as on the "web of rules" by which a large segment of industry governs the performance of work and the distribution of rewards. Similarly, final price decisions lie—and should continue to lie—in the hands of individual firms. It is, however, both desirable and practical that discretionary decisions on wages and prices recognize the national interest in the results.[1]

In summary, the 1962 Economic Report set out some guideposts for noninflationary wage and price behavior. They were designed to provide standards for evaluating price and wage decisions where the public has an interest in their content and consequences; they were not—and were not considered so—to replace the normal processes of free private decisions and negotiations. However, the framework for some type of governmental intervention in the marketplace had been established.

Guidelines

The wage and price guideposts were restated in President Johnson's Economic Reports of 1964, 1965, and 1966—although it is probably not without significance that the name was changed (and the emphasis transposed also) to price-wage guideposts. What is even more important is that the concept appears to have changed from that of guideposts (a post * * * with guideboards on it to direct travelers) to guidelines (an indication or outline of future policy or conduct (as of a government)). Stated more directly, there has been a shift from President Kennedy's mild introduction to the guideposts in terms of "[w]hat follows is intended as a contribution to such a discussion"[2] to the present administration position that the guideposts are to serve as a standard and the annual trend increase in productivity is specified—to the decimal point. Further, at least in practice, on occasion the administration has taken the position that not only should businessmen inform the Government in advance of a decision to increase prices, but that it is entitled to a full explanation of any key price increase to determine whether it is justified and whether it should act—as it did in he case of copper, aluminum, and steel.

Some feel that this shift to at least "jawbone control," and at most something that approaches a de facto Federal authority for wage and price control, is an inevitable concomitant of two developments: (1) the steady movement from an economy with a substantial amount of excess capacity and unemployment and thus relatively little pressure on wages and prices to one that is much closer to being "overheated" and subject to the mounting pressures of inflation and (2) the ascension of the "new economics" which holds that the Government has both the responsibility and the means to assure the greatest and steadiest rate of economic growth consistent with price stability. At any rate, it certainly is timely to review and evaluate the price-wage guideposts in this new context.

THE WAGE-PRICE GUIDEPOSTS—THEORY

The problem

While it is difficult, as we shall see, to determine at just what point a wage becomes excessive, certainly the theoretical implications of an excessive wage demand, i.e., a wage increase which exceeds

[1] Economic Report of the President, January 1962, p. 185.
[2] *Ibid.*

the gain in overall productivity, are quite clear. Let us look at this for a moment. There are two possibilities:

(1) Assuming that management resists the wage demands and a strike and plant (or company or industry) shutdown follows, the obvious result is a loss in income, production, and employment for the particular firm. Similarly, its employees suffer economic hardships. Should the strike and plant shutdown continue for some period of time, the adverse economic effects spread to both suppliers and, in the case of producers' goods, to the end user. By the same token the loss of income to the employees adversely affects the communities in which they live. The effect on the economy as a whole—and the extent to which the losses are permanent or not—depends upon the importance of the firm's (industry's) products to the economy and the duration of the shutdown.

(2) On the other hand, assuming that the collective bargaining negotiations result in an excessive wage increase, either new impetus is given to a wage-price spiral or profits are reduced. Which of these two alternatives prevails depends on the state of the market and the competitive position of the firm. In either case, however, again there are adverse effects: A wage-price spiral results in an arbitrary redistribution of real income, a worsening of our competitive position in international markets, and changes in corporate inventory and investment policies directed to price protection as contrasted with customer demands. A falloff in profits leads to a cutback in investment and subsequent unfavorable effects on income, production, and employment.

Thus, it is not difficult to understand why there is an economic counterpart of Diogenes who is endlessly seeking some means of determining what the Europeans call an incomes policy. Just what this incomes policy is and whether or not the wage-price guideposts meet this need occupy the balance of this monograph.

The theory

In essence the guideposts indicate the behavior of wages and prices in a perfectly competitive market and then rely on business and labor to make prices and wages in product and labor markets in the real world behave something like that. To explain this, it is necessary first to say a few words about "perfect competition" and then to examine the way the guideposts work in practice.

Perfect competition defined.—When the economist speaks of perfect competition, he is describing a model. He knows that we do not have perfect competition—nor for that matter, a complete monopoly—but he employs a model setting for such conditions because he believes it has some predictive value. The conditions of perfect competition are as follows: (1) a large number of buyers and sellers, (2) a homogeneous product, and (3) mobility of the factors of production. Under these conditions, the individual firm would have no control over its prices. Further, under conditions of perfectly competitive markets for the firm's products, together with the high mobility of capital assumed, profit margins between industries would also be equal.

Assuming also that there is a perfectly competitive labor market, there would be no significant wage differentials since industries would be forced to follow the same wage policy.

Thus, if under these conditions all industries increase their wages in accordance with the average of their productivity gains and prices are adjusted accordingly, a stable price level would be the end result. It is this result that the administration's wage-price guideposts attempt to approximate.

THE PRICE-WAGE GUIDEPOSTS—PRACTICE

The real world

Unfortunately—or fortunately—our economy does not work this way. As noted before, we have neither perfect competition nor complete monopoly. What we do have is a blending of these two systems. As a result, in practice the guideposts are general guides for noninflationary wage and price behavior and are subject, in individual cases, to a number of exceptions required to meet the conditions of the real world and to achieve equity and efficiency. It will be recalled that these general guides are as follows: [3]

> (1) The general guidepost for wages is that the annual rate of increase of total employee compensation (wages and fringe benefits) per man-hour worked should equal the national trend rate of increase in output per man-hour.
>
> (2) The general guidepost for prices is that prices should remain stable in those industries where the increase of productivity equals the national trend; that prices can appropriately rise in those industries where the increase of productivity is smaller than the national trend; and that prices should fall in those industries where the increase of productivity exceeds the national trend.

In other words, wages should rise in accordance with the upward trend of output per man-hour, employers' wage costs per unit of output would remain the same, and (overall) prices and profits would be stable.

Because even the general guides loosely applied would not always provide salutary results, they are subject to a number of qualifications. Accordingly, the system provides that exceptions to the general guidepost in the form of wage increases above the general guidepost may be made when (*a*) wage rates are inadequate to attract the employees necessary to meet demands for the firm's products, (*b*) where wages are particularly low (i.e., near the bottom of the economy's wage scales), or (*c*) where changes in work rules increase productivity and adversely affect employees to the point where special adjustment in compensation is required. Similarly, increases in price above the general guidepost may be appropriate (*a*) where increases in costs other than labor costs are not offset and significantly impair gross profit margins and (*b*) where profits are not sufficient to attract needed capital. The Council of Economic Advisers takes some pains, however, to note that a number of these exceptions are either not widely applicable or are even rarely applicable in today's economy.

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[3] The guideposts as restated in the 1966 Economic Report of the President, pp. 89–90.

Doing the arithmetic

As the price-wage guideposts evolved, in 1965 the administration employed a 5-year moving average of changes in productivity (defined as the output per man-hour for all persons). Specifically, the figure is that for output per man-hour in the private economy. This is arrived at by dividing "private gross national product" by the "number of man-hours worked in the private economy." This latter figure includes the hours worked by all persons engaged in the private economy, including the self-employed.

Using the Government's data,[4] the productivity gains for the 5-year period 1960–64 were as follows:

Year:	Percentage change in productivity
1960	2.0
1961	3.4
1962	4.5
1963	2.9
1964	3.1
Average	3.2

Thus, we arrive at the familiar figure of 3.2 percent for 1965.

It might be interesting to take this exercise one step further and see what would have been in store for 1966—assuming that the administration used the same method of deriving the guideline figure. Rough projections of the productivity gains for 1965 run to some 3.0 percent. Since the figure that would be "dropped" from the 5-year moving average is 2.0 percent and the figure added is 3.0 precent, it can quickly be seen that on this basis the guideline figure for 1966 would be higher, say at 3.4 percent. In addition, another factor supporting an increase in the productivity figure is statistical in nature. The result of improved measuring technique at the Department of Commerce is that the data on national output are higher than in the earlier series, while the number of man-hours remains the same. As a result, the guideline figure would have been increased by another 0.2 percent to 3.6.

The administration, however, decided to drop the 5-year average since it "no longer gives a reasonable approximation of the *true* productivity trend."[5] [Emphasis supplied.] In effect, in its recommendation that the general guidepost for wages be continued at 3.2 percent a year, the Council of Economic Advisers did two things:

(1) First, it changed the concept of the guidepost for wages by asserting now that "wages should increase no faster than the *sustainable* trend of productivity."[6] [Emphasis supplied.]

(2) After finding that the long-term trend of productivity, independent of cyclical swings, is slightly over 3.0 percent, the Council decided to continue the present figure.

COMMENT AND CONCLUSIONS

A comment on the results

The goals of the guideposts—the maintenance of high levels of income and employment without inflation and the promotion of more

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[4] Economic Report of the President, January 1965, table 12, "Changes in productivity, wages, and prices in the economy since 1947," p. 109.
[5] Economic Report of the President, January 1966, p. 92.
[6] Ibid.

responsible labor-employment leadership—are laudable. The theory that wage and price increases be tied to productivity gains in such a manner that, if properly implemented, the guideposts would result in a proportionate share of these gains among the various factors of production is understandable, though not necessarily desirable in its consequences. However, in putting the theory into practice, we encounter great difficulties.

From "guideposts" to "guidelines" to "?".—In the long run the most serious problem with the wage-price guidepost approach is that it appears inevitably to lead us toward a system that is incompatible with a market economy. The reason for this is twofold: (1) the general guideposts cannot work without serious distortions in our economy unless full play is given to the exceptions; (2) however, if the number of exceptions that our complex economy demands for purposes of equity and efficiency are granted, the guidepost system inevitably will break down and—should we persist in maintaining this arbitrary relationship—bring on further intervention by government.

The "visible hand."—While, in prescribing a price mechanism, one need not go to the extreme of Adam Smith's "invisible hand," the guideposts bring us much closer to the other extreme of a marketplace directed by the "visible hand" of Government. Although short of the imposition of formal controls, the price-wage guidelines represent a significant departure from a free market system. In their implied assumption that the supply side of the demand-supply equation alone determines, or should determine, either the general level of prices or the prices of individual products, the guidelines fly in the face of reality. Prices do—and should—reflect the demand side of the market as well. In fact, in ignoring the demand side of the marketplace—i.e., through the lack of proper monetary and fiscal restraints, notably restraints on Government expenditures—the guideline approach overlooks the basic causes underlying the present inflationary pressures. Further, since prices and wages are governed by formula rather than by market forces, they suppress competition with the end result that the economy takes on the characteristics of one where prices and wages are fixed by governmental authority.

Intervention in the economy under whatever guise has the same effect—gradual distortions and a misallocation and thus waste of the Nation's resources. In turn this means a weakening of the competitive market system and the loss of economic freedom and efficiency. The reasons for this are not far to seek. Decisions by the administrators of the guidelines are arbitrary and discriminatory. In this case the major basic industries such as steel and aluminum have borne the brunt of guideline pressures. At the same time, what the Government has determined to be "excessive" wage increases under the guideline system has either been overlooked or rationalized away in other industries; in fact, the guideline average has become the minimum increase acceptable to the major labor unions. In this sense it can even be argued that the implication that all are entitled to the wage increase set forth by the guideposts has probably increased wage expectations.

Finally, the guidepost approach has already opened the floodgates for a wave of legislative proposals designed in one form or another to bring to bear an informed public opinion upon price and wage behavior that threatens national economic stability. For example, one bill [7] would provide that no companies in certain basic industries (among those industries identified in the bill are steel, aluminum, and automobile) shall increase the price of goods or services manufactured or supplied by them until 60 days after delivery to the Government official designated by the President of notice of the proposed price increase. Unless the notice is withdrawn prior to the termination of the 60-day period, the price increase shall be effective as of the date the notice was delivered. Another bill [8] would provide for public hearings (with subpena powers to require appearance and testimony of witnesses and the submission of such books, records, correspondence, memorandums, papers, and documents as the committee may deem advisable) to be called by the Joint Economic Committee of the Congress to determine whether price or wage behavior is inconsistent with the guideposts and thus threatens national economic stability. The Joint Economic Committee would then file a report with the Senate and House of Representatives containing its findings and recommendations of actions in the public interest to be taken by the President or the parties concerned.

Conclusions

The "shifting sands" of measurement.—If intervention is to be the "name of the game," the rules by which it is played should be consistent. In this case some of the rules are not even stated. For example, in reviewing price increases, what is the base period with which the comparison is to be made? Who is to select the base period? How current must the data be? As to wages, what time period accurately reflects the "trend value" of labor productivity in the economy? Et cetera.

In the case of the guideposts, the Government has just changed the ground rules with respect to the productivity measurement. As noted earlier, in announcing that the wage guidepost for 1966 is 3.2 percent, the Government abandoned its mathematical technique of using as its benchmark the average rise in output per man-hours over the past 5 years. Whatever the merits may be for this shift—and, admittedly, the rationalization set forth in the 1966 Economic Report by the Council of Economic Advisers is persuasive in terms of the direction in which the change was made [9]—the administration is certainly open to the charge that it is changing the rules in the middle of the game because it did not like the foreseeable outcome and, perhaps, because it wanted to balance the scales. In general it is difficult to draw a conclusion other than that what is left is simply "jawbone control" subject to the whim of the administration and devoid of a good deal of whatever confidence was previously placed in the guidepost approach

[7] H.R. 11870, Jan. 10, 1966, introduced by Congressman Celler.
[8] H.R. 11916, Jan. 10, 1966, introduced by Congressman Reuss.
[9] See the appendix to this monograph.

by business and labor. In terms of welfare economics, the "social costs" now outweigh the "social benefits."

"De facto" versus "de jure" controls.—What is sometimes overlooked is that the recent "voluntary" controls have bypassed the normal safeguards of our traditional system: Through the use of the informal and ambiguous language of the guidelines, we are deprived of preciseness in their interpretation and administration. The use of thinly veiled threats clouds with uncertainty the penalty that is likely to be imposed for a particular violation. And through voluntary compliance, business and labor have forgone the avenues of appeal provided by prior congressional debate and subsequent judicial review. On the other hand, while this obviously is critical of a program of "voluntary" controls, it in no way is meant to imply that the answer lies in legislated controls. It is only to note that the voluntary system is rapidly being converted into an ad hoc prescription of irregular doses of exhortation, persuasion, and coercion.

Have the guideposts outlived their usefulness?—In the early years of the guideposts, the administration gave them a good deal of credit for restraining price increases, and it cannot be doubted that our record of wage and price stability was excellent in overall terms. It was suggested at that time, however, that a heavy contributing factor to our success was the underutilization of resources that existed in the economy. That this was the case seems to be borne out by a look at our recent record. Wage settlements negotiated in the first 9 months of 1965 reportedly averaged 4.1 percent, substantially above the guidepost of 3.2 percent. As to prices, the latest data show that 18 of 23 manufacturing sectors reported higher prices in November 1965 than in November 1964, the average level of prices being up some 1.5 percent. This rise no doubt reflects the growing tightness of labor and product markets.

Nonetheless, it seems fair to conclude that the guidelines have had some effect in restraining wage and price settlements in certain "bellwether" industries. Further, they have called attention to the relationship existing between productivity, wage gains, and price stability. To this extent they have served a purpose. On the other hand, wage and price increases were realized in other industries by the hundreds, and we have now reached a point where these increases are regularly exceeding the guideposts. When this is coupled with the risks entailed in further Government intervention in the economy, the guideposts have outlived their usefulness. They have no sanction in law; they are now being applied beyond their original intent; and and it would appear that they are being enforced unevenly. New measures are called for in the form of appropriate monetary and fiscal policy, and proposed legislation should be reviewed carefully to determine whether it is consistent with the Government's anti-inflationary objectives. We have already traveled too far down the road of controls. Controls are controls whether they are sanctified by statute or perpetuated by the power of the Presidency in all its ramifications.

The following text was prepared by Richard MacNabb, vice president and secretary of the Machinery and Allied Products Institute, and published by MAPI in January 1966.

Employment—96% Full or 4% Empty?

"Instead of using only comparative and superlative Words, and intellectual Arguments, I have taken the course . . . to express myself in Terms of Numbers, Weight, or Measure; to use only Arguments of Sense, and to consider only such Causes, as have visible Foundations in Nature."

SIR WILLIAM PETTY, 1690

"A witty statesman said, you might prove anything by figures."

THOMAS CARLYLE, 1839

Introduction

It is at least paradoxical—at most downright contradictory—that at a time when the AFL-CIO speaks of unemployment as "America's major economic problem," [1] and Secretary of Labor Willard Wirtz comments on the need for a shorter work week and a double time for overtime penalty to spread the work, industry is complaining of labor shortages. Can this seeming paradox be explained? We think so. We believe it is largely the result of a misunderstanding of two factors:

1. The first is an oversimplification of the unemployment problem through using averages excessively. It is necessary to stratify the data and study the characteristics of the unemployed to determine their significance. In other words, the overall unemployment rate simply cannot be regarded as a sufficiently sensitive indicator of the problem.

2. Second, the unemployment data are *economic* statistics. While this would seem eminently clear, unfortunately too many commentators treat these data as *welfare* statistics and therefore draw erroneous conclusions as to the impact of unemployment on both the economy and the individual.

The Importance of the Unemployment Problem

"Unemployment" is an emotional term. For the individual the seriousness of the unemployment problem is, of course, closely related

[1] *The American Federationist*, August 1965, p. 11.

to his own situation. If he is out of a job and needs one, the situation obviously is critical. If he is between jobs because he is looking for a better job and has adequate financial resources (family or otherwise), the situation is not critical. In either case, however, the individual is a government unemployment statistic.

With respect to the economy as a whole, the government data on unemployment are important in quite another way. These statistics were the major basis for President Kennedy's "Get the Country Moving" program and today play an important part in establishing the rationale for many of President Johnson's "Great Society" programs. They provide the foundation for much of the welfare spending that the Congress has approved. Further, they are at the root of demands by union officials for a shorter work week, double time for overtime, and for the government to "do something." Finally, they are used in a special way to emphasize the plight of the Negro in America.

For all of these reasons it appears timely to look in some depth at the present unemployment situation.

THE LABOR FORCE

The Labor Force Defined

It might be useful at the outset to briefly define the labor force.[2] In the United States the *civilian labor force* includes all civilians 14 years of age and over[3] who are (1) employed or (2) unemployed and looking for work. The *total labor force* in addition includes members of the Armed Forces stationed either in the United States or abroad.

Employed persons.—This category comprises (a) all those who perform any work at all either as paid employees, or in their own business or profession, or on their own farm, or who worked 15 hours or more as unpaid workers in a business or on a farm operated by a member of the family and (b) all those who are not working or looking for work but who had jobs or businesses from which they were temporarily absent because of illness, vacation, a labor-management dispute or who are taking time off for various other reasons, whether or not they were paid by their employers for their time off.

Unemployed persons.—Since it is the unemployed person about whom most of the controversy exists, and thus to whom most of the attention will be given in this discussion, this definition is particularly important. Unemployed persons comprise all those who are not working and are looking for work, regardless of whether or not they are eligible for unemployment insurance. Also included as unemployed are persons who are not working at all and (a) are waiting to be called back from a job from which they had been laid off; or (b) are waiting to report to a new wage or salary job within 30 days (and are not in school); or (c) would be looking for work except that they are temporarily ill or believe that no work is available in their line of work or in the community. (Not included in this category are persons who say they are not looking for work because they are too old, too young, or handicapped in any way.)

The unemployment rate.—One final definition. The unemployment rate represents the number of unemployed as a percent of the civilian labor force, i.e., the sum of the employed and the unemployed.

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[2] The definitions given in this pamphlet are those used by the U.S. Department of Labor in connection with its *Monthly Report on the Labor Force.*

[3] There is no upper age limit.

The Labor Force Described

Currently the United States is experiencing a rapidly growing labor force.[4] In December of 1965 the civilian labor force was at 75.6 million. This compares with a level of 62.1 million in 1949. Concentrating on the more recent past, in the 12-month period through December 1965 the labor force increased by 1.8 million, the first time in a decade that the increase exceeded 1.5 million. The significance of this figure is highlighted when it is recalled that the number of unemployed in December 1965 was less than 3.0 million.

The growth in the labor force reflects a number of factors. Most important presently is the growth in the population itself. Today we are, of course, witnessing the coming-of-working-age of the huge number of children born just after World War II. During that period the number of births jumped from 2.9 million in 1945 to 3.8 million in 1947. Having reached the age of 18, many of those born in 1947 are now in the labor force. There are, however, a number of other factors that, although frequently overlooked, also play an important role. These include (1) the increased participation in the labor force of women and teenagers, (2) the presence of a large part-time and intermittent work force (in large part attributable to the increased number of women and teenagers in the labor force), and (3) the availability of jobs with attractive wages and working conditions.

While these factors have dominated the changes in the labor force, as one might suspect there have been some counter trends. For example, (1) there was a falloff in the number of births between 1948 and 1950 as compared to 1947, which should provide some temporary alleviation; (2) although the total labor force has not been affected, increasing numbers of young men are leaving the civilian labor force to temporarily serve on military duty; (3) to the extent that the War on Poverty meets its goals, an increasing number of teenagers will be delayed in entering the labor force or removed for a short period of time; (4) of more lasting significance, a greater proportion of young

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[4] This has both advantages and disadvantages. While the reaction of economic forecasters to the rapid population growth has been generally enthusiastic, there is an increasing tendency to question these advantages on at least two grounds: (1) the absorption of savings in supplying the population increment with its complement of capital goods and (2) the impairment of living conditions by population congestion. For a discussion of this question, see "Labor Force Growth and Business Capital Formation," *Capital Goods Review* No. 61, March 1965, Machinery and Allied Products Institute.

people continue to stay in school longer—the proportion of 16- and 17-year-old youths in school has increased from 75 percent to 88 percent over the past decade; and (5) should scattered early retirements develop into a trend—and assuming these people leave the labor force—this too would slow up the labor force growth.

It is obvious that trends in the growth and makeup of the labor force significantly affect the number of employed and unemployed. Further, if job opportunities do not expand rapidly enough to accommodate all these changes in the labor force, the economic and social problems accompanying unemployment are bound to rise.

EMPLOYMENT

Too often when labor force data are discussed, attention is directed only to unemployment. As a result the fact tends to be overlooked that employment since World War II has never been less than 93 percent of the total and, correspondingly, unemployment has never reached 7 percent. Currently, and phrased more abruptly, "Employment—96% Full or 4% Empty?"

Like any aggregate figures, these do not tell the full story. For this reason let us look at a few of the highlights of employment:

1. For December of 1965 the number of civilians employed was 72.7 million. This compares with a level of 65.0 million for the year 1957, which was an all-time high as of that date. It is further interesting to note that, with the exception of 1958, civilian employment has increased every single year since then.

2. What is probably of more interest at this time is how we have fared recently. As of December 1965, employment was up 2.2 million from the December 1964 level. This over-the-year gain reflected additional jobs for 950,000 teenagers, 900,000 women, and 350,000 men. These employment gains exceeded the labor force growth for adults and were reflected in sharply reduced unemployment levels and rates. However, for teenagers the job gain just matched the substantial labor force increase, and the unemployment rate declined only slightly. While the job gains for men were accomplished by hiring unemployed workers, most of the expansion among

women and teenagers represented additions to the labor force.

3. Interestingly, while still a significant factor in the labor force, recently part-time work has been declining and now is at the lowest levels since 1956. This, of course, reflects the demand for full-time workers at a time when the economy is booming and a shortage of many kinds of workers exists.

4. Manufacturing employment in December continued at 18.4 million, an all-time high and an increase of 850,000 over December 1964. Most of the increase was accounted for by the durable goods industries and, in particular, by electrical equipment (172,000), transportation equipment (135,000), and machinery (115,000).

UNEMPLOYMENT

Having discussed the labor force and employment, we can now turn to unemployment—the problem area. However, as we shall see, the problem existing today is not the one generally presented; namely, a huge number of "family breadwinners" unemployed for long periods of time, undergoing severe economic hardship, and seeking work of any kind. But first the facts.

Measuring the Unemployed

Since the number of unemployed persons obviously depends upon the measuring rod used, i.e., the definition, we will start there. As noted earlier, according to the definition used by the Department of Labor, unemployed persons comprise all those 14 years of age and older who do not have a job and are seeking work, whether or not they have worked previously. In addition, it includes those who did not work at all and (a) were waiting to be called back to a job from which they had been laid off, or (b) were waiting to report to a new wage or salary job within 30 days (and were not in school), or (c) would have been looking for work except that they were temporarily ill or believed no job was available in their line of work or in the community. To determine the number of such people in the labor force, estimates are based upon a monthly survey (personal interviews) of a sample of the population consisting of some 35,000 house-holds in 357 geographical areas covering the 50 states and the District of Columbia.[5]

While it is sufficient for this discussion to note that this definition has been consistent over the period of time covered, one or two comments are in order here. The unemployment figures have been greatly criticized, partly—as noted earlier—because this is such an emotional subject, but also because of the need for further data to identify the problem areas and to measure the results of our efforts in dealing with them. Insofar as this criticism deals with the statistical methodology, it can be said that this has been reviewed by outside committees, including those at the presidential and congressional levels, and avouched as to its lack of bias and deception. For example, The Committee To Appraise Employment and Unemployment Statistics (the Gordon Committee), appointed by President Kennedy in 1961, found that while certain improvements should be made, mainly in the form of extending and improving the information presently published, the statistics were honest, adequate, and comprehensive.

However, another area of questioning concerns the matter of concept and the adequacy of the data for the problem under consideration. Here a number of questions can be raised. On the one hand, the overall unemployment figures tend to be "overstated" in that they include everyone 14 years of age and older. Further, no questions are raised as to the methods the individual uses in looking for work and, while the individual indicates that he is looking for work at the time of survey, he is not asked questions about his availability.[6] The matter of "availability" can be illustrated by two examples: (1) a full-time student who is looking for work is counted as unemployed even though he is only available for part-time work and (2) a person is counted as unemployed when he is in fact an "early retiree" from the labor force and is simply running out his unemployment compensation benefits. Further, it should be noted that some persons not always included

[5] A detailed description of this survey appears in "Concepts and Methods Used in Household Statistics on Employment and Unemployment From Current Job Survey," Bureau of Labor Statistics Report No. 279. This report is available from BLS on request. In addition to these data compiled from household interviews, other current statistics on employment and unemployment are derived from payroll reports from employers and the administrative statistics of state unemployment insurance systems.

[6] It should be noted that the questions concerning methods used by an individual in seeking work and the matter of his availability currently are included by the Department of Labor in an experimental sample.

in the unemployment statistics of other countries are included in those of the United States; e.g., new entrants into the labor force and those not covered by the unemployment insurance system. On the other hand, an individual is not counted as unemployed when he is not looking for work, and this no doubt includes some who become so discouraged at the lack of opportunity that they no longer identify themselves with the labor force. In addition, no allowance is made for those who are only working part time but want regular full-time work. About all that can be said is that any change in the definition could significantly affect the number of unemployed. It is beyond the scope of this discussion to suggest new definitions.

A Look at the Figures

The data in Tables 1 to 4 (pp. 15-16) highlight the following:

—The number of people employed in the labor force at 72.7 million was a December all-time high and 2.3 million above the same month a year ago. While some 4.75 million workers were added to the labor force since 1961, employment is up almost 6 million.

—The number of unemployed totaled 2.9 million in December, down 600,000 from a year ago and the lowest this figure has been since the middle of 1957.

—The total unemployment rate declined steadily in the last half of 1965 and reached 4.1 percent (seasonally adjusted) in December, its lowest point since May 1957. A year ago the jobless rate was 5.0 percent, and in December of 1962 and 1963 it was 5.5 percent.

—The unemployment rate for married men fell to 1.8 percent, the lowest since monthly records were first kept for this category in 1954. Similarly, the unemployment rate for adult women fell below 4 percent for the first time since early 1957. It could well be that these rates are, for practical purposes, about as low as they are likely to go.

—The rate of unemployment among teenagers is 13.1 percent, significantly down from December a year ago when it was 15.7 percent.

—The number of unemployed nonwhites (mostly Negroes), at 600,000, is down by more than 100,000 from a year earlier. The jobless rate for nonwhite workers averaged 7.8 percent in the fourth quarter, its lowest point since the spring of 1957. While unemployment among this group varies in the same direction as the overall averages, the rate for nonwhites is almost twice as high as the rate for all civilian workers and that for teenagers is almost three times as high.

—The number of persons out of a job for 27 weeks or longer (the hard core unemployed) stood at 266,000 in December, down more than 120,000 over a year ago and lower than in any December since 1957. At this time, more than half of the unemployed have been out of work for less than five weeks.

These figures both give some idea of the extent of unemployment and also point up the unevenness of that unemployment. Four percent (roughly 3 million persons) is, of course, a relative figure. It can be—and is—considered both high and low. The unevenness is a more serious problem. While one would need more than the data presented here to prove the point, it is generally beyond argument that today the bulk of the unemployed are made up of the *un*skilled, *un*educated, *un*wanted, and *un*available. In some cases, the four "un's" add up to "unemployables," in the economic sense of that term.

Measurement Versus Interpretation

To assess the seriousness of the unemployment, it is necessary to interpret these data still further. Stated differently, it is as important to know what these figures do *not* mean as it is to know what they *do* mean.

Economic statistics.—As noted earlier, the employment and unemployment data are economic and not welfare statistics. They *do* purport to measure the availability of labor for jobs and, in that sense, are one measure of the capacity of the economy. They do *not* indicate who needs a job or the individual's state of economic well being. It would seem easy to draw the conclusion that when unemployment is at a level of 4 percent one out of every 25 persons in the labor force has just lost his job and is walking the streets eagerly seeking a job to gain enough income to support his family, which is at poverty levels. This is simply not the case.

Reason for looking for work.—The unemployed are not necessarily those who have just lost a job. According to a recent study in the *Monthly Labor Review* [7] of some 3.5 million unemployed in December 1964, less than 50 percent had lost their jobs (i.e., had been laid off). Of the remainder, 13 percent started to look for work after quitting their jobs, and 38 percent were out of the labor force just prior to looking for work.

Turnover.—The unemployed workers do not consist of a static group. This can be shown by comparing the average level of employment with the number of different persons who became a part of the labor force during a given period of time. Again, we turn to a study made by the United States Department of Labor.[8] What is of interest here is that while the average employment level for 1963 was 68.8 million, over 83 million persons worked at some time during the year. Of the 83 million, 45 million worked all year at full-time jobs, 5 million worked throughout the year at part-time jobs, and 33 million were intermittent workers. Thus, turnover—the mobility of the individual worker and the flexibility of the labor force—is an important source of unemployment.

Duration of unemployment.—As noted earlier, currently more than half of the unemployed have been out of work for less than five weeks. This is particularly true of married men, who generally manage to find jobs within a few weeks. By the same token, extended joblessness is disproportionately concentrated among certain worker groups, including the nonwhites, unskilled and semiskilled blue-collar workers, and those without previous work experience.

Economic status.—Today an individual who is unemployed—particularly if he is not among the long-term unemployed, which, as noted, constitutes a relatively small proportion—has access to some income. First, increasingly there is more than one wage earner in the family. This in fact has a quite significant effect. Ewan Clague, the then Commissioner of Labor Statistics, recently reported [9] that:

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[7] "The Unemployed: Why They Started Looking for Work," Curtis L. Smith, Jr., *Monthly Labor Review*, United States Department of Labor (BLS), October 1965, Volume 88, Number 10, pp. 1196-1203.

[8] "Work Experience of the Population in 1963," Samuel Saben, *Monthly Labor Review*, United States Department of Labor (BLS), January 1965, Volume 88, Number 1, pp. 8-16.

[9] "The Anatomy of Unemployment," Ewan Clague, Commissioner of Labor Statistics, before the Conference of Business Economists, New York, New York, May 8, 1964, p. 10.

> "About 800,000 of [the] unemployed were unrelated individuals supporting themselves; their median income was $1800, but the 8.8 million who were members of families had an average (median) family income of $4400. About 30 percent of these persons had family incomes under $3000; these constituted the poverty group. On the other hand, nearly 20 percent of the group had incomes of over $7000."

In the second place, savings are now higher than at any time in the history of the country. In this sense, it is obvious that some of the unemployed are better off financially than those who are working. Third, those without any savings, or whose savings have been exhausted, usually have recourse to unemployment compensation and numerous welfare programs.

Part-time labor force.—As noted in another connection earlier, a significant proportion of the labor force is composed of those looking for part-time work.[10] In fact, in December of 1964, 20.5 percent of the total unemployed were part-time job seekers. These part-time job seekers largely consisted of teenagers, married women, and pensioners, who probably are under less pressure to find a job. At any rate, the unemployment of a high school student who is seeking a summer job or of a housewife who wishes to supplement the family income through part-time work does not carry the same implications as the unemployment of the head of the household who is in need of a full-time job.

OBSERVATIONS AND CONCLUSIONS

Some Observations

What does this brief survey of employment and unemployment statistics tell us? At least three things:

1. Industry has been expanding its employment substantially, and the unemployment rates for all categories represent an improvement on the interim overall goals set by the Administration (4 percent)—with the exception of that for teenagers and, of course, when we make a division by race, that for nonwhites. The teenage problem is magnified by the surge in the birth rate at the time of World War II, and the fact that, while not necessarily

[10] Recently, the Department of Labor started classifying the unemployed into full-time and part-time job seekers.

"unemployable," a large number of teenagers are not properly trained for the available jobs. Stated somewhat differently, our unemployment difficulties center around the growing number of young, unschooled, untrained, and inexperienced persons.

2. In a society that is both free and dynamic, evidencing progress and change, it cannot only be expected that there will be some unemployment—it is absolutely essential, and even desirable! For with changes in customer demand, changes in technology, changes in the makeup of the labor force, and, of course, even the changes brought about by workers moving from one job to another, the degree of omniscience and control necessary to assure that everyone is simultaneously employed is not compatible with our type of society. This does not mean, however, that any level of unemployment is acceptable, only that there is some irreducible minimum. It is tempting to identify this irreducible minimum in terms of numbers. For example, recently Secretary of Labor Willard Wirtz ventured the opinion that in an economy in which 10,000 or more newcomers enter the labor force every day, and perhaps as many more leave one job to take another, there is bound to be frictional unemployment in the amount of some 2 to 2½ percent. Adding to this roughly a half of one percentage point for those who are unemployable in the sense that they lack what it takes, Secretary Wirtz felt that the opportunity for full employment would exist when the number of those looking unsuccessfully for jobs is about 2½ to 3 percent.

There is another way of getting at this same point. That is to find the unemployment rate which is most compatible with the maximum noninflationary growth and the avoidance of critical labor shortages. Under current conditions it would seem that we may well be at this point with an unemployment rate of 4 percent. Probably the best that can be said is that because of changing conditions the point at which we reach a minimum unemployment rate consistent with relative price stability is exceedingly difficult to predict.

3. With this in mind, the solution to the unemployment problem lies in (a) an attack on the structural problems of unemployment through expanded education and training programs and (b) the maintenance of a high rate of growth in our overall economic activity. In connection with the former, as we reach lower levels of unemployment it becomes increasingly necessary to match workers and jobs [11] through better education and training, improved guidance of young people, increased worker mobility, the elimination of discrimination against older workers and minority groups, and the decasualization of many types of seasonal and part-time employment. Certainly we should be more successful in accomplishing this today due to the combined efforts of industry and government. Industry programs have the advantage in that they are tailored to the individual situation. Probably it is generally agreed that the best type of program in this area consists of on-the-job training. On the other hand, firms do not have unlimited funds for this purpose and their education and training programs can be supplemented. In this respect, a whole new alphabet of government programs has been created.[12]

As to the expansion in overall economic activity, a number of areas deserve continuing attention. Among the more important are, of course, the federal tax laws and their impact in terms of incentives or burdens for job-creating mechanisms. More broadly, there is a need for attention to monetary and fiscal policy and its implementation. Further, and perhaps more importantly, there are two factors which are often overlooked: (1) the relationship between wage rates and unemployment, i.e., the job-destroying effects of excessive wage increases and (2) the relationship between profits and unemploy-

[11] In this connection the Gordon Committee recommended the collection of data on job vacancies in order that comparisons could then be made between job openings and the unemployed.

[12] For example, Manpower Development and Training Act (MDTA); programs in the U.S. Department of Labor, Bureau of Apprenticeship and Training (BAT); Area Redevelopment Act (ARA); Office of Economic Opportunity (OEO); Office of Manpower, Automation and Training (OMAT); the Neighborhood Youth Corps; the Job Corps; and the Youth Conservation Corps.

ment. If we are to achieve the desired rate of economic growth, profit performs a function indispensable to its success. It provides industry with the capital it needs to grow—both through giving people the incentive to invest and, more directly, as a source of investment funds.

Conclusions

To return to our point of departure, a review of the employment and unemployment data provides a lesson: beware the pitfalls of (1) oversimplifying the unemployment problem through using averages excessively and (2) interpreting these economic data as welfare statistics. Restated: first, just as a man can drown in a stream with an average depth of under two feet, we must never lose sight of the need to chart the makeup of the labor force; second, the welfare statistics approach simply triggers an emotional response, which in turn obstructs the vision of those responsible for providing solutions to the problems that may exist.

Table 1. **Summary Employment and Unemployment Estimates**
(In thousands)

Employment status	Dec. 1965	Nov. 1965	Dec. 1964	Seasonally adjusted		
				Dec. 1965	Nov. 1965	Oct. 1965
Total labor force	78,477	78,598	76,567	79,375	78,847	78,538
Civilian labor force	75,636	75,803	73,841	76,534	76,052	75,778
Employed	72,749	72,837	70,375	73,412	72,839	72,486
Agriculture	3,645	4,128	3,785	4,417	4,244	4,551
Nonagricultural industries	69,103	68,709	66,590	68,995	68,595	67,935
Part time for economic reasons	1,627	1,746	1,989	1,751	1,792	1,834
Usually work full time	761	830	1,021	778	804	852
Usually work part time	866	916	968	973	988	982
Unemployed	2,888	2,966	3,466	3,122	3,213	3,292
Looking for full-time work	2,211	2,196	2,757	(1)	(1)	(1)
Looking for part-time work	676	770	709	(1)	(1)	(1)

1 Not available.
[Source: U.S. Department of Labor.]

Table 2. **Major Unemployment Indicators**

Selected categories	Thousands of persons unemployed	Seasonally adjusted rates of unemployment					
	Dec. 1965	Dec. 1965	Nov. 1965	Oct. 1965	Sept. 1965	Aug. 1965	Dec. 1964
Total (all civilian workers)	2,888	4.1	4.2	4.3	4.4	4.5	5.0
Men, 20 years and over	1,249	2.6	2.8	2.9	3.1	3.2	3.5
20-24 years	250	5.0	5.6	5.6	6.2	5.8	6.8
25 years and over	999	2.3	2.4	2.6	2.7	2.8	3.1
Women, 20 years and over	838	3.9	4.3	4.2	4.2	4.5	4.7
Both sexes, 14-19 years	800	13.1	12.5	13.1	13.0	12.4	15.7
White	2,289	3.7	3.7	3.9	3.9	4.1	4.5
Nonwhite	598	7.3	8.2	7.9	8.2	7.6	8.9
Married men	755	1.8	2.0	2.1	2.2	2.6	2.6
Full-time workers[1]	2,211	3.5	3.7	3.8	4.1	4.2	4.4
Blue-collar workers[2]	1,270	4.3	4.6	4.9	5.1	5.0	5.7
Unemployed 15 weeks and over[3]	600	.9	.9	.9	1.0	.9	1.2
State insured[4]	1,186	2.5	2.6	2.8	2.9	3.0	3.4
Labor force time lost[5]	.....	4.3	4.5	4.6	4.7	5.1	5.3

1 Adjusted by provisional seasonal factors.
2 Craftsmen, operatives, and nonfarm laborers.
3 Rates based on civilian labor force.
4 Insured unemployment under State programs as a percent of average covered employment.
5 Labor force time lost is a percentage representing the man-hours lost by the unemployed and those on part time for economic reasons.
[Source: U.S. Department of Labor.]

Table 3. **Unemployed persons by duration of unemployment**
(In thousands)

Duration of unemployment	Dec. 1965	Nov. 1965	Dec. 1964	Seasonally adjusted		
				Dec. 1965	Nov. 1965	Oct. 1965
Less than 5 weeks	1,442	1,620	1,630	1,521	1,556	1,576
5 to 14 weeks	846	815	1,034	863	909	1,015
15 weeks and over	600	531	802	665	652	703
15 to 26 weeks	334	257	416	354	346	357
27 weeks and over	266	274	387	311	306	346

[Source: U.S. Department of Labor.]

Table 4. **Employment status by age and sex**
(In thousands)

Employment status, age, and sex	Dec. 1965	Nov. 1965	Dec. 1964	Seasonally adjusted		
				Dec. 1965	Nov. 1965	Oct. 1965
Civilian labor force	75,636	75,803	73,841	76,534	76,052	75,778
Men, 20 years and over	44,493	44,606	44,497	44,700	44,507	44,513
Women, 20 years and over	24,120	24,250	23,333	24,128	23,933	23,760
Both sexes, 14-19 years	7,023	6,946	6,011	7,706	7,612	7,505
Employed	72,749	72,837	70,375	73,412	72,839	72,486
Men, 20 years and over	43,243	43,498	42,821	43,536	43,281	43,206
Women, 20 years and over	23,283	23,210	22,367	23,176	22,897	22,756
Both sexes, 14-19 years	6,223	6,129	5,186	6,700	6,661	6,524
Unemployed	2,888	2,966	3,466	3,122	3,213	3,292
Men, 20 years and over	1,249	1,108	1,676	1,164	1,226	1,307
Women, 20 years and over	838	1,040	966	952	1,036	1,004
Both sexes, 14-19 years	800	818	825	1,006	951	981

[Source: U.S. Department of Labor.]

NATIONAL ASSOCIATION OF MANUFACTURERS

This year is one which poses special challenges and difficulties in the formulation of economic policy. It is a year of transition—from an underutilized economy to a fully utilized economy. It is a year in which inflation could become a clear and present danger, instead of a vague possibility for the future. It is a year of uncertainty in regard to the magnitude of the burden our military commitments may ultimately impose on us.

The National Association of Manufacturers appreciates the opportunity of expressing its views on national economic policy to your committee. We approach the task with some humility in view of the complexities and uncertainties of the situation. We do not have all the answers. Nevertheless, we believe we can offer helpful suggestions on the direction that should be taken in economic policy and on the priorities that should be observed in choosing among the options open to the Nation. This statement will be devoted to presenting such suggestions together with comments on the programs recommended in the President's Economic Report.

At the start, it may be in order to say a word on the part to be played in solving current economic problems by the business community. The President has appealed to business (and to labor) to exercise "a sense of responsibility to the public interest." This appeal was made specifically in connection with behavior in the setting of prices and wages. In that specific area, we believe that business will cooperate by exercising whatever freedom of choice is open to it in the direction of restraining cost and price rises.

But in a larger sense, the most important responsibility of business is to produce—and to produce as abundantly and as efficiently as possible. A growing tide of goods and services is the best protection against inflation, the best means of supplying the needs created by expanded military activity, and the best basis for continued economic growth in the future.

The fact that we have now arrived at a fully utilized economy means that further growth in output will be limited by the growth in our economic potential. We can no longer grow to any significant degree by drawing more of the existing potential into use.

Any policies, public or private, which would hinder the growth in industrial capacity or the improvement in its productivity could be justified only if other national needs had become so desperate as to override all other considerations. There seems to be no likelihood of our reaching that point in 1966.

We must also think of the other side of the national economic equation—the demand side. We are certainly past the point where "demand stimulation" can be used as an activator to draw idle men and idle facilities into active use. But that does not mean that demand must cease to grow—it can safely be allowed to expand at the same pace as the Nation's productive capacity. Growth at a faster pace would surely bring on inflation, no matter how strong the sense of responsibility felt by private decisionmakers.

With these initial comments, we will look at three areas of national economic policy: fiscal policy, monetary policy and private wage-price behavior.

Fiscal policy

After studying the budget submitted by the President for 1967, we believe that it does not embody sufficient restraint to meet the needs of the present situation. The theory that the budget should be balanced every year is seldom heard these days. But even the most ardent advocate of the new economics must surely concede that the budget ought to be balanced in some years. And 1966 is obviously one of these years. Yet the fiscal 1967 budget proposed to Congress provides for a deficit on the administrative basis and for only a tiny (and tenuous) surplus on the cash basis. The Federal sector of the national income accounts—which comes closest to measuring the budget's economic impact—is expected to be in deficit for fiscal 1967.

Furthermore, the fiscal 1967 budget is illusory in many respects. The $4.7 billion to be realized from sale of participations in private obligations now in Government hands is not realistically an offset to the $6.5 billion deficit that would otherwise be indicated. It is a means of financing that deficit. The sale of such securities draws just as heavily on the Nation's credit resources as the sale of an equal amount of new Federal obligations. And the $1.6 billion to be gained as seigniorage on coins is counted as revenue, but does not withdraw purchasing power from the private economy. Whether the $3.2 billion to be gained from accelerated collection of corporate income taxes will reduce private spending by a comparable amount is, to say the least, doubtful.

The point in mentioning these items is not that they are temporary; some of them may not be. The point is that they reduce the stated Federal deficit without producing an equal counter-inflationary reduction in private demand.

Our association believes that budget balance should be achieved in fiscal 1967. Furthermore, it can and should be accomplished through reductions in Federal program costs.

We believe that reduction in the nondefense spending proposed for fiscal 1967 is practical in an amount at least equal to the estimated deficit for that fiscal year. This can be accomplished by halting the continued expansion of the Great Society programs. In our fully employed inflation-threatened economy, there is neither a need for, nor safe leeway for, a further growth of these programs.

In adapting fiscal policy to the developing situation, tax increases may have to be considered at some point. However, as compared with cuts in Government spending, they are an undesirable and doubtfully-effective weapon for use against inflation. That is because many forms of taxation act as an impediment to growth and production—in addition to whatever effect they may have in restraining consumption demands. Tax increases, especially the kind of tax increases which impinge on savings and investment rather than on consumption, should have a low priority in a fiscal policy designed to resist inflation.

Monetary policy

Our association would not undertake to lay down a precise blueprint for the conduct of the Nation's credit and money policy in 1966. The making of current decisions in this field is best left to the judgment of the independent Federal Reserve Board.

Nevertheless, it is clear that bank credit, and the money supply, can no longer be permitted to increase faster than national output as they have in recent years. In our fully utilized economy money and credit must grow along with the growth of productive power, instead of serving as the stimulating force which brings idle productive power into use.

The point is that if we are serious in our determination to stop inflation, credit will be a scarce factor in the future—and scarcer than it has been in the past. Top priority in the use of such limited credit should go to investment for the expansion of output and for the improvement of productivity. Drawing on the available credit supply to finance Government deficits should be avoided. So should tax increases of the kind which reduce internal sources of business funds and compel companies to turn to external credit sources to finance their investment programs.

Wage and price policies

As already noted, the President's Economic Report calls for "* * * a sense of responsibility to the public interest by labor and business in setting wages and prices." Then, to make this more specific, the President offers his now well-known guideposts for nonflationary behavior.

We believe that it is proper for the President to make an appeal for restraint. And we believe that the business community will, on its side, be guided by a sense of public responsibility in exercising whatever options it may have in the complex process by which wages and prices are set.

This approach by business can make a contribution, provided it is matched by equal restraint in other quarters, to the maintenance of price stability during the transition year of 1966. However, inflation has its roots elsewhere and for the longer run responsible behavior by business cannot be an effective defense against it when other developments are going in an inflationary direction.

It is important to understand that the effects of price increases and of wage increases are not at all parallel.

The inflationary impact of wage increases is an indirect one. The initial effect of an uneconomic wage increase is to curtail the market for labor. When such increases become widespread, they price labor out of its market and unemployment rises. But then, since it is national policy to preserve maximum employment, monetary and fiscal steps are taken to raise the level of demand. This amounts to a validation, through monetary and fiscal policy, of the uneconomic wage increases. Inflation is, in effect, chosen as preferable to unemployment.

If business firms were to raise prices more than market conditions justify, it is inconceivable that national policy would bail them out in a similar way. Since they feel the direct impact of the market they are impelled to make the necessary corrections themselves.

It is the conclusion of our association that the wage-price guideposts are at best of limited usefulness, and at worst can be extremely disruptive of the functioning of the economy. When first proposed in 1962, they were offered as "a contribution to public discussion" of price and wage changes. They may serve that modest purpose, but they cannot, without disastrous consequences, be used as a tool of price and wage regulation.

The ideal situation would be for both wages and prices to be set by the action of impersonal marketplaces. In that way supply and demand would be kept balanced and the national resources of manpower and capital would be allocated most efficiently. The interplay of market forces in any specific situation is extremely complicated and can be only imperfectly simulated by the statistical formulas embodied in the guideposts.

The wage guidepost has some value as an educational device, reminding the public that productivity growth sets the unavoidable limit on the increase in real wages. In practice, however, we fear that it will set a floor on wage rises rather than a ceiling. No agent bargaining for labor can ask for less, and some may gain more.

We believe that the guidepost proposed for prices is unnecessary, impractical and undesirable. Once again, we must point to differences between the wage-setting process and the price-setting process. Product prices are set in markets where competition is the law of the land and collusion among sellers is forbidden. Wages are set in markets where the sellers of labor are protected in their right to consult together and to devise a common strategy.

Price decisions are reversible, where market conditions subsequently change. This is more than a theoretical possibility as illustrated by the President's list of wholesale prices which had declined in 1965 (Economic Report, p. 9). Wage increases, no matter how wrong the market might later prove them to have been, are in practice never reversed.

For these reasons, we believe that there is no need for application of statistical criteria to determine whether price changes are justified. The market provides a more accurate answer, and one that cannot be argued with.

The setting of prices with reference to a guidepost could have the undesirable effect of compelling industry to ration its customers. Presumably the guidepost price would be below the price that equates supply and demand. (There would be little point to the guidepost if this were not so.) Thus business would be compelled to choose which of the demands for its products it would satisfy. Industry does not want such a responsibility and it is not in the national interest that industry assume it.

It is not at all certain that, where market conditions call for a price rise, industry would be acting in the public interest by resisting such an increase. The price increase influences purchasers who can find substitutes to do so, and thus allocates the remaining supply to users who find it more essential.

Guideposts, if applied rigorously and for any extended period, could reduce our orderly and efficient economic system to chaos.

Conclusion—Prospects for 1966

The question on everyone's mind is: Can the Nation have economic growth without inflation in 1966? The answer must of course be:

It all depends. It depends on how you define "growth" and "inflation" and what combination of policies is used in pursuing these ends.

Our association believes that growth is attainable in 1966, and without any greater increase in prices than occurred in 1965. The growth in real output is more likely to be of the order of 4 percent than the 5 percent predicted by the administration. And unemployment in 1966 is more likely to remain at its present level (which seems to be a practical minimum) than to decline to the 3.5 percent implied in the administration's predictions.

We hasten to add that the predicted 5 percent growth and 3.5 percent unemployment rate might indeed be attained in 1966. But if so, this would occur only at the expense of a considerable acceleration in the rising price trend. We don't believe that the administration can both have its cake and eat it as its Economic Report apparently anticipates.

The attainment of continued growth without accelerated inflation requires a somewhat different policy mix than is proposed by the administration. A greater degree of fiscal restraint is needed and this should be achieved by reducing the planned levels of expenditure for the Great Society programs. Control of credit expansion is needed, but the available credit resources should be conserved for use in ways that contribute to growth in productive capacity, instead of being absorbed by Government deficits.

Nothing now foreseeable could justify the imposition of statutory price and wage controls. This is the worst of all possible worlds, as we should have learned from past experience.

If we follow the kind of fiscal and monetary policy outlined above, guideposts will not be needed. If we do not follow that kind of policy, they will be ineffective.

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

BY DR. GROVER W. ENSLEY, EXECUTIVE VICE PRESIDENT

Both the President's and the Council's reports correctly stress that the expansion of the 1960's entered a new and challenging phase in 1965. A rapidly growing, high-employment domestic economy and a sharply accelerated effort in Vietnam clearly indicate, as the President states, that "we are in a new economic environment." While the potential problems of a high-employment economy are, in a sense, the "price of our success" and the "welcome problems of prosperity," they are also a clear warning that recent gains could well be endangered by overconfidence and by complacency to the dangers of inflation in the new environment.

The President, and the Council, point with justifiable pride to the vigorous, balanced, and sustained expansion of the past 5 years, and to the particularly rapid gains achieved in 1965. The economy's performance during this period, aided by imaginative implementation of flexible fiscal, monetary, and debt management policies, has indeed been remarkable.

The experience of the sixties is gratifying proof that the explicit Employment Act goals of maximum employment, production, and purchasing power (and the implicit goals of rapid economic growth and price stability) are in fact compatible, given the proper mix of public policies and private action. As chairman of the committee charged with planning the recent symposium commemorating the 20th anniversary of the Employment Act, I can think of no more fitting tribute to the pervasive impact of this landmark legislation on our economic life than the current state of high-employment prosperity.

With regard to national employment goals, I agree with the views expressed in the reports that further progress can and should be made in reducing unemployment, now that the 4 percent "interim" target has been achieved. This is a legitimate and suitable goal of public policy. But this goal must be approached gradually, in view of the increased danger of inflation. In recent years, stimulation of aggregate demand has largely carried the burden of reducing unemployment. In the period ahead, the basic task of economic policy will be to restrain the overall rise in demand, in order to keep it in line with the economy's growth in aggregate capacity.

With capacity expanding rapidly, a balanced rise in demand can be expected to reduce unemployment still further, but this will be incidental to the primary task of maintaining overall balance in the economy. As full employment is approached, employment policy must increasingly be oriented to attacking the structural causes of unemployment, to improving the quality and mobility of the labor force and the efficiency of labor markets. Gratifying progress has been made in this area in recent years, and I commend the reports' emphasis upon the continuing need to improve our manpower resources.

With regard to overall Government economic policies, the reports correctly emphasize the crucial importance of flexibility, in view of the uncertainties created by the new high-employment environment and the effort in Vietnam. Monetary policy, in particular, will provide the first line of defense against inflationary pressures. But a flexible fiscal policy can also play an important role in maintaining balanced, noninflationary expansion. I was particularly gratified to see the recognition of this potential in the President's proposals to accelerate tax collections and postpone certain excise tax reductions, and in his further promise to ask for additional tax increases should the rise in total demand or defense needs be larger than anticipated. I agree completely that the spadework for such action be done now, so that a quick and effective fiscal response can be made, if and when the need arises.

In formulating fiscal policy, and considering the possible need for future tax increases, "full employment budget" analysis will undoubtedly play a central role. Parenthetically, I was interested to note that the "full employment surplus" of recent years has now become a "high employment surplus," with the attainment of the interim 4-percent unemployment goal. Whatever the terminology, this analytical tool, and the corresponding concept of potential GNP—both developed by the Joint Economic Committee over a decade ago and carried on by the Council in recent years—has provided a useful frame of reference for the formulation of fiscal policy.

But the need for flexibility, and the reduced margin for error in assessing emerging economic trends, increase the danger of a mechanistic application of this technique. And this danger is heightened further by the still inexact science of measuring potential GNP. In particular, the persistence of a GNP "gap" at the interim "full employment" level of 4 percent, noted by the Council on page 40 of its report, indicates the need for caution in applying "full employment" or "high employment budget" analysis to policy decisions in the present environment.

While recognizing the increased danger of inflation, the President and the Council are reasonably confident that price and cost pressures can be contained. The two prerequisites, according to the President, are public policies aimed at maintaining a balance between aggregate supply and demand, and private adherence to the wage-price guideposts. In my opinion, the application of general fiscal and monetary policies will be a considerably more important factor in maintaining price stability in 1966 than the guideposts.

The guideposts undoubtedly have had a beneficial effect in mitigating recent wage and price increases. They serve the useful function of focusing public attention on the potential economic impact of important contract negotiations, and they highlight the basic relationships beween prices, wages, and productivity. In short, the guideposts serve a useful purpose as part of an overall Government stabilization program, applied flexibly to changing economic conditions. But the guideposts are no substitute for the traditional remedies of monetary and fiscal restraint in a period of threatening inflationary pressures. Indeed, it is the implementation of such policies, or the threat of doing so, that should provide the necessary sanctions to make the guideposts effective.

Considerable discussion has centered upon the Council's recommendation to maintain the wage guideposts at 3.2 percent. I agree fully with this decision, and with the reasoning behind it. The trend productivity would clearly be overstated by dropping the low productivity recession year of 1960 and adding the cyclically high productivity year of 1965. To overstate the trend productivity at a time of increased inflationary danger would be a serious mistake, a mistake compounded by the probability of somewhat slower productivity growth in the period ahead. As the Council indicates in its report, the important consideration is to keep the guideposts near the long-term trend of productivity, and this appears to be considerably lower than the 3.6 percent 1961–65 average.

The reports' emphasis upon the uncertainties of the new environment, the increased need for flexibility in Government policy, and the goal of maintaining a balanced expansion without inflation underscore the need to encourage a high volume of voluntary, private saving. As the Council notes on page 42 of its report, gross investment came into equilibrium with high employment saving in 1965. While the total volume of gross private saving at high employment accounts for a fairly stable share of GNP from year to year, the forms of saving can shift substantially. In the new environment, it will be particularly important to improve the efficiency of financial intermediaries in channeling private financial saving into productive capital investment.

The President recognized this need in recommending enactment of the administration's Federal charter bill for mutual savings banks. As the President stated in proposing congressional action of this bill, and on other proposed financial legislation:

> The vigor and soundness of our financial institutions are vital to the vigor and soundness of our economic expansion. Action to ease unnecessarily restrictive regulations have been taken in the past; they have borne fruit in stronger competition and a more efficient flow of funds from savers to borrowers with the most urgent needs.
>
> But appropriate regulations are clearly required to protect the safety of savings of American families, to assure the most efficient and equitable regulation of financial institutions, and to create still better channels for the flow of funds to borrowers.

Regarding the President's proposal of Federal chartering for mutual savings banks, and his other legislative proposals in the financial area, the Council noted in its report that "during the current expansion, the most striking institutional change in the financial area has been the rapidly growing role of commercial banks" and that "savings and loan associations and mutual savings banks have borne the brunt of competition from commercial banks." As a result, commercial banks have become an important factor in savings and mortgage markets during the sixties.

But the experience of 1965 clearly indicates that commercial banks still give first priority to business and consumer credit demands in a period of tightening credit and rapid economic expansion. The in-and-out mortgage lending pattern of commercial banks, and their emergence as a major competitor for individuals' savings, has thus introduced a new element of instability to mortgage markets, created new doubts as to the future adequacy of mortgage funds, and intensified the need for greater operational flexibility for thrift institutions.

As the Council notes in its report, "later in this decade, more vigor can be expected from residential construction, an important component of private investment which for demographic and temporary reasons has been conspicuously lagging." And the odds are great that this important development will occur against a background of high-level business activity characterized by heavy business credit demands and restraint in monetary policy. In such an environment, similar to today's, if commercial banks give first priority to business and consumer loans, the years ahead could witness a sustained shortage of capital needed to finance housing and urban revitalization.

If our cities are to be rebuilt, and the national goal of a decent home for every American is to be achieved, there is thus a clear and urgent need to insure that mortgage-oriented financial intermediaries will be able to function efficiently in the new competitive environment, in both their savings and investment activities. Mutual savings banks in particular have been severely hampered by their geographic restriction, and by limitations on branching and investment powers; particularly their inability to make out-of-State conventional mortgage loans.

The administration-sponsored Federal charter bill for mutual savings banks would go a long way toward rectifying these restrictions, and toward increasing the potential pool of future mortgage credit as well. Research and experience have shown that the competitive presence of mutual savings banks in a community tends to result in (1) higher rewards for savings; (2) a larger volume of locally held saving, available for local investment; and (3) lower costs to borrowers.

Moreover, the nationwide conventional mortgage lending provisions of the Federal charter bill would greatly increase the ability of savings banks to channel mortgage funds from capital surplus to capital deficit areas. This would not only tend to reduce interregional interest rate differentials but would greatly increase the longrun efficiency and stability of the mortgage market in meeting national housing and urban revitalization goals.

NATIONAL GRANGE

By Harry L. Graham, Legislative Representative

Our first observation is that this very excellent and wide-ranging report is ample evidence of the interrelationship among the various segments of our national and international economic life and the increasing importance of Government policy in the proper ordering of our system. It should be clear to any thoughtful and knowledgeable person that this highly complex and interrelated system—extremely sensitive to political action at home and abroad, deeply involved in protecting the financial integrity of the developed nations and improving the economic situation in the developing countries—does not lend itself to oversimplified answers and outworn cliches. In the report we find confirmation of our concept of the American economy as being viable and extremely productive. We note that there continue to be some soft spots, particularly in the agricultural sector; however, we also note with pleasure a substantial improvement in some of the major problem areas of a year ago.

In the storable commodities, only cotton and tobacco have shown some persistence in refusing to improve; while feed grains, wheat, and oils continue a rather significant improvement.

Among the livestock products, meat has shown a recovery from the disastrous levels of 2 years ago. The 13.5-percent advance in meat should be viewed in light of the fact that this advance is to a great extent a recovery from the drop in prices a few years prior to this period. The rapidly increasing capacity to produce broilers and poultry products has prevented any substantial increase in this troublesome area, and despite a rapid decline in the number of dairymen, the increase in efficiency and in herd size has precluded any substantial improvement in dairy prices, except that which has been the result of the increase in price supports.

Nevertheless, statistics relating to the agricultural and nonagricultural sectors of the economy indicate that the American consumer is receiving a fair return for his dollar spent on food. The American consumer benefits from the amazing productivity of the American farmer to the extent that today he has the greatest quantity of high quality food of the widest variety ever available at a price that is fair and equitable, and sometimes relatively inexpensive in terms of the total economic situation. The Grange would agree that much of this improvement and developing prosperity is the result of the kind of prudent, intelligent, and responsible legislation enacted by the Congress and approved by the administration during the last few years.

We do note, however, with continued concern, that the areas of chronic economic depression still remain in the traditional rural parts of our country. It is not without significance that agricultural labor has the lowest per hour return of any of the major segments of our economy, reflecting to a large extent the long-time depression in farm prices. A more significant factor is the steadily increasing cost of production which has a tendency to wipe out the gains made in the price sector.

Many of the problems of poverty as they affect rural areas are deeply ingrained in our institutional system as well as our economic situation. The difficulties of solving these problems cannot be overemphasized.

The effectiveness of the antipoverty programs directed toward the rural areas is still to be determined. The difference between success and failure in these areas is so small that only the most intelligent planning and execution of these programs, with almost complete freedom from overriding political considerations, can possibly bring about any substantial success in short-term planning.

Unless there is a substantial inflow of what Dr. Rostow calls "social overhead capital" into these chronically depressed areas, it does not appear that an economic takeoff will occur, even with improved education, health, nutrition, etc. In the light of this situation, it is extremely important that the highest priority in the antipoverty campaign be given those segments of the economy showing the most persistent evidence of poverty.

The continued persistence of the low wages for farmers and the knowledge that low wage rates in one area tend to set ceilings on the return of farmers in other areas, has been one reason behind the change in the policy of the National Grange. The delegates at our 1965 annual session voted to support the application of minimum wages to agricultural workers with certain reservations to protect the owner-operator type farm. This is to indicate that in the judgment of the Grange, this problem has not been solved; it also indicates that the Grange is willing to support reasonable efforts to find an adequate solution to the longstanding and persistent problem.

The Grange has for almost a century concerned itself with transportation problems as they relate to the agricultural sector. We were involved in the creation of the Federal regulatory agencies dealing with transportation. We have recognized that transportation, probably as much as any of the rest of our industry, has undergone a vast technological change. This change has brought with it the necessity of reshaping transportation policies.

Although we shall not take time to critically analyze each of the four main developments which appear to be emerging in Federal policy toward transportation (p. 126), we do recognize the necessity for change. This change should be directed toward the improvement and perfection of a transportation system providing the maximum freedom for movement of goods and services within the continental and territorial boundaries of the United States and in our relationships with the export and import markets of the world.

The Grange reaffirms your position for flexibility in transport investment and in response to technological changes as in the case of the southern railroads with the "Big John" cars. We also note with apprehension, the intransigence on the part of the regulatory commissions concerning the attempts of agricultural producers in the Northeast for some kind of rate adjustment in their area. The failure to grant the same kind of rate relief to the northeastern railroads available to the southeastern railroads is placing the producers of the Northeast in an economically disadvantaged position which is unjustified, intolerable, and inexcusable.

Probably no part of our transportation policy has created such universal condemnation as the cargo preference provisions. The present system has not added to the efficiency nor the growth of the American merchant marine and obviously substantial changes are necessary. The suggestions of the Joint Economic Committee under "Maritime Policy" on page 129–130, appear to be prudent, reasonable and worthy of serious consideration by all parties and agencies concerned.

In the section entitled "The International Economy" (ch. 6), the analysis of the problems and suggested solutions to the problems of the less-developed countries, the analysis of the changes in the developed countries, improving the international monetary system, and the section on U.S. balance of payments are consistent with the facts of international life; therefore the indications of government policy in these fields would have the support of the Grange.

The report of the Council of Economic Advisers in 1964 evoked some substantial criticism on the part of the Grange. We recognize in this report some of the same ideas stated in the 1964 report. However, the general approval of this report is based to a large degree upon the emphasis given to some of the suggestions for remedial action.

Our most persuasive reason for approval is our interpretation that the current report is less inclined to leave to vague economic concepts the solutions of extremely complicated problems of economic interdependence and more inclined to pursue active policies for the achievement of legitimate and justifiable economic objectives of a stable economic system with justly divided burdens and justly distributed benefits. To the end that these objectives may be accomplished by the joint efforts of intelligent government and highly motivated private individuals, the Grange pledges its support.

RAILWAY LABOR EXECUTIVES' ASSOCIATION

By G. E. Leighty, Chairman

Employees of American railways are in a very special position with respect to the report and recommendations of the Council of Economic Advisers, and the possible interpretations placed upon those recommendations. Where there is little collective bargaining, and that applies to a large part of industry, employers may fix wages and working conditions with little reference to the Council of Economic Advisers; wages in those segments of industry are far lower, and improvements in wages or conditions are far smaller and slower than where workers are organized. In organized industries other than the railways, on the other hand, employers and labor organizations are largely free to interpret the recommendations of the Council of Economic Advisers as they wish, and to disregard them insofar as they are ambiguous, unsound, or inapplicable. They are under no compulsion to accept those recommendations.

But in the railway industry, under the Railway Labor Act, organizations of employees must almost invariably present their proposals for improvements to an emergency board appointed by the President of the United States. It is our experience that those emergency boards sometimes consider themselves bound to attempt some kind of an interpretation of the reports of the Council of Economic Advisers, and somehow to apply them in the reports and recommendations in railway labor disputes. When such an interpretation and application has been made by an emergency board, railway labor unions are under the very greatest pressure, generated in the public press and applied by Government officials from the lowest to the highest, to accept the emergency board recommendations—however far they may depart from justice and equity, or may demonstrate the lack of understanding of the railway industry almost inevitable in members of a hastily improvised board often of limited experience.

It is of the utmost importance, therefore, that the labor recommendations of the Council of Economic Advisers be sound, clear, and formulated with at least some consideration of the conditions in the only industry where those recommendations will have direct effect. When the recommendations of the Council have failed in any of those respects, and we respectfully submit that the current report fails in all of them, it becomes the obligation of the representatives of railway employees to place before the Congress of the United States as clear a statement as possible of the defects in that report, as it applies to the railway industry, and the reasons why neither the Congress nor any other governmental body, temporary or continuing, should attempt the imposition upon railway workers of restrictions that may be in some fashion deduced from the report. That includes, of course, reasons why railway workers should be free from any such coercion.

It should be pointed out that railway workers differ from other groups not alone in their far greater susceptibility to compulsion from the press, the Congress, and the executive department of the Government. The railway industry is also distinguished by its phenomenal increase in employee productivity, and its resulting extreme height of unemployment. Railway workers are more completely unionized than any other major industry; not only the general regulation of that industry, but also the special legislation dealing with its workers, make it clear that this special national significance has been definitely recognized at all governmental levels in the past. In the immediate postwar years, and especially down to 1953, that significance was also recognized by the Councils of Economic Advisers; representatives of railway employees were constantly called in for consultation with the Council in those years. There has been no such consultation during the last decade.

Other representatives of American wage earners have placed before the committee detailed comments upon the deficiencies and inaccuracies of the report of the Council of Economic Advisers. While this statement is intended to deal with some of the serious defects of the report as it applies or might be applied to the railroad industry, some broader preliminary discussion seems desirable.

The fundamental fact in the matter of wage guideposts for American industry is that real wage rates—the purchasing power of straight-time hourly earnings—should rise with man-hour productivity. This is no new discovery, or new development. Despite the difficulties of accurate measurement, especially in the earlier years, the National Bureau of Economic Research, in a careful study by Solomon Fabricant, published in 1959, reported that the average annual rate of change in real wages between 1889 and 1957 was "about equal" to the rate of change in man-hour productivity. The Council of Economic Advisers in its 1964 report said that:

> Since, 1900, real hourly compensation of production workers in manufacturing (average hourly earnings plus fringe benefits deflated by the changes in consumer prices) has risen at approximately the same average rate as the average hourly productivity of manufacturing labor (p. 89).

Using the data and method of the Council of Economic Advisers in the 1966 report, man-hour productivity in the total private economy rose from 1950 to 1960 by 30.4 percent; real hourly wages of factory workers rose during the same 10 years by 28.7 percent.

From 1960 to 1965, according to the data and method of the report, man-hour productivity rose by 19.2 percent—real hourly rates of factory workers rose by 6.6 percent (pp. 243–245).

This relative lag in real wages is reflected in changes in consumer purchasing power. The ratio of wages and salaries, both inclusive and exclusive of so-called supplements, to national income and to gross national product had been rising, irregularly but definitely, from 1948 to 1960. In every subsequent year, the ratio of wage and salary compensation to national income and gross national product has been below 1960.

Simultaneously, the relationship between the growth of total employee compensation and total corporate cash flow (profits plus consumption allowances) has been reversed. The longtime trend had been for cash flow to rise less rapidly than employee compensation.

Thus, from 1948 to 1960, wages and salaries plus supplements increased by 108.5 percent, while corporate cash flow had increased by 73.7 percent. By contrast, from 1960 to 1965 corporate cash flow increased 56 percent, and labor compensation by only 33.2 percent.

Returning to the basic cause of this reversal in the progress of American wage earners, the failure of real wages to rise with national productivity since 1960 was not true of all industry, to the same degree. Correspondingly, profits rose in varying degrees, in different industries. From 1960 to 1965, gross hourly earnings of durable goods factory workers rose by 14.8 percent. Wages of furniture workers, within that group, increased by 12.2 percent, those of machinery (other than electrical workers) rose by 15.7 percent. The ratio of profit to stockholders' equity of furniture manufacturers rose by 126.6 percent; the profit rate of machinery other than electrical rose by 92 percent.

The market for consumer goods has been sustained, during this period of restricted wage growth, by the increase in consumer debt. Installment and other short-term credit of consumers, extended during the year 1950, totaled $21.6 billion; during 1955, $39 billion; during 1960, $49.6 billion; and during 1965, $74.7 billion.

The ratio of this short-term credit to consumer expenditures, in the 10 years 1950–59, averaged 13.7 percent; from 1960 to 1965, inclusive, the average was 15.9 percent, and in 1965, 17.4 percent. The difference in the ratios for 1950–59 and 1965, applied to the consumer expenditures of 1965, amounts to $15.8 billion. The ratio of new debt to expenditures has risen 27 percent. The increase in short-term debt, from 1960 to 1965, has been $30 billion—54 percent. What these figures indicate clearly is that the consumer incurring these (and longer term) debts has been mortgaging his future income to provide the wider profit margins of American corporations. Wage and salary workers make up the great bulk of these installment debtors.

To summarize the changes since 1960, real wages have failed to keep pace with increasing productivity—reversing the normal longtime trend of American wage progress. This lag in wages has not been uniform, the variations having created disparities—inequities—in the wage rates of many groups of workers, as compared with other groups, although few if any of those others have escaped the more fundamental inequity of failing to have wages rise with overall national productivity. This is in the face of the language, common to all recent reports of Councils of Economic Advisers, that the "annual rate of employee compensation (wage and fringe benefits) per man-hour worked should equal the national trend rate of increase in output per man-hour." The wage inequity has been largely translated into deficiency in consumer purchasing power, the economic imbalance thus created being partially cloaked by the dangerous rise in consumer debt.

It should be added, here, that the vast increase in profits of American corporations, much of it invested in stock, plants or equipment of overseas industry, has contributed heavily to that deficit in international payments so often pleaded as reason for restricting wage rates. The only real inflation in the United States in recent years has been in the stock market; the ratio of price to earnings of stocks listed on the New York Stock Exchange, despite the great increase in corporate earnings, rose from 6.63 in 1950 to 18.08 in 1964. The ratio is not available for 1965. The dividend ratio to the price of stocks on the exchange was 6.57 percent in 1950, 3.47 percent in 1960, and 3 percent in 1965. Excess investment funds (distributed or retained corporation profits) are bidding for stocks, and forcing prices up in a stock market now highly vulnerable.

All of these economic developments clearly point to the need for a drastic change in the application of the guideposts as well as in other governmental influence on wage levels. Fortunately, the past history of wage regulation in the United States provides precedents that should be helpful in the necessary modification. Fortunately, too, that history includes treatment of the matter of fringe benefits, much less theoretical and impractical than the parenthetical reference in the guidepost of the Council of Economic Advisers.

In the labor provisions of the Transportation Act of 1920, by which the Railroad Labor Board was created and given the responsibility for passing upon railway labor disputes, seven specific criteria were set up for judging of wage rates. Those criteria were:

(1) The scale of wages paid for similar kinds of work in other industries.

(2) The relation between wages and the cost of living.

(3) The hazards of the employment.

(4) The training and skill required.

(5) The degree of responsibility.

(6) The character and regularity of the employment.

(7) Inequalities of increases in wages or of treatment, the result of previous wage orders or adjustments.

It is evident that these are the same criteria that were adopted and applied in the latest comprehensive governmental regulation of wages, during the Korean war. With the great pressure then upon the Government and the Nation to avoid economic dislocations, the Wage Stabilization Board approved wage increases incorporating not only the increases in living costs but also what has been called an improvement factor—in its origin and development an addition to wage rates commensurate with rises in national man-hour productivity. The Wage Stabilization Board also approved wage differential increases to correct many types of inequities, within industries and between industries. In the matter of fringe benefits the basic principle of regulation then, as in the criteria of the Transportation Act of 1920, was to correct inequalities of treatment.

This term, "fringe benefits," was applied to certain types of changes in working conditions during World War II, when they were considered as possible labor attractions outside the wage scale. Such attractions were properly regarded as added incentives in the bidding by employers for the available labor supply, after wage increases were governmentally controlled. To avoid that competitive bidding, and a resulting uneconomic turnover of labor, the War Labor Board standardized many of these conditions—notably vacations, where 2 weeks' with pay were to be granted after 5 years of service—without attempting to express their financial equivalents. It is obvious that superficially calculated the standard vacation would "cost" very different amounts to different companies, depending on the average service of their employees. Similarly, it would cost varying amounts in different establishments to bring the diverse existing vacation provisions up to the standard. Furthermore, those varying amounts would bear varying percentage relationships to the preexisting "cost" of the "fringe benefit" totals. The War Labor Board nevertheless imposed uniform vacation provisions, as "equitable." Although this and other changes in working conditions were almost invariably parts of a total "package," the price of the fringes was not and could not be reduced to the type of formula suggested in the guidepost of the Council of Economic Advisers.

It is a matter of common knowledge, and should be known even to specialists in economic theory, that most of such improvements in working conditions are not increases in labor costs, but are actually economies. Care for the health, strength, and morale of wage earners is a cornerstone of modern personnel management, not from humanitarian motives, but from a strictly dollars-and-cents point of view. For many of the improvements, a nominal first-cost can be computed, but the resulting improvements in the performances of employees—both quantitative and qualitative—are a very real offset, even though usually incalculable.

However the effect of these changes in working conditions in the railway industry can be calculated. Under Interstate Commerce Commission rules, railways must report employees' hours and compensation included in vacations and holidays under a separate heading as "time paid for but not worked." Statistics for employees and compensation are published by the Commission, monthly and annually.

Nonoperating railway employees negotiated an agreement providing paid holidays and improvements in vacations, as well as a health and welfare insurance plan, effective in part in 1954, wholly for the year 1955. The 1955 annual report for class I line-haul railroads showed an increase over 1953 of 58.6 such hours per nonoperating employee, a total of 31,674,000 hours. From 1946 to 1953, productivity of nonoperating employees had increased at an average rate of 3.12 percent per year. If that rate had continued, the increase in output per man-hour from 1953 to 1955 would have been 6.3 percent; the actual increase in output per hour was 14.2 percent. If employee productivity had increased only at the normal 3.12 percent rate, the total hours required in 1955 at the then wage rate would have cost the railroads $3,043 million. The actual cost of hours paid for, including holidays, vacations, and health and welfare insurance, was only $2,875 million. The reduction in labor cost, from what it would have been with only the normal increase in employee productivity, was $168.3 million, approximately 5 percent. Computed in the theoretical manner implied in the guidepost language, these "fringe benefits" would have been shown as increasing labor cost by $57.5 million in 1955. But in fact labor costs actually decreased, after—it must be repeated—full allowance for the normal increase in employee output per man-hour.

It is manifestly unsound and completely impractical to attempt to apply a "labor cost" criterion to improvements such as these in working conditions. If that were to be done, then even in theory those industries with much higher than normal increases in productivity, at least partly resulting from improvements secured through collective bargaining, should be allowed greater increases in wages-plus-working conditions. Both methods are obviously impractical and unsound; in the area of working conditions, the criteria must be equity and human welfare, with steady progress a major governmental objective. For the railway industry, specifically, working conditions of employees should be kept abreast of the best personnel practices in major industries covered by collective bargaining agreements; the importance to the Nation of the very highest quality as well as the most economical service dictates the acceptance of that criterion as a minimum.

Railway employees have not enjoyed such consideration in the recent past, either with respect to wages or working conditions. There are now in process requests for increases in the wage rates and working conditions of most of those employees. The nonoperating employees, referred to earlier, have had real wage increases from December 1958 to 1965 of 6.8 percent—almost exactly 1 percent per year, well below the average for all factory workers, and much further below that of major industries where collective bargaining prevails.

During that same period, the productivity of railway workers has risen by approximately 55 percent—7½ percent per year, far above the national average, and among the very highest of individual industries.

Labor cost of class I line-haul railroads in the United States, per unit of transportation, declined by more than 20 percent from 1958 to 1965.

The cost of railroad freight service to the public, as measured by railroad revenue per ton-mile, declined by more than 12 percent from 1958 to 1964; precise figures for 1965 are not yet available, but it is clear that the "price" of railroad freight service has declined still further. Net railway operating income of class I railroads, nevertheless, in 1965 was up $199,500,000 over 1958—more than 25 percent—and net income was up $200 million, 33 percent, over 1958.

The report of the Council of Economic Advisers deals separately with the railway industry, as a part of transportation, but fails to develop the disparity between the great increase in man-hour output and low-real wage increases. The ambiguous and incoherent exceptions to the general guideposts give no clear mandate to correct the gross inequities from which railway workers suffer. On the contrary, in its section on transportation, the Council's report repeats a highly misleading and thoroughly discredited table dealing with growth rates of different modes of transportation. That table, on page 125 of the report, treats all highway transportation as though it had always been by motortruck—and was all "intercity." In fact, motortruck transportation between farm and town constitues a very large part of the total—the great majority of truck trips covered in that table are of a very few miles. That part of highway transportation has been shifted not from the railways but from the horse and wagon of earlier decades, to the motortruck. Similarly, the increase in pipeline transportation reflects diversion from the coastal and intercoastal tanker—completely omitted, like the horse and wagon, from the table. Many other serious defects in the table completely invalidate both its apparent conclusion, and the statement by the Council that railroad freight transportation has had a low growth rate. Only the shift, from all other forms of transportation to the railways during the Second World War, and the reverse movement in the postwar period, make the low growth statement have superficial validity in the decade following the war. As a matter of fact, the railway proportion of intercity freight traffic has declined less than 1 percent, if it has declined at all, over the 24 years covered in the table. The total volume of railway freight traffic has increased more than 85 percent.

Every factor in the economic condition of the railway industry, its declining labor cost, its extremely high rate of increase in man-hour productivity, its growth in the past quarter century, and its reduced price to the shipping public, support the wisdom of a policy of correcting the gross inequity in wage treatment of its employees over the past 8 years. It is manifestly unfair that Presidential emergency boards, and other governmental agencies and officials dealing with railway labor disputes, should so interpret the wage guideposts as to deny these just requests of railway workers. The fact that these combined governmental agencies have in the past, supported by a press grievously misled by corporation propaganda and the so-called guideposts, pressured railway employees into acceding to repeated denials of reasonable wage requests, should not now be construed as justifying a continuance of these injustices.

Employees of U.S. railways would respectfully request that the Joint Economic Committee, in addition to pointing out the many and manifest ambiguities and inaccuracies of the report of the Council of Economic Advisers, should specifically call attention to the need for completely independent consideration of the accumulated inequities in railway wages and working conditions, and for their correction in the interest not only of fairness to railway workers, but also of continued improvement in railway efficiency.

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.

By any logical standards 1965 was a good year. Our Nation made substantial progress in the economic sphere. Industrial activity was up sharply. Employment also increased, adding to the income of our people. New jobs were created at an amazing pace, permitting a decline in the unemployment rate to the lowest point in years.

In short, the longest upturn in our Nation's history maintained itself throughout the year and showed no signs of abating by the year's end. The very length of the upturn and the absence of many of the traditional excesses usual in such a period are indicative of the basic health of the American economy.

This should continue in 1966. There is no logical economic reason for any contraction in the economy or for the development of an uncontrolled inflationary spiral. Instead, with the full support of all responsible segments of our national life, a new chapter can be added to what has become an economic miracle in our time.

We say this with full cognizance of the sacrifices which might be necessary because of the war in Vietnam. We recognize the demands of that conflict. We realize that both money and manpower will be required in that area of the world. Already there are instances of necessary diversion of resources from the civilian to the military sector.

However, the great strength of our Nation is such that we can absorb such dislocation without undue strain. We hope that reason will be applied by those responsible for our national policy in the field of economic policy. We do not believe that action should be taken to retard our economic progress here at home in the interest of a war in Asia.

Fundamentally, we believe that the major tasks of the Great Society are still of paramount importance. Our Nation must continue its steps to eradicate poverty, to provide educational opportunities for those who need them, to meet the challenges of automation, to care for the sick, and to insure a measure of participation in our national life for all Americans. In short, we urge that the pressing demands of the international areas not blind us to the unfinished tasks at home.

We concur in the judgment of President Johnson that we can move ahead at home while we defend liberty abroad. Indeed, we feel strongly that our commitments abroad can only be maintained if we continue to strengthen and expand our domestic economy.

Much has been heard of late about the threat of inflation. Measures have been taken supposedly to combat such inflationary pressures—

measures which hit directly at the poor and the middle class of our country.

We cannot, within the limits of this paper, deal with inflation on a broad scale. We can, however, outline the progress that has been made by the coal industry in supplying a quality source of energy at a decreasing price level.

Today the price of coal at the mine is less than it was in 1950. Between 1950 and 1964, according to the U.S. Bureau of Mines, average coal prices dropped from $4.84 per ton to $4.45 per ton. This experience is unique in the postwar world. Because of it, several important things have happened.

Coal has been able to survive severe market dislocation. The type of market losses which occurred in coal and were absorbed by the industry would have destroyed a lesser industry.

Coal has become the basic source of fuel for electric generation. Today coal is used to generate over 50 percent of all electrical energy produced in our Nation including that from fossil fuels and hydro, and for more than 60 percent of all the generation from fuels alone. Moreover, the ability of the electric utility industry to offer huge amounts of power at decreasing rates is based, to a great extent, upon the presence of coal in large amounts.

Coal has emerged as a major factor in our balance-of-payments position. The export of American coal results in a net inflow of funds into the United States of approximately $500 million per year. This enviable position is not an accident. U.S. coal is competitive in the world because of the managerial skills of the industry and the efficiency and dedication of the American coal miner.

The fullest utilization of coal as a natural resources is now possible. Research currently underway promises gasoline made from coal. Other studies have pointed to the potential of a rapid expansion of coal in the western part of the United States and to a greatly accelerated program of a chemical industry based upon coal.

Thus, it is apparent that coal has made substantial progress in the years since World War II. Further, based upon this record, it is evident that more progress will be made in the years which lie ahead.

Fortunately, what has been achieved has not come at the expense of the coal miner. Our union long ago rejected the contention that wages and living standards should be set at the mercy of the marketplace. Instead of this fallacious philosophy, we set about to secure from the industry a just and fair wage, a wage commensurate with the contribution which we had made.

History also demonstrates the basic soundness of this position.

Average hourly wages in the bituminous coal industry have increased from $1.94 per hour in 1950 to $3.34 per hour in 1964. In addition, major benefits have been won by coal miners in the fields of medical care, pensions, vacations, and safety. Thus, it can be seen that although coal wages went up by 72 percent during the period 1950–64, the price of coal declined by 8 percent in the same period.

The reason for this may be found in the productivity of the industry. Output per man-day in the coal industry increased from 6.77 tons per day in 1950 to 16.84 tons per day in 1964. This represented an increase of 148 percent for the years covered. In other words, the coal industry was able to compete in the market, effectively lower its price and still enable the coal miner to share in the material rewards of our society.

We suggest that this record is an example of how free enterprise should work. It underscores the way in which the processes of free collective bargaining can serve the national interest and meet the legitimate aspiration of the average worker.

It is against this background that we view the wage-price guidelines put forth by the Council of Economic Advisers. As we understand such guidelines, wage increases are to be limited to 3.2 percent, a figure supposedly reflecting the long-term increase in national productivity. We would note, in passing, that according to the mathematics employed by the Council of Economic Advisers, the guideline figure for this year should be closer to 3.6 percent. However, our basic objection is not to the statistic used, but rather to the whole concept. We do not believe that wage-price guidelines are either appropriate or desirable. We cannot accept the premise upon which such guidelines are built—a premise which imposes a rigid ceiling on wages regardless of specific circumstances which could alter significantly the need for such restriction.

In our opinion, we feel that wage-price guidelines are deficient in the following respects:

They do not account for differences in bargaining procedures. For example, they ignore such things as open-end contracts, whereby a contract will remain in force for extended periods of time because of the competitive position of the industry.

They represent a penalty on efficiency. Those workers exceeding the national average in output per man-day are precluded from sharing to the full measure of their labor. On the other hand, those working who do not increase as much as the national average may secure gains above the guideposts. To us this is gross discrimination against those sectors of our economy which make the sacrifices necessary to improve their productivity beyond the long-term average.

They reduce incentive. It is obvious that a worker who cannot increase his living standard above 3.2 percent will not be inclined to increase his productivity much above that point. For example, we would find it exceedingly difficult to accept further mechanization in the mining industry if we knew that we could not secure for our membership an equitable share in such improvements.

The wage-price guideposts ignore the structure of the different industries. In coal, for example, market forces largely dictate the price of the product. There is little concentration and no effective market control. Therefore there is no need for controls imposed by political institutions since those dictated by the marketplace are much more stringent.

Wage-price guidelines hinder normal collective bargaining and cause labor unrest. For many years it has been the policy of the United Mine Workers of America to settle our differences with the coal industry in a full and frank discussion, without the heavyhanded presence of the Government. It has long been our belief that this type of bargaining between the parties directly involved was the best possible procedure. Our experience tells us that any attempt at an arbitrary ceiling on wages will seriously disrupt effective collective bargaining procedures and return our industry to the chaos of an earlier era.

Artificial guidelines will inhibit the program of the industry to attract and hold qualified employees. Skilled men are vital in coal production today and will become more so in the years ahead. If limits are placed upon the earning power of the individuals, desirability of coal mines as a place to work will be correspondingly reduced.

Therefore, we suggest that the wage-price guidelines are unwarranted by logic or economic criteria. We think that such guidelines impose an undue burden upon the American worker and distort beyond reasonable bounds the framework of traditional collective bargaining.

There are many problems that remain unsolved. Thirty-two million Americans still remain in poverty. Unemployment, especially among Negroes and teenagers, remains distressingly high. Automation looms over the industrial scene as a major factor to be dealt with in the years ahead. Our educational system is inadequate, both from the standpoint of equipping our young people for the challenges confronting them and for continually upgrading our existing work force. The burdens of defense and foreign aid bear heavily upon us, with no end in sight. The need for economic growth is more pressing than ever and even further acceleration is mandatory.

We must today, more than ever before, harness the full power and resources of all sectors of our economy in order that we may meet the challenges before us and progress toward a better life for all Americans.

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