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JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1965 ECONOMIC REPORT
OF THE PRESIDENT

WITH

MINORITY AND ADDITIONAL VIEWS



MARCH 17, 1965

MARCH 17, 1965.—Committed to the Committee of the Whole House on
the State of the Union and ordered to be printed

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

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LETTER OF TRANSMITTAL

MARCH 17, 1965.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Pursuant to section 5(a) of Public Law 304 (79th Cong.), there is transmitted herewith the report of the Joint Economic Committee on the January 1965 Economic Report of the President, containing, in addition, minority and other views.

I am,

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

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Union Calendar No. 68

89TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } } No. 175

REPORT ON THE JANUARY 1965 ECONOMIC REPORT OF THE PRESIDENT

MARCH 17, 1965.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

REPORT

together with

MINORITY AND ADDITIONAL VIEWS

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

INTRODUCTION

As was expected, the American economy responded vigorously to expansionary economic policies in 1964 with an unprecedented fourth year of strong economic expansion. The unemployment rate fell from 5.5 percent in January 1964 to 4.8 percent in January of this year, employment rose by more than 1½ million, the gross national product rose by \$39 billion—equivalent to about 4½ percent after adjustment for price changes—personal income rose almost 6 percent, and corporate profits rose 12 percent before taxes and 18 percent after taxes. This is an eloquent record which could be elaborated by statistics on more phases of the economy.

But as this committee has often warned, new records in our economic statistics are not enough. The economy's performance must be measured against its potentials—that is, against what it is capable of doing now, not what it actually did some time in the past. We are compelled to note again that by this standard there is still much to

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

be accomplished. Since 1957, there has been a wide gap between this country's total demand and its potential output of useful goods and services. This chronic slack has tended to hold down consumption, investment, savings, employment, and output. Doubtless it has also contributed to our balance-of-payments difficulties. As stated in our report a year ago:

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

The President's 1965 Economic Report expresses an expectation that this year the gross national product may reach \$660 billion—the midpoint of a range from a low of \$655 billion to a high of \$665 billion. At this midpoint we would have made only modest further reductions, if any, in the rate of unemployment of labor or in the proportion of capacity that is idle, and this has been termed an optimistic forecast. As the Council rightly reported to this committee, under these circumstances “* * * unemployment will remain too high in 1965.”

If demand should rise less rapidly than this median forecast, falling toward the lower end of the range, unemployment would rise as the year progresses. Even if the most optimistic forecast is realized, experts are doubtful that this would bring unemployment to the interim goal of 4 percent, much less to a lower figure. Plainly then, even the most optimistic estimate is not good enough in terms of achieving the objectives of the Employment Act of “maximum employment, production, and purchasing power.” Congress, in evaluating the economic programs for the current year, must bear in mind that the hazards are very great that demand will be too small, even if optimistic expectations are realized, and that there is little likelihood of an inflationary excess demand. It is in the light of this basic proposition that the committee makes its own appraisal of the economic programs for this year in the pages that follow.

Employment Act machinery

As the Nation approaches the 20th anniversary of the Employment Act in February 1966, it is perhaps appropriate for this committee to comment, as we have in the past, on the operation of this act and its machinery. We expect to be looking at this problem from time to time during the next year in somewhat greater detail, but at this point we have a few observations to put on the record.

The Employment Act of 1946 stipulates that the President's Economic Report is to be more than a review of past performance, programs, and policies. It is also to be a blueprint for executive and legislative action. The act specifies that the President include in his report “a program for carrying out the policy declared [in the act] together with such recommendations for legislation as he may deem necessary or desirable.”

Practice and developments in recent years have either departed from, or fallen short of, this requirement. We have witnessed the submission of a number of messages each year containing recommendations on parts of the program. While this practice has certain advantages in drawing attention to individual legislative proposals, it tends to obscure the outlines of the administration's *entire economic program*. We can understand the difficulties of presenting early in the Congress a completely rounded legislative program, but the requirement for the prompt development of national policy each year makes the submission of such a program imperative.

Furthermore, absence of a complete program in the Economic Report makes the statutory duties of the Joint Economic Committee very difficult. Among other duties, the Employment Act requires the committee—

to study means of coordinating programs * * * and as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report * * * to file a report [not later than March 1 of each year] with the Senate and House of Representatives *containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report * * **

The committee's task would be more manageable if the President's report contained a well-organized, comprehensive, and reasonably detailed list of legislative proposals designed to achieve the broad goals outlined in other sections of the report. The 1965 report does contain some legislative proposals in sufficient detail to permit assessment of their merits, including the proposal to remove the gold reserve requirement on Federal Reserve deposit liabilities and the proposal to increase social security benefits. Nevertheless, the report does not contain a separate section outlining and summarizing the administration's complete legislative program in the economic area.

The Employment Act also calls on the President, in his Economic Report, to set forth not only current levels of employment, production, and purchasing power, but also "*such levels needed to carry out the policy declared [in the act].*" In recent years, the Council of Economic Advisers has made a valuable contribution toward fulfilling this requirement in its work with measuring potential GNP. As the report states, this "is an inherently difficult task." It would have been helpful if the Council had published in its report a specific dollar figure for its forecast of potential GNP in 1965, and for the likely gap between this figure and its forecast of actual GNP.

The committee believes that it would be fitting to mark the 20th anniversary of the landmark legislation known as the Employment Act by arranging for some form of comprehensive reevaluation of the act and an appraisal of its influence on economic policy during the past two decades. The committee expects in the months ahead to arrange for such a reevaluation and appraisal with the aim in view of considering whether any changes are necessary in the law or in the procedures outlined under the law that would make it a more workable and useful tool of national policy.

MONETARY POLICY

The task of economic recovery and achieving sustained economic growth is not yet completed. It is doubly imperative that the monetary authorities avoid the mistakes of the past and not be tempted or persuaded into a premature application of the monetary brakes.

Fearfully aware of how easily the stimulative effects of tax reduction might be undone by unwise monetary policy, the committee last year again urged that the monetary authorities follow a policy of monetary expansion in line with the needs of an expanding economy.

The economic improvement during 1964 has demonstrated the wisdom of that policy. The monetary authorities, apparently also mindful of the error of having prematurely tightened money in past periods of recovery, during the early part of the year maintained sufficient availability of credit to permit a fuller utilization of economic resources.

We believe that the sustained economic recovery thus far experienced, albeit still less than sufficient to reduce unemployment to acceptable levels, would not have been possible had the past mistaken bias toward an early restriction (in effect, an early contraction when measured against the needs of a growing economy) been repeated. Unfortunately, there has been increasing evidence, beginning in the fall months of 1964 and becoming more marked thus far in 1965, that the monetary authorities are turning toward tighter money. As the recovery progresses, the lessons of the past seem to become unlearned. Economic recovery is not promoted by assertions that market forces have been tightening themselves when in fact the monetary authorities lower the target level of "free reserves," raise the discount rate, and allow the short-term interest rate to inch upward.

Before this dampening process goes further we must remind the monetary and debt management authorities again that the current task of recovery is not yet done. A stronger economic pulse is insufficient reason for monetary authorities to rush for the sedatives or apply a tourniquet.

The maintenance of adequate credit has been somewhat constrained because the majority of the Board of Governors of the Federal Reserve System apparently feels that higher interest rates are necessary to prevent outflows of short-term capital. There is some question as to whether short-term rates are an important factor in capital movements abroad. Furthermore, the problem of short-term interest rate differences as between this country and Europe arises from the policy of European countries to use restrictive monetary policies and high interest rates to solve their own domestic problems rather than to use restrictive fiscal policies.

The monetary authorities of this country have responded to this situation in a manner characteristic of central bank thinking. They have encouraged a rise in domestic short-term interest rates in a presumed effort to hold and attract short-term funds in spite of higher foreign rates.

We believe that the ready acceptance and prompt rationalization by the Federal Reserve System authorities of the need for increasing short-term rates have not given sufficient weight to the alternatives. Desired effects upon the balance of payments might have been obtained

by other means, such as measures affecting the rates of saving in the United States, measures improving the climate for the investment of savings in a thriving domestic economy, measures involving various voluntary limitations on short-term capital exports, and, if the need be sufficient, measures for the direct regulation of short-term capital outflows.

The monetary authorities have indeed been aided by one such device, the interest equalization tax, which has tended to penalize the outflow of capital from the United States. The President has recently taken steps to further discourage short-term outflows. We suggest that the Congress, in order to close loopholes and make these restrictions effective, may shortly need to consider applying similar interest equalization tax constraints to short-term bank loans of less than 1 year maturity.

Rising short-term rates in the United States must sooner or later be recognized as being basically incompatible with domestic expansion. Long-term rates, it is true, have been held relatively constant, although they have in fact risen nearly one-quarter percent since the beginning of 1963. We are now confronted with the possibility, indeed probability, that a further rise in the short-term rates must inevitably exert upward pressures upon the long-term rates.

The pressures toward higher long-term interest rates are particularly disturbing in the light of recent debt management policy. On February 20, 1961, the Federal Reserve System departed from its "bills preferably" policy. It announced that it was then purchasing in the open market U.S. Government notes and bonds of varying maturities, some of which would exceed 5 years. Authority was granted by the Open Market Committee for transactions in securities of "longer maturity" than those dealt in under the previous policy. The announcement, although unclear as to Open Market Committee concepts of "long" or "longer" maturities, was widely interpreted to mean that the System was moving to hold down, if not reduce, rates at the long end of the interest curve for Government, mortgagors, and businesses.

In the 4 years since that announcement, the Federal Reserve System portfolio has been increased by approximately \$10 billion, less than \$700 million of which has been in maturities of over 5 years. Approximately two-thirds have been in maturity groups of under 1 year. The maturity distribution of portfolio holdings at the end of January 1965, indeed, shows a slight reduction in the proportion of holdings held in the "over-1-year category." The resolution of the Reserve authorities to hold down long-term rates has, to say the least, been disappointing.

Nor is it clear that the debt management authorities have applied their energies very vigorously to holding down long-term interest rates. The Secretary of the Treasury in his testimony to the committee submitted a table, and took pride in observing that, "an amount larger than the entire \$25.1 billion increase in the marketable debt since January 1961 has been financed over that period in longer term issues; marketable debt due in 5 years or more is up \$26.9 billion." Why did the Treasury Department, during an economic recovery period, seek to extend the average maturity of the Government debt by competing for and absorbing long-term funds? However adequate or

inadequate its reasons may be, the fact is that neither the monetary nor the debt management authorities have been vigorous in bringing downward pressure on long-term rates while actively and calculatedly raising short-term rates on balance-of-payments grounds.

The committee recommends that the Federal Reserve authorities and the Treasury cooperate to avoid further increases in domestic interest rates and that:

Secular increases in the money supply should be provided at the same rate as the growth of real gross national product and should be provided through open market purchases of longer term Federal securities, rather than by either increased holdings of short-term Treasury issues or through the lowering of reserve requirements.

Debt management should be so handled by the Treasury as to reinforce expansionary fiscal and monetary policies—in particular, they should avoid new issues in longer maturities and advanced refunding at times and in amounts that will frustrate the above recommendation for monetary policy, thus putting upward pressure on long-term interest rates and unnecessarily raising the amount of interest the Government must pay.

Those responsible for the complementary functions of monetary policy and debt management should recognize that the usual good sense of low interest rates as encouragements to the economy are this year buttressed by the requirements for financing at minimum cost major governmental programs in education, housing, rehabilitation, and development.

We urge that the Congress and the monetary authorities give serious, openminded consideration to a search for the best ways of financing the requirements of the President's program for education, overcoming poverty, and for general community and rural rehabilitation. Attainment of these objectives will require increased investment in schools and other facilities by Federal, State, and local governments, the magnitude of which over the next few years may well be as high as \$25 billion or more.

Under current financing practices, the communities of the Nation will have to borrow most of this amount. Even though States and municipalities do have a slight advantage in issuing bonds arising from the tax exemption of income on their obligations, interest costs on these borrowings each year and over the life of the bonds would, under conventional practices, be large and burdensome. Moreover, the communities most in need will have to pay higher rates although less able to do so.

The special needs of our society for education and rehabilitation are so great that they challenge us to find new methods of financing, such as the feasibility of financing through special-purpose, low-interest-rate bonds, issued directly to the Federal Reserve System. The funds thus made available to the Federal Government would be available for direct investment in needed community developments or for relending to communities themselves at a low rate of interest.

In considering methods of financing we need to be especially mindful of two things: (1) The Federal Reserve authorities and commercial banks are the trustees of the sovereign power to create credit; and (2) the economic report indicates a persistent gap between existing gross national product and potential. Because the national needs of the program are so great, it is imperative that new methods of financing be explored so that the burden of interest on the sovereign be held to a minimum rather than multiplying the already large cost by payments to middlemen. So long as the gap arising from unused capacity exists, we need to be concerned about reducing its size, rather than fearful of inflationary pressures.

The committee's report, a year ago, concluded that the Nation had a right to expect better performance by the monetary authorities than it had been getting, adding that "we must learn from experience and avoid repeating past mistakes." Except for the rise in the short-term rate, the performance during 1964 in maintaining availability of credit gives hope that economic lessons have been learned from experience with applying the monetary brakes while the economy is still on the uphill grade as in mid-1957 and early 1960. We warn, however, that the creditable record of the past year is again vulnerable to premature restriction. Because the record has been good thus far, it is doubly important that, in the absence of a clear and present danger of inflation, an unmistakable need to raise interest rates to protect the dollar internationally, or clear evidence of a general deterioration of quality in currently extended credit, restrictive measures should be avoided.

FISCAL POLICY

The record of the past 4 years demonstrates clearly that Federal fiscal policy can be employed vigorously and judiciously in support of steady noninflationary economic expansion.

The years 1961-64 have been marked by a vigorous, flexible approach to Federal fiscal policy. The success of this approach is evident from the performance of the economy. The expansion which began in February 1961 is the longest of the postwar period and, indeed, the second longest recorded peacetime expansion in the Nation's history. In the 48 months of expansion gross national product has increased by 26 percent, the rate of industrial production by nearly 30 percent, consumer disposable income by 24 percent, and corporate profits by 48 percent. Noteworthy is the fact that the expansion has been unmarked by general price increases. The wholesale price index is today at virtually the same level that prevailed in 1961.

If, contrary to present indications, inflation should ever again threaten, increases in taxes can and should be used as a first line of defense. It will be recalled that this committee unanimously recommended such action in 1950 at the time of the rearmament program brought about by the Korean emergency. Congress and the President accepted this recommendation. The first upward burst of inflation was halted within 6 months and the wholesale price index then fell

from February 1951 until the end of the Korean fighting 3 years later. Indeed, this policy was so successful that the index of crude material prices fell about 20 percent in 5 years.

The Revenue Act of 1964 has proved an outstanding success from a fiscal policy viewpoint, demonstrating the feasibility of, and benefits to be derived from, an active fiscal policy.

The Council of Economic Advisers reports that the Revenue Act of 1964 directly increased consumer disposable incomes by \$7.7 billion in 1964. As a direct result of this increase, the annual rate of consumer spending had increased by \$13 billion by the end of last year. A further expansion in spending as a result of tax reduction is expected in 1965. Consumer spending is but one aspect of the impact provided by the Revenue Act. Tax reduction has induced increased business investment in modern plant and equipment, and will continue to do so, reinforcing the effects of the investment credit and depreciation reforms.

The success of past actions notwithstanding, much still remains to be accomplished before we can be satisfied with the performance of the American economy. The rate of unemployment remains intolerably high and the rate of capacity utilization is below the preferred operating level. Unemployment is particularly severe for the uneducated, for teenagers, and for nonwhites—observations of particular consequence as the Nation enters a period in which the number of young people entering the labor force will increase sharply.

The demands upon fiscal policy will be great in the period that lies ahead. Major reliance will have to be placed on fiscal policy at a time when the economy will experience the entrance of an unusually large number of young people into the labor force. As the Council of Economic Advisers observes, there is no assurance that the productive potential of these new workers will be fully utilized as a result of the normal increase in the demand for consumer goods and services. A large measure of responsibility for assuring an economic climate favorable to the creation of sufficient employment opportunities will devolve upon the Federal Government.

The administration's budget program for 1965-66 recognizes the need for continued, though reduced, Federal support for economic expansion, the importance of flexible fiscal policy in the face of changing conditions, and the value of a balanced approach to the achievement of full employment without inflation.

The fiscal 1966 budget provides programs to take effect in calendar 1965, including excise tax reduction, an increase in social security benefits, and increases in Federal outlays for grants-in-aid to the States and various other income support programs. These actions will more than offset the automatic growth in Federal revenues that can be expected in 1965, thereby further reducing the drag of the Federal budget on the economy.

The proposed budget programs are less expansionary than those undertaken last year. As this committee has indicated in the past, it is appropriate to reduce the stimulus provided by Federal fiscal policy as full employment levels of output are approached. Moreover,

throughout much of the early part of 1965 the economy will continue to feel the impact of the Revenue Act of 1964. Not only will tax liabilities be reduced further by the second stage of the tax cut, but the cumulative effect of the 1964 reduction will continue to develop well into 1965. Excise tax reductions and the proposed increase in social security benefits will help to support the economy in the second half of the year.

Expenditures will be increased for a number of programs designed to supplement the broad expansionary thrust of past budget policies with selected programs designed to mitigate specific structural problems. Manpower retraining, area redevelopment, and an improved unemployment compensation system are important examples of such programs.

The committee is concerned, however, over the possible repercussions of the rise in social security contribution rates scheduled for January 1, 1966, and urges that the Federal Government be prepared to take decisive action if the forward progress of the economy is checked.

Present proposals provide for a fairly sharp reversal in the direction of Federal budget policy in January 1966, largely as a result of scheduled increases in social security contribution rates. This is evident in the behavior of the full employment budget surplus as projected by the Council of Economic Advisers. This surplus is an estimate of the excess of Federal revenues over expenditures that would prevail if the economy were operating at a level of output high enough to reduce the unemployment rate to 4 percent. The surplus was reduced from \$10.5 billion in calendar 1963 to \$2.7 billion in 1964. The budget program for calendar 1965 provides for a further reduction in the surplus to \$2.5 billion (at annual rates) in the first half of the year, and to zero in the second half of the year. But in the first half of 1966 the surplus will jump to \$6.5 billion, a sharp reversal of the 1964-65 trend. The effect of this increase in the degree of restrictiveness in the Federal budget on the economy cannot be predicted, and the situation will require close scrutiny.

With regard to specific fiscal policy proposals discussed in the Economic Report—

The committee strongly endorses the proposed elimination and reduction of certain Federal excise taxes but urges that the size of the excise tax cut be adjusted in the light of the emerging economic outlook to the highest level consistent with attainment of the objectives of the Employment Act.

Revision of the Federal excise tax structure is long overdue. The existing selective excises include some that are costly and inefficient to administer, some that seriously distort consumer choice, some that impose heavy compliance burdens on the owners of small businesses, and still others that impose regressive tax burdens on those with low incomes. The proposed \$1¾ billion reduction will permit the elimination of some serious defects in the present excise tax structure, but will not provide sufficient scope for the thorough overhaul that is desirable in the long run. Legislative consideration of the adminis-

tration's excise tax proposals should therefore focus closely on the emerging economic situation in the event that further reductions in excise tax burdens, desirable from the standpoint of a better tax system in the long run, also may prove desirable from the standpoint of a stronger economy in the short run.

The tax writing committees of Congress should consider larger excise tax cuts than those proposed by the President because, as was pointed out earlier on page 2, even the most optimistic forecasts for the coming year do not promise achievement of the Employment Act objectives of "maximum employment, production, and purchasing power." Since the risk is of continued excessive unemployment rather than inflation, preference should be given to additional excise tax cuts slanted in the direction of benefiting low-income groups by removing the taxes on commodities consumed by them. Consideration should also be given to reductions of those taxes which most restrict business activity and therefore hinder the expansion of employment. This would produce a larger total reduction than the \$1 $\frac{3}{4}$ billion suggested by the President but, of course, will have to be kept within practical limits set by the needs of the economy, the effect on Federal revenues, and the Federal expenditures authorized for the forthcoming year.

The committee shares the President's belief that instruments of flexible fiscal policy can and should be strengthened, but cautions that the role of the executive departments in this regard is as important as the role of Congress.

While it is commonly said that the major impediment to a more flexible fiscal policy is the slowness of the legislative process, in fact, this conclusion has never been tested. The history of such tax legislation as the Revenue Act of 1964 does not provide a relevant precedent. Congress cannot and should not be expected to pass on a major revision in the Federal tax structure without careful deliberation. When economic stability is the major immediate objective, and proposed tax measures are devoid of proposals for structural revision, congressional action can be expected to be faster. In this connection, the history of the Revenue Act of 1950 is enlightening. Proposals for tax reduction were speedily converted into legislation for tax increases and approved when the likely duration of the Korean emergency became apparent. In this case Congress took the initiative, acting upon an urgent recommendation of the Joint Economic Committee.

The executive departments with their vast resources of technical know-how must assume major responsibility for speedily recognizing the onset of a recession and for presenting policy proposals designed to meet its particular characteristics. While these considerations in no way diminish the responsibility of Congress for acting speedily on such proposals, they do suggest that the burden of insuring maximum flexibility in fiscal policy does not rest with Congress alone.

BALANCE OF PAYMENTS

Two major international monetary problems confront the world: the problem of bringing an early end to the U.S. balance-of-payments deficits; and the problem of devising

an international monetary system with capacity for appropriate expansion that does not rest principally on deficits in the American balance of payments. The urgency of solving both problems has increased in the past year.

The Joint Economic Committee maintains that elimination of imbalances in international payments is the responsibility of surplus as well as deficit countries. But the surplus countries have not sufficiently met their responsibilities and, consequently, the United States must take such measures—including restrictions undesirable from the long-run point of view—as will promptly restore balance. To the extent possible, free markets should be maintained for international transactions, but the international supply of dollars must now be brought in line with the demand.

The weakness of the pound sterling has increased the importance of a strong dollar. The accumulation of dollars by foreigners, which erodes our gold reserves, must be brought to a halt. Our continuing deficits—our slow progress toward equilibrium—have reflected unfavorably on our national prestige. Balance—even temporary surplus—in our international payments must now be the Nation's business of highest priority in international economic affairs.

The background of the present difficulties in the U.S. balance of payments is now well known. The United States supplied the world with dollars in the years following the end of World War II through large public and private capital outflows for reconstruction and development, the substantial reduction of our import barriers not matched by comparable reductions by other countries, military aid, and the deployment of armed forces abroad. Most leading currencies were devalued substantially relative to the dollar. These policies and programs resulted in U.S. deficits which were welcomed abroad in the early years, for they enabled the war-disrupted countries to replenish their international reserves and return to currency convertibility. In the late 1950's, however, our deficits added dollars to the stream of international payments at a faster rate than other countries wished to acquire them, and, in consequence, we began to suffer large gold losses which threatened not only confidence in the dollar, but the stability of the entire international monetary system.

Under the administrations of Presidents Kennedy and Johnson, the international monetary system was strengthened principally through the development of supplementary lines of credit—swaps and medium term bonds—closer cooperation and consultation among the leading financial powers, and the negotiation of \$6 billion in supplementary resources for the International Monetary Fund by 10 countries who came to be known as the "Group of Ten." These structural improvements, the adoption by the United States of a broadly based program to end its deficits, and recorded improvements in the balance of payments held out the hope that progress toward equilibrium would continue at a satisfactory rate and that stability in the international monetary system would be preserved without the need of further policy measures.

These hopes were disappointed by a sharp increase in the rate of our overall balance-of-payments deficit late in 1964 and by signs of weakening in the fabric of international cooperation. To be sure, \$3 billion—an unprecedented amount—was mustered in November of 1964 to pre-

vent devaluation of the pound sterling. This seemed to give reassuring evidence of the cohesiveness and strength of international financial cooperation.

But the size and speed of the support provided for sterling are misleading as general indicators of the quality of international monetary cooperation. In its report on the U.S. balance of payments, issued a year ago, the Joint Economic Committee stated:

The monetary and fiscal policies of the surplus countries should complement those of the deficit countries with respect to the balance of payments * * * it is inconsistent for them to counsel the United States to seek economic growth with a restrictive monetary and expansionary fiscal policy, so that incentives for capital outflow will be reduced, while they counter inflation with tight money policies and high interest rates rather than restrictive fiscal policies.

Yet within the past year eight members of the Group of Ten—among them the United States—and Switzerland raised their central bank rates. The unwillingness of the leading surplus countries to apply to themselves the logic of their advice to us—their reluctance to rely more heavily on fiscal policy to counter inflation—shows that international monetary cooperation has not yet reached the levels demanded in present circumstances.

The weaknesses of international monetary cooperation are also apparent in the difficulties of reaching agreement on new techniques for expanding international liquidity. Increasing the International Monetary Fund's resources is an important step in strengthening the system, but it does not solve the basic problem of assuring that international liquidity will keep pace with the growth of the international economy. For, under the proposed quota increases, the Fund's additional financing capability in currencies other than the dollar and the pound will be no more than \$2.5 billion. With world imports expanding more than \$10 billion a year, it is clear that this one-time quota increase cannot long meet the needs of the world. But progress toward a solution to the long-run liquidity problem has been blocked by major divergences of viewpoint between the deficit and surplus countries.

The weaknesses of international monetary cooperation, and the disharmonies which now endanger the system, were dramatized when General de Gaulle in February 1965 urged a return to the gold standard of the past century. Clearly the very foundation of international monetary cooperation—the basic philosophy as well as the technical machinery of execution—was under fundamental attack. Unfortunately, General de Gaulle's views reflect more than the aberrations of one individual. They symbolize a hardening of the arteries in international monetary cooperation—impatience by the surplus countries with our rate of progress toward international balance; dissatisfaction with the functioning of the present gold exchange standard; and unwillingness, while their own liquidity positions are strong, to face up to the future needs of the world monetary system.

After the dollar came under attack in 1960, we were able to strengthen the technical machinery for maintaining international monetary stability. But we appear today

to be approaching the limits of this process of technical improvement, and not yet far along the road toward a more fundamental strengthening of the system. Our need to eliminate the deficit in the balance of payments is therefore more urgent than before.

The committee supports the proposals contained in the President's balance-of-payments message of February 10. It urges the Congress to consider sympathetically the two legislative proposals—extension and broadening of the interest equalization tax and reduction in the duty-free tourist allowance.

The committee approves the principle of using tax incentives to stimulate capital inflows. The President's awaited proposal for new tax legislation to accomplish this goal should receive sympathetic consideration by the Congress. The committee welcomes the President's emphasis with respect to bank lending and business investments abroad on self-imposed rather than Government-imposed restraints. Free enterprise, competitive markets, and decentralized decisionmaking are the economic principles which should guide both business and Government. The urgency of restoring equilibrium to the balance of payments has made some temporary compromise with these principles necessary. But given this necessity, the committee prefers voluntary actions by the business and financial communities to the rigidities of Government controls. The committee hopes that the necessary cooperation and voluntary efforts will be forthcoming. If not, there will be no alternative to legislation and mandatory controls.

Further expansion of exports can hasten the day when these temporary measures are no longer needed. The committee strongly endorses the President's emphasis on improving our trade position in the world and underscores his comments concerning the necessity of stable costs and prices. Vigorous pursuit of the objectives of the Kennedy Round of tariff negotiations—the reciprocal reduction of trade barriers—will lend strong support to a program of export expansion.

The President's emphasis on interest rate stability is especially timely. Some foreign observers and certain domestic groups have singled out our monetary policy for particular criticism. Tight money and higher interest rates seem to them to be the means the United States should adopt to combat its payments deficit. These critics do not sufficiently weigh the domestic problems of unemployment and excess capacity, or minimize the extent to which solutions would be impeded by higher interest rates. They exaggerate the extent to which interest rate changes within the range of practical relevance influence international movements of short-term capital. The Joint Economic Committee's studies of this question have led to the conclusion that the role of relative interest rates as a determinant of international capital movements is small as compared to other influences. The committee therefore urges that our monetary authorities refrain at this time from any further tightening of credit.

The committee urges that the review of Government expenditures abroad focus particularly on the possibility of reducing our troop commitments in Europe. In the words of Roswell L. Gilpatric, former Deputy Secretary of Defense, "Operation Big Lift" in October 1963 demonstrated "our ability to project our military power far more quickly over far larger distances than has ever been the case in the

past." But our overseas manpower was not cut back to the extent which the massive increase in our airlift capability would have permitted. Our European allies remonstrated against such a possibility, and their views strongly influenced our policy.

Today, these same allies are increasing the pressure on us to eliminate our balance-of-payments deficits. We must reduce our military expenditures in these countries—especially in countries such as France and Spain, which have refused to enter into offset arrangements of the type we have with Germany and Italy. Such arrangements reduce the balance-of-payments impact of our overseas military expenditures through increased purchases by our partners of U.S. military equipment and supplies. Ways must be found to curtail dollar expenditures in France, a country which has not only refused an offset arrangement with us but also announced her determination to convert all additional dollar earnings into our gold.

At the same time that we work toward the speedy elimination of our balance-of-payments deficit, we must make progress toward a stronger international monetary system—a system which relies less on the dollar and the pound and more on the credit of other countries.

In the postwar period, a shortage of international liquidity was avoided only because of the dollars our balance-of-payments deficits added to the reserves of other countries. The President noted in his message that, in the past decade, about half of the increase in free world reserves stemmed from this source. If France's proposal to return to the 19th century gold standard were adopted, all the liquidity added to international reserves through the dollar and the pound would be wiped out. A severe liquidity shortage would result, and the international economy would be thrust into a state of chaos. Indeed, even with the present system, new ways of creating liquidity must be devised to avoid a future shortage as restoration of equilibrium to our balance of payments brings the outflow of dollars to a halt. Significant progress has been made in developing supplementary sources of short-term credit. The proposed enlargement of International Monetary Fund quotas will increase the availability of medium-term credit. Moreover, the changes are to be made in such a manner as to minimize any adverse impact on the gold reserves of member countries, thereby allowing existing gold reserves to support a larger volume of liquidity.

But even these changes do not go far enough. The Fund's 1964 annual report suggested several innovations which would enable it to contribute to larger liquidity. These merit earnest consideration. One method would make more automatic the rights of member countries to draw on their quotas. More far reaching in its implications was the Fund's suggestion that it might purchase assets to increase the reserves of members—essentially in the same way central banks conduct open market operations.

In addition, the committee urges serious consideration of the possibility of creating a new reserve unit. This would have to be done through a method which would provide for necessary flexibility. It should limit expansion to the legitimate needs of the international economy and on a basis which assures that the new unit will be

used as a supplement to and not a substitute for gold, dollars, and pounds sterling in international reserves. Discussions in the past year among the Group of Ten have made it clear that the members in balance-of-payments surplus conceive of a new currency unit as a contrivance to restrict international credit and increase the role of gold in international settlements. This conception is wholly unacceptable to the committee.

The committee recommended, in its Report on the Balance of Payments of March 1964, that:

The United States, in consultation with other countries, should give consideration to broadening the limits of permissible exchange rate variation.

The committee again urges the monetary authorities to study this idea. Consideration is especially appropriate at this time, when short-time capital movements have intensified our balance-of-payments difficulties. The monetary authorities have reacted by raising interest rates, making more difficult the achievement of domestic objectives. It has also resulted in the imposition of taxes and other restraints on capital outflows inconsistent with our long-term objective of freedom for capital movements. Broadening the limits for exchange rate variations could discourage short-term capital outflows through free market forces, on which we should continue to place our main reliance; permit greater freedom for monetary policy to promote domestic objectives; discourage speculation against currencies by increasing the risk; and to some extent promote equilibrating adjustment in the trade balance through somewhat greater exchange rate variations than are now permitted.

These advantages are so relevant to our present needs, and the proposal so evolutionary in character, that a careful exploration of offsetting disadvantages, if any, further implications, and practical problems of implementation, is called for. We must leave no stone unturned in a search for improvements in the international monetary system which would permit greater freedom for international transactions, increase the ability of monetary and fiscal policies to focus on the achievement of domestic objectives, and at the same time strengthen the forces operating to restore international financial equilibrium.

In short, the committee believes that an urgent need exists for strengthening the international monetary system. It has no rigid preconceptions, no hidebound views, no hobbyhorses with respect to which of the alternative plans could best be translated into effective operating machinery. It emphasizes only that the improved system must (1) achieve a better balance of benefits and burdens among its participants than we have at present, in particular, ease the pressures on the reserve currencies; (2) be flexible enough to provide additional liquidity to meet legitimate world needs; (3) improve the stability of our present system by increasing the availability of credit to meet emergencies, on more automatic terms, and at longer maturities; and (4) provide needed safeguards against excessive and inflationary resort to credit as a substitute for adjustment to international imbalance.

THE KENNEDY ROUND

When Congress passed the Trade Expansion Act, granting the President unprecedented authority to cut tariffs in trade negotiations, it expected that this authority would be used fully—to expand on a reciprocal basis trade opportunities for both industrial and agricultural products. This expectation must not be frustrated. In trade matters the world cannot stand still. Movement must be forward to more liberal trade, or it will be backward to higher trade barriers. The stakes are high. Present progress is inadequate.

The United States cannot accept the agricultural proposals of the Common Market, which would contract, rather than expand, our markets for farm products. The committee is deeply concerned about the reportedly inadequate offers by the Common Market on industrial products. The committee urges the administration to bargain with utmost intensity—and to get results.

Maintaining harmonious relations with our partners in the Atlantic Community is important—but it must not be achieved by sacrificing the interests of American agriculture, industry, and labor. Our balance-of-payments problem rules out any possibility of giving more than we get. The Kennedy Round must succeed. The authority of the Trade Expansion Act must be fully used if Congress is to support renewal legislation when the present act expires.

The committee has a continuing interest in the current round of international trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT)—the sixth such round, generally known as the Kennedy Round. In its 1961 report, “Foreign Economic Policy in the 1960’s,” the committee recommended *inter alia* that the President be given new and increased authority to make tariff concessions on a reciprocal basis and to enter into agreements embodying such concessions.

The committee took great satisfaction in the enactment of the Trade Expansion Act of 1962, by which the Congress granted to the President broad authority in the field of trade negotiations. It was pleased to note that the Kennedy Round, after lengthy and painstaking preparations in Washington and other capitals, opened formally in Geneva on May 4, and began in real earnest on November 16 with the submission by the major trading nations of their offers in the field of nonagricultural products. (Technically, most of the nations involved submitted lists of exceptions and exclusions, on the working hypothesis that all items not listed as exceptions or exclusions would be subject to a 50-percent tariff cut.) The committee also notes with satisfaction that work has begun on nontariff barriers and on the trade interests of the less-developed countries, two important areas for negotiation under the Kennedy Round.

The committee, however, has been gravely concerned about two important aspects of the negotiations. As the European Economic Community (EEC) has implemented its common agricultural policy,

it has become increasingly clear that this policy is highly protectionist in character. Its system of variable levies seems to relegate outside food-exporting nations, including the United States, to the role of residual suppliers. In the case of poultry, this system has already substantially reduced imports from the United States.

Moreover, the EEC has put forward as its proposal for agricultural negotiations the measuring and freezing of present levels of agricultural protection, to be effected, apparently, through the extension of the variable levy system on a worldwide basis. We find this quite incompatible with the resolution adopted on May 21, 1963, by the GATT Ministers—including the representatives of the six member nations of the EEC—according to which an objective of the Kennedy Round is “the creation of acceptable conditions of access to world markets for agricultural products in furtherance of a significant development and expansion of world trade in such products.”

We are further disturbed by press reports concerning the exceptions list submitted by the European Economic Community on November 16, 1964. These reports have emphasized the excessive length of this list and have noted that, for several of the items submitted as exceptions, the EEC's exports are much larger than its imports.

We have no means of knowing how completely these press accounts reflect the facts. We believe that President Johnson spoke for the great majority of Americans when he said: “We are willing to offer our free-world friends access to American markets, but we expect and we must have access to theirs also.” We believe that the liberalization of trade is to everyone's advantage, and not least the liberalization of trade in agricultural products. Access to wholesome and reasonably priced food products is an important factor in countering the inflationary forces which cause concern in a number of countries; uneconomic, inefficient, and highly protected agricultural systems build needless costs into national economies at the expense of competitiveness in world markets for industrial products. We endorse the President's statement that: “The United States will enter into no ultimate agreement unless progress is registered toward trade liberalization on the products of our farms as well as our factories,” and we believe that this is in every nation's real interest, not only our own.

The committee trusts that the European Economic Community, to whose growth and development the American Government and people have given warm and continuing support, will evolve in an outward rather than inward-looking fashion, and will reject the easy but self-defeating course of protectionism. We hope that it will enter into meaningful negotiations on trade in agriculture, and that the Kennedy Round negotiations as a whole can move expeditiously forward to a successful conclusion. The sooner trade liberalization is achieved, the sooner all nations—and, not least, the developing nations—can begin to reap its manifold benefits.

If the European Economic Community intends to frustrate these hopes, its leaders would do well to reflect on the authority that Congress provided the President in section 252 of the Trade Expansion Act. They will find that the United States is not without weapons to safeguard its interests.

WAGE-PRICE POLICIES

The maintenance of a stable general level of prices must be a prime objective of public policy and a major consideration in private decisions affecting wages and prices.

Inflation is a disguised and regressive tax, which hits hardest at those who live on fixed incomes—generally, families who can least afford its burden. Inflation encourages inefficiency in the allocation of resources and contributes to economic instability. Inventory fluctuations, which have played a leading role in the postwar business cycles, have been aggravated by stockpiling in anticipation of rising prices. Inflation in the first decade after the war contributed to the U.S. balance-of-payments deficit by diminishing the competitiveness of American exports in world markets. Inflation feeds on itself through the spiraling of price and wage increases. And inflation jeopardizes the achievement of full employment, for efforts to curtail it may, in the future as in the past, brake the economy before its full output potential is realized.

We strongly endorse the President's guidelines to noninflationary wage and price policies. These guidelines provide the flexibility needed to accommodate special problems in particular industries within the framework of general price stability. The committee particularly welcomes the President's emphasis on price reductions in industries where productivity increases exceed the national average. The benefits of productivity increases should be distributed among consumers as well as capital and labor. Moreover, moderate price decreases resulting from greater productivity would improve the U.S. competitive position in world markets and increase export earnings. This way of solving the U.S. balance-of-payments problem would be consistent with the liberal commercial and financial policies the United States has championed.

The committee sees no reason why 1965 should witness a renewed outbreak of inflation. The domestic economy is still short of full capacity operation. Unemployment is still at a high level, although down significantly from a year ago.

Government policies have placed both business and labor in positions to observe noninflationary wage-price policies and at the same time achieve substantial gains in 1965 and beyond. The reform of depreciation guidelines and the investment tax credit contributed more than \$2.5 billion to corporate cash flow in 1964 and helped push corporate profits to an alltime high of \$57 billion. Tax cuts in 1964 raised the aftertax incomes of business and labor, thereby raising rates of return to capital and stimulating higher output at lower unit costs. Additional tax cuts already scheduled or proposed for 1965 will intensify these effects. Indeed, the committee regards the outlook for business profits as so favorable that competitive pressures may be expected to induce business to pass on to consumers through lower prices some of the benefits of corporate tax reductions.

The committee recognizes that certain business or labor groups may wish to take advantage of the prevailing buoyancy in the economy to raise prices and wages in a manner inconsistent with the national interest. Such action would be most shortsighted. Exces-

sive increases in prices and profits lead to increased wage demands, and wage demands in excess of productivity advances lead to still higher prices. As a result, the benefits of higher monetary returns to capital and labor are offset by the decline in the purchasing power of money. In this way, not only is the public interest sacrificed, but the business and labor groups which feed the inflationary cycle also fail to realize their objectives.

COMPETITION AND MARKET STRUCTURE

Vigorous Government action to preserve the benefits of free competition is essential to the success of policies to promote domestic expansion and to preserve our competitive position in world markets. New policies should be considered in four areas: (1) conglomerate mergers, (2) voluntary controls on foreign investment, (3) transportation policies, and (4) international restrictive business practices.

The American economy is based on the concept that the marketplace can best allocate resources, and best increase and divide the Nation's wealth. Our living standards, surpassed by none, have been achieved by reliance on free competition, decentralized economic power, free access to markets, and marketplace allocations of goods and services. Competition has fostered efficient production, stimulated technological and managerial innovations, and satisfied consumer needs better than any other economic system known to man.

Interference with competitive market structures, if uncorrected, impedes the prompt changes in factor rewards and product prices which bring about the shifts in resource allocations so essential to a dynamic and growing economy. When powerful groups control prices, all too often the result has been inordinately high prices, inefficient allocation of resources, and distorted distribution of income. High prices not only support inefficient allocation of resources, but they weaken our international competitive standing. Therefore, we urge, as in the past, vigorous efforts on the part of regulatory agencies to curb unfair practices and preserve the benefits of competition. The task of public policy is to preserve the benefits of competition while retaining the advantages of our complex highly industrialized mass production economy.

There are four areas of antitrust policy which require new governmental actions and policies.

(1) Conglomerate mergers raise basic political as well as economic questions for our society. Management and ownership have become increasingly separated in modern corporations. Managers have been able to retain earnings, often in excess of the needs of their existing businesses, even if the bulk of shareholders would have preferred to have such earnings paid out as dividends. The retained earnings may then be used for acquisition programs, extending the parent companies' operations into new areas not related to their original operations. Managements can greatly extend their control over the productive resources of our country, including the labor force, without directly increasing the real wealth of the Nation. In the process, they reduce the number of independent enterprises, and weaken an important foundation of our democracy.

The size and financial strength of large conglomerate enterprises give them important advantages in competing with nonintegrated concerns and may substantially reduce competition. At the same time, these advantages, if passed on to consumers, may benefit the country.

Conglomerate mergers have already significantly altered the structure of American business. The evolution of public policy has not kept pace with the rapidity of this movement. An urgent need exists today for congressional review and redefinition of public policy with respect to conglomerate mergers.

(2) We urge that careful attention be given to the President's proposal to grant antitrust exemptions to firms and banks so that they can join together in limiting the amount of their foreign investments and loans. However, such exemptions must carefully be limited to this purpose only, and must preclude other anticompetitive practices.

(3) Antitrust exemptions granted international steamship conferences should be discontinued if ocean freight rate discriminations against American exports are not eliminated. The Joint Economic Committee has discovered that ocean steamship conferences abuse their antitrust immunity and set rates on ocean commerce detrimental to our foreign trade. If our regulatory authorities are unsuccessful in eliminating this discrimination in the near future, we believe that Congress should withdraw the antitrust immunity granted these international cartels.

(4) We are disappointed that the Council of Economic Advisers did not recommend new policy guidelines regarding the international effects of restrictive business practices. Most of the nations of Western Europe, the European Economic Community, and Japan adopted or significantly changed antitrust laws in the last decade. Although these laws differ in many respects from our own, the enactment of antitrust laws was a most significant first step toward worldwide recognition of the benefits of competition. It is most essential for our regulatory agencies and the Department of State to be intimately aware of the provisions, administration, and enforcement of these laws.

If significant differences develop in national practice, as some preliminary evidence indicates, and many of our leading competitors grant exemptions from their laws to monopolies and cartels, we must seek an international agreement to eliminate these exemptions or we must take counteracting steps. If our leading competitors permit monopolistic practices, cartel controls could nullify tariff reductions, the benefits of foreign aid could be destroyed by rigged prices, American businessmen could be forced out of markets both foreign and domestic, and finally, American consumers would be subjected to monopolistic allocations of many resources rather than marketplace allocations.

CONSUMER PROTECTION

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

The Joint Economic Committee made this recommendation in its 1964 report. We are gratified that President Johnson has made a similar recommendation in his consumer message to the Congress and in the 1965 Economic Report. Specifically the President stated:

Informed consumer choice among increasingly varied and complex products requires frank, honest information concerning quantity, quality, and prices. Truth-in-Packaging will help protect consumers against product misrepresentation. Truth-in-Lending will help consumers more easily to compare the cost of alternative credit sources.

Consumers are too numerous and disorganized to combat fraudulent packaging, labeling, and credit techniques. The Federal Government must enact appropriate safeguards to protect the consumer at least from deceptive practices involving commodities and services in interstate commerce. Legislation is not needed to establish rigid conformity in packaging nor to dictate interest rates on installment sales. However, it is needed to protect the consumer from misleading practices which obscure the relative costs of alternative purchases from competing suppliers.

Truth-in-Lending legislation would provide consumers with a uniform unambiguous statement of potential interest costs and facilitate rational choices on installment sales. Truth-in-Packaging legislation would provide the same simple, accurate standard with regard to the nature and the quantity of packaged items, again to aid the consumer in making rational choices among competing products, according to his own particular preferences.

THE ECONOMICS OF THE GREAT SOCIETY

Full employment, maximum purchasing power, rapid growth, and price stability are not the only tests of the performance of an economy or society. The richest nation in the history of the world must use its vast creative powers to build a Great Society which is a progressively better place for every citizen to live in and to work in to the limits of his potential.

The United States is the material wonder of history—the richest nation that has ever existed both in aggregate and per capita terms. It furnished the resources that made possible a rapid reconstruction of Europe after the most devastating war in history; provided most of the military defense of the free world; supplied billions of dollars in aid to underdeveloped countries; restored the financial liquidity of the world; rebuilt most of its own capital stock; increased living standards, and reduced poverty—and has done all of this while reducing hours of work, increasing vacations, and reducing the rate of use of its productive resources.

But even this is not enough; the quality as well as the quantity of economic progress must be our concern. A major task is to use the marvelously creative powers of our economy to make this a better world for every citizen to live in and to work in. Ours is the first nation in history to have the full economic power to create such a Great Society. The programs discussed in the sections that follow are first steps on this road to a better, not just bigger, America.

THE POVERTY PROGRAM

The Economic Opportunity Act of 1964 opened an enlarged attack to eliminate poverty in America. This program of community action at the local level coordinating Federal, State, and local programs should be stepped up in the coming year to the maximum extent consistent with orderly and efficient progress as provided for in the President's budget.

The Economic Opportunity Act of 1964 launched an unprecedented national effort finally to eliminate poverty in the United States. It is an effort conceived as an attack at the local level through communitywide action involving the careful coordination of Federal, State, and local programs. This is an essential program, for amid the unprecedented affluence of our society we still have some 9 million families living in what any reasonable person would call poverty. Per capita income in this country is half again above that of the advanced countries of Western Europe, and a large multiple of that of the less developed countries of the world. Nevertheless, too many of our citizens neither share in the benefits of abundance nor do they contribute effectively, in present circumstances, to the creation of the greater abundance which our technical knowledge and resources make possible.

Poverty has been reduced substantially in the United States over the past three decades, but much remains to be done. Undoubtedly, the first line of attack is to build a prosperous, full employment economy that is rapidly growing at stable prices. History gives vivid proof that it is under such circumstances that unemployment and poverty are most rapidly eliminated. Major contributions will be made by programs in the realm of education, health, housing, community development, job training, and regional reconstruction. But coordinated community action programs at the local level are also essential and will be so for years. The need for this local action is precisely to enable the program to adjust flexibly to the unique requirements in each community.

The committee is pleased with the progress made so far in getting this program underway, also with the increased support for it that the President has requested in his 1966 budget. But while these major efforts must be made on a local basis, with variations to suit local conditions, it is nonetheless true that such broad programs can be successful only when they are conducted within the framework of a unified set of national criteria to guide local authorities and provide the informational base upon which the local programs rest. We are not at all satisfied that the necessary action has been taken in this latter field.

It has been suggested to the committee, for example by the Federal Statistics Users' Conference, that much of the information and economic analysis on which these programs should be based simply are not presently available. Nor have we been given any reason to suppose that aggressive, administrative action on a coordinated basis at the Federal level is being taken to insure that such integrated and comparable economic data are provided. Without this, there is a grave danger that resources will be wasted, that there will be duplication of effort, and a lack of appropriate learning from experience, since there

will be no unified informational system to bring the lessons of one community to another. We hope that a year hence we can report that vigorous action has been taken in this aspect of the program.

Finally, in developing and administering programs that attack many aspects of the problems of poverty and urban living, provision should be made for advisory committees of non-Government technical experts to review these programs and their coordination, to assure the maximum use of private resources and reduce the possibility of wasteful duplication of effort.

EDUCATION

The Joint Economic Committee has repeatedly pointed out that few investments, public or private, can yield such rich returns to the Nation as a broad and coordinated program to increase educational facilities, techniques and programs. We wholeheartedly support the principle of increased Federal assistance to elementary, secondary, and higher education.

As we have repeatedly pointed out, few investments, public or private, can yield such rich returns to a nation as a broad and coordinated program to increase educational facilities, techniques, and programs. Poverty paralyzes efforts to bring proper educational services and facilities within the reach of all the Nation's children. Left unchecked, poverty's adverse effects become chronic and contagious, often resulting in delinquency and crime.

Two-thirds of our families headed by a person with less than 9 years of education are earning less than \$2,000 a year. Twenty percent of the young people 18 to 24 with less than 9 years of education are unemployed. Four and one-half percent of our children under 18—3 million children—are in welfare families receiving aid to dependent children. Many of these children lack mental stimulation at home and come to school unprepared for an alien world of books, pencils, and figures. They are a year behind in schoolwork by the time they reach the third grade, and up to 3 years behind if they reach the eighth grade. They account for 80 percent of all school dropouts in the Nation. Steps must be taken to provide these children with the educational opportunities necessary to become income producing, taxpaying contributors to our economy.

In the decade 1963-73, elementary school enrollment is expected to climb from 35 million to 38 million; high school enrollment from 12 million to 16 million. Adequate school space is becoming a major barrier to the fulfillment of our educational needs. Although school space is the primary problem there are many unmet needs in respect to supplemental services that make the difference between a poor school and a good school. For example, more than 2 out of every 3 public elementary schools have no libraries; in only 10 States do all secondary schools have science laboratory facilities; 70 percent of our public high schools lack adequate facilities for teaching foreign languages.

Numerous statistics point out the need for increasing elementary and secondary school facilities and for more and better trained teachers. There are also many examples which indicate the problems faced by educators attempting to prepare the children of poverty for

lives in an automated and highly complex society. We are convinced that a comprehensive Federal aid to education program must be promptly enacted to assure educational opportunities for every child in the country.

We also believe that the Federal Government must continue and increase its efforts in the field of higher education. Since World War II, the proportion of 18 to 21 year olds enrolled in college has risen from 22 to 40 percent. The present figure of almost 4.8 million students is expected to rise to 7 million by 1970. The postwar years have also brought a substantial increase in the number of American institutions of higher education—from 1,686 in 1946 to more than 2,100 in 1965. The pace at which these institutions are increasing, however, lags far behind the rate at which students are seeking to enroll.

The opportunity to acquire better training and education must be made available to more of our young people. In a practical sense, opportunity comes in three forms—scholarships, loans, and work-study programs.

The present average cost for attending a public college or university for 1 year is \$1,560, and for attending a private institution, \$2,370. By 1970, the annual cost is expected to be \$1,840 for public institutions and \$2,800 for private institutions. The relationship between family income and college attendance is clear: in 1960, 78 percent of all high school graduates whose families had incomes of \$12,000 or more per year went on to college. By contrast, of high school graduates in families in the \$3,000-or-less income bracket, only 33 percent went on to higher education.

The Joint Economic Committee supports proposals to—

(1) Help institutions of higher education acquire library materials needed for their expanded responsibility in research, teaching, and student use;

(2) Assist in raising the academic quality of those colleges which have the desire and potential to make a substantial contribution to higher education resources but which for financial reasons are struggling for survival and unable to meet the requirements of higher education, and

(3) Assist institutions in the development of more effective methods in teaching for their adult education programs and extension programs, and for their courses in the solution of local community problems such as housing, transportation, proper land use, etc.

We believe also that more Federal funds should be provided for undergraduate scholarships, insured reduced interest rate loans, college work-study programs, and extension of the national defense student loan program.

HEALTH

This year the Congress faces another stage in one of the great unfinished tasks of our society—assuring an adequate hospital insurance program for the aged. Private insurance plans have failed to provide adequate protection at premiums that most of the aged can afford. The Committee concludes that Federal help is essential to an effective program.

Recent years have witnessed rapid progress in medical science: Many major illnesses have been conquered; new drugs have permitted extraordinary progress in therapy; new medical techniques have multiplied man's ability to diagnose and control disease.

But advances in medical science have not been paralleled by economic progress in bringing the new advances in the healing arts within the reach of most of our people. The imbalance between science and economics is most pronounced for our aged population. Essentially the problem is that the aged are caught in a squeeze between sharply reduced incomes of retirement years and greatly increased medical expenses.

Income for the aged is less than half that received by younger persons in comparable family circumstances, yet their health costs are twice as high. Fully half of the aged couples receive annual incomes of less than \$2,800, and the average aged person living alone—one of every four persons over 65—has little more than \$1,200 a year.

On the other hand, prices charged for medical care in American cities have doubled since 1947, and daily service charges in hospitals have tripled. Hospitalization insurance premiums have doubled since 1952—an increase greater than that of any other important item in the Consumer Price Index.

The impact of higher medical costs falls heavily on the aged because they require more medical services than the younger population. The President pointed out in his message on advancing the Nation's health that "four out of five persons 65 or older have a disability or chronic disease" and "people over 65 go to the hospital more frequently and stay twice as long as younger people."

The question before our Nation is not whether our aged should have adequate medical care—all are agreed that they should—but in what manner that care should be financed. The facts on the income and savings levels of the aged population, and on the medical costs to which they are subject, indicate clearly that the aged simply lack the means to pay for adequate medical care from their retirement incomes and savings. Primary reliance should not be placed on welfare programs which give public assistance based on means tests. If applied by all states at the requisite level of medical care, such programs would be inordinately expensive—both because of the medical costs involved and because of the high costs of administering means tests.

Moreover, the committee believes that the aged of modern America should not be forced to exhaust all savings and be reduced to a state of demonstrable poverty before they can qualify for help toward meeting medical costs. Public assistance can play an important role, but it must be to supplement a broad, national program for the aged which meets their health needs without detracting from their dignity and self-respect. After all, dignity, self-respect, and a feeling of economic security are just as important to the health of our elder citizens as is care for their physical ills.

The solution to the health needs of the aged lies in insurance. If private insurance could do the job there would be no need for a Federal program. But it is clear that adequate private insurance plans for the aged are beyond the means of most. Annual rates for statewide plans underwritten by groups of private companies for couples range from \$420 in Massachusetts to \$552 in California, New York, and Ohio—amounts which comprise 15 to 20 percent of the typical income of aged couples. Moreover, benefits under these

plans are limited by coinsurance features, exclusion of preexisting conditions, and other qualifications. Blue Cross plans for the aged and commercial 65-plus plans are similarly caught in the pincers of high premium costs and limited benefits.

What the aged need is a plan which would permit them to acquire insurance protection against the high medical costs of old age for modest premiums paid during their long working lives, without the need to pay heavy premiums after retirement. Such insurance is now virtually unknown among private carriers.

Health insurance for the aged under the Social Security System would seem to offer one effective and efficient response to the need. This system has proved its capacity to administer, at low cost, broadly based social insurance programs. It would provide uniform benefits for Americans, regardless of their location. And it would free private insurance companies from some of their present expense burdens and enable them to offer plans supplementing the basic coverage.

The committee did not hold hearings on the President's legislative proposal, and therefore does not wish to comment on its specific merits, or rule out possible alternatives. But it urges the Congress to give the President's plan the most earnest and sympathetic consideration.

The committee welcomes the President's proposals for improving the Nation's health facilities and services. In particular, the recommended strengthening of group practice facilities offers great promise for eliminating costly duplication of specialized equipment and for extending the services of medical specialists to a larger number of patients. A better organization of medical services and equipment could greatly increase the productivity of both medical specialists and expensive medical equipment.

The need to enlarge the number of doctors and dentists is clearly demonstrated. The committee considers the President's legislative proposals to expand manpower for health services as urgent matters of business for the Congress.

MANPOWER TRAINING AND VOCATIONAL EDUCATION PROGRAMS

This committee has long felt that an active manpower training program must be developed on a national basis. New job creation to reduce unemployment must be accompanied by programs which develop the skills needed for those jobs, and by creation of the mechanisms which can rapidly and efficiently bring together jobs and qualified workers.

In the 2½ years since the enactment of the Manpower Development and Training Act of 1962, more than 350,000 unemployed men and women have completed or are receiving training through manpower programs. Three out of four completing such training move into employment generally directly related to their training.

Nearly half of the trainees enrolled thus far were out of work 15 weeks or longer; 6 of every 10 are heads of households; a quarter of the trainees have been from nonwhite groups; most trainees were being upgraded occupationally through training to higher level skills than they had in their previous employment.

This committee believes that the manpower training programs are essential to helping the labor force adapt to the changing skill requirements brought about by technological progress. The administration has recommended amendments to strengthen and expand the 1962 act. We support changes to (1) remove the scheduled mid-1966 termination date for the existing program; (2) lengthen the maximum period of training allowances, and liberalize allowance practices; (3) integrate training under the Area Redevelopment Act, the Trade Expansion Act, and other programs with the Manpower Act program; (4) extend experimental efforts to aid geographic mobility through relocation assistance for unemployed workers; (5) expand job development projects which seek to train workers and improve managerial skills in repair and personal service fields to fill latent demands of many consumers; and (6) provide funds for additional research into manpower training problems and techniques.

A program of manpower training combined with programs of general education, vocational education, apprenticeship for the skilled crafts, on-the-job training to upgrade and update the skills of the employed work force are all needed to assure that manpower skills are adequate in quantity and quality to meet the increased and changing composition of demand for them.

Special programs are also needed to adequately train our young people entering the work force. Teenage unemployment rates are three times as high as those of adults. With the flow of teenagers into the work force rapidly increasing as the large post-World War II baby crop matures to working age, broadened efforts are necessary to aid those young people who have serious competitive disadvantages in the job market. To meet this problem high priority has been placed on a variety of programs including Job Corps programs, Neighborhood Youth Corps projects, Manpower Training Act programs, work study projects, and the establishment of Youth Opportunity Centers. Each of these undertakings has a specific goal and is intended to solve specific problems of our young people.

The work study project has for its goal helping those young people seeking higher education but without the economic means of attaining it. Part-time employment is currently provided for 43,000 participants in 619 institutions enabling these young citizens to receive higher education. The Neighborhood Youth Corps projects are an attempt to employ young people between the ages of 16 and 21 through facilities in or near disadvantaged neighborhoods and give them work experience and training opportunities which will help them continue or resume their education and increase their employability. To date, Neighborhood Youth Corps projects have been approved in 39 States providing work for 76,000 young people. The goal by the end of fiscal 1965 is 150,000 to 200,000 enrollees in such projects, and the administration has requested additional funds for fiscal 1966 for this number to be increased to nearly 300,000. In this regard it should be pointed out that the Federal Government pays up to 90 percent of the cost of approved Neighborhood Youth Corps projects for a period of 2 years, and 50 percent of the cost after the first 2 years.

Youth Opportunity Centers will make available to young people between the ages of 16 and 21 counseling, testing, information, and referral to various training opportunities and placement services they

would otherwise not receive. The Manpower Training Act's provisions for youth training concentrate on providing specialized skills to place young people in jobs best fitted for them. Finally, the Job Corps programs provide training and employment for young people away from home at designated Job Training Centers. To date, 86 centers in 35 States have been approved and over 140,000 applications have been received from interested youths.

Finally, we want to emphasize that training for the unemployed and retraining of the employed are sound economic as well as social investments. Valuable now as a means of aiding better matching of jobs and workers, it promises even greater economic value as we move to lower unemployment levels. It is a prime means of assuring that rising demand will be accompanied by moving all trained workers into jobs rather than by inflationary pressures from shortages of qualified manpower.

REGIONAL RECOVERY AND DEVELOPMENT PROGRAMS

The 89th Congress should enact a regional recovery program which provides authority and funds to (a) create an Office of Regional Recovery and Development under the Executive Office of the President, (b) enable regions to draw up recovery plans, (c) extend the Area Redevelopment Act, and (d) expand public facilities and community services.

Although economic expansion benefits most of the Nation by providing more incomes and jobs, it passes by some regions of the country. Moreover, the technological changes accompanying growth have overtaken cities, communities, and even whole regions. Appalachia, for example, has been overwhelmed by a variety of man-made disasters, many of which are of greater moment than storm, flood, or earthquake.

Cities and regions whose prosperity is dependent upon a natural resource, a pattern of transportation, or an industry will decline as the resource is depleted or made obsolescent by technology, as progress destroys earlier locational advantages, or as shifts in taste lead to the decline of the basic industry. Other areas are bypassed by growth. Their resources, both natural and human, have not attracted the investment needed to keep them viable communities. Once depression sets in, once an area is bypassed, its chances of recovery diminish with every passing minute. By diminishing the tax base, depression leads to the decline of community facilities such as roads, sewers, and transportation, and also to the decline of community services such as education and worker training. Soon the inertia of poverty sets in.

Programs are needed at all levels of government to prevent additional regions from becoming depressed areas, and to help presently depressed regions recover and develop. When the entire Nation is suffering from economic recession or stagnation, general recovery must come first. Now that the national economy is moving ahead, regional recovery should be given increased emphasis and programs inaugurated in the early 1960's should be broadened.

A regional recovery program should be enacted in the near future. The program should create an Office of Regional Recovery and Development under the Executive Office of the President to coordinate the existing regional recovery projects and to administer the new program.

Funds should be provided to enable regions to draw up recovery plans similar to the Appalachia program which can be submitted to the Congress for appropriate action.

The Area Redevelopment Act should be extended but the aid provided through ARA should be concentrated in fewer areas, and emphasis should be placed on Government-insured bank loans as well as on direct Government loans. Designation of too many areas reduces the possibility of providing aid sufficient to break out of the circle of poverty in any one area. Aid should be concentrated, but the regions themselves should be large enough to include a resource base to support the full range of community services and public facilities. Insured bank loans rather than direct Government loans should enable many more projects to be approved without an increase in Government cost. To help those areas where local banks are overloaded with commercial paper, the Government should consider creation of a sales outlet similar to the Fannie Mae (Federal National Mortgage Association) system for mortgage paper. Finally, the program should place emphasis upon public facilities such as highways, sewers, and public power which directly affect the ability of an area to attract industry and commerce.

We view with some alarm the increasing tendency of local governments to make use of tax exempt bonds to provide productive facilities for business firms at less than market cost. This makes it possible for a firm in one community, in effect, to use public funds to engage in business in competition with firms in other areas which must try to earn a market rate of return on privately supplied capital. This is the case of government altering business decisions by offering tax-free subsidies to particular firms at the expense of their competitors. Admittedly, a distinction between the use of such bonds for the provision of what is clearly public service and their use for industrial development purposes is difficult at times, but this matter is of sufficient importance that we would recommend that the appropriate legislative committees study this whole problem to determine whether or not change in public policy in this area is needed.

PROBLEMS OF URBANIZATION

If urban areas are to be good communities to live in and to work in, then public authorities must develop integrated systems of land use, transportation, water supply, sanitation, and pollution control. The Federal Government should provide funds, technical assistance, and coordination to enable local urban communities to work out integrated systems providing needed public facilities and social services using existing and expanded Federal, State, and local programs.

In 1900, America was a rural nation. In 1965, America is an urban nation. More than 70 percent of our population lives in metropolitan communities and it is estimated that by the year 2000 four out of every five Americans will live in urban areas. Not only do we have an urban population, but we have a concentrated urban population with one-third of our people living in 24 metropolitan areas. The growth of urban areas is illustrated by the fact that 25 million

people have moved to these areas since 1945—or 1 million people per year. Although the population has shifted to the cities, the central-city population has been shifting to the suburbs. As the President has said:

Numbers alone do not make this an urban nation. Finance and culture, commerce, and government make their home in the city and draw their vitality from it. Within the borders of our urban centers can be found the most impressive achievements of man's skill and the highest expressions of man's spirit, as well as the worst examples of degradation and cruelty and misery to be found in modern America.

Urbanization has created many problems for the migrants and for the affected areas: for the rural areas, adjustment to declines in population and employment; for the central cities, adjustment to the change of population structure and economic base; and for the suburbs, adjustment to rapid growth.

Existing urban educational institutions, social organizations, transportation systems and housing structures have been unable to absorb smoothly the rapid influx of the poor, uneducated, and unskilled among the rural migrants, nor have they been able to adjust to the peculiar problems of foreign immigrants. These migrants, lacking the skills, education, and knowledge to handle the complexities of city life, have found it difficult to adjust to their new metropolitan environments.

The economic base of the central city, at a time when it should be expanding to employ the rural and foreign migrants, has been stagnant or declining. Manufacturing industries have moved to the suburbs to obtain physical space for expansion. Transportation systems have so changed that it no longer is necessary for a manufacturing concern to be located at its principal market or near a rail or dock facility. By 1960, half of the jobs in manufacturing in metropolitan areas were outside the central cities. Retail and wholesale businesses have moved to the suburbs as the population has moved. In short, the migrants have moved to the central city seeking jobs and higher incomes than the rural areas provided, but have found declining economic activity and high rates of unemployment.

The decline of the economic base and the flight of the upper and middle class population has blighted the central city. Housing structures, once attractive, have decayed either because their new occupants are incapable of maintaining them, or because landlords find it profitable to exploit slum creation. Older manufacturing structures have not been replaced by new ones because the companies have moved to the suburbs. As the middle and upper income groups, industrial plants and retail outlets have fled to the suburbs, central cities have been left with a disproportionately large share of the poor. Thus crime rates have risen rapidly, juvenile delinquency, alcoholism, and drug addiction are commonplace in many of our central cities.

The Federal Government has been developing programs of assistance to the urban areas for the past 30 years. Its most notable programs have been in the field of housing construction and development. Increased assistance is needed to meet other physical problems such as transportation between the suburbs and the city, waste treatment, and the like. The human problems of the city are, for

the most part, problems of poverty and are discussed in that section of this report.

This committee believes that one of the most important Federal programs for urban areas is a program providing funds and technical assistance for areawide metropolitan planning. We strongly support the President's recommendation that an Institute of Urban Development be established to provide a center for the needed technical assistance and training for local officials. Urban areas must develop integrated systems of land use, transportation, water supply, sanitation and pollution control. We do not believe that the Federal Government should provide all of these needed public programs. We do believe, however, that the Federal Government should provide funds and cooperate with local communities to work out integrated projects providing public facilities and social services using existing Federal, State, and local programs.

THE STAGNATION OF RURAL LIFE

Stagnation and decline in rural employment opportunities have been the prime influence toward migration to urban areas. Many people have left rural areas not because they wanted to, but because they had to. This committee believes that our agricultural programs should concentrate on two specific goals: (1) the raising of farm income, and (2) the development of other industries besides farming in rural areas.

Rural areas have for the most part been one-industry areas. The industry of farming is the primary employer of our rural population but the industrial revolution in agriculture in recent decades has raised gross output per man-hour on the farm to nearly four times what it was in 1940. Farming has been transformed from a way of life into a business; farms have grown larger and declined in number. This phenomenal growth in farm productivity has resounded to the benefit of almost everyone but the farmer. For example, in 1947, Americans were spending more than 25 cents for food out of every dollar spent, whereas in 1964 they spent approximately 20 cents. This compares with 30 cents out of every dollar paid by Europeans for food, the 45-50 cents paid by Russians, and the 60 cents paid by many citizens of the underdeveloped countries of the world.

Increased farm production and technology have not only benefited the American consumer, but also many areas of the world in which people are living on near starvation diets. Our food-for-peace program which is directly attributable to technological advancements in American agriculture has done much, and is continuing to do much, to lift some of these people out of hunger.

The success of American agriculture has helped everyone but the farmer. Between 1947 and 1964, total personal income of the non-farm population more than doubled, while the personal income of farmers from all sources declined about 5 percent—from farm sources alone by over 20 percent.

The decline in domestic farm income has forced many farmers to abandon their farms and migrate to urban areas. Total farm population has declined from 25.9 million in 1947 to 12.9 million in 1964. During this same period of time, almost 1 million farmers per year

migrated to urban areas. Finally, the total number of farms has declined to 3.5 million in 1964 from 6 million in 1947.

As farms have closed and farmers migrated, rural areas have become depressed areas. As the population moved out, the tax base of rural areas has declined. Those who remain receive less social benefits, inadequate education, and are deprived of other necessary community services. Moreover, since less than 1 out of every 10 of the young people now on farms can expect to become farmers, many of the most intelligent and capable young people are leaving the rural areas.

Our farm programs should have as their primary objective the raising of farm incomes. They should emphasize research aimed at the discovery of new industrial uses for farm products, emphasize export expansion, and continue to provide food to many of the less developed countries of the world. The farmers and the farm sector should be given opportunity to develop stronger bargaining power so that they can deal more effectively in an economy where strong industrial and labor bargaining power is already established. Moreover, measures are needed to help the roughly 1 million farm families who lack the physical or financial resources to make an adequate living from farming alone and the millions of other nonfarm rural residents who need new job opportunities. As opportunities for employment in farming decline, other industries, particularly service industries closely related to rural life, must be encouraged by Federal assistance, and those living in the rural areas must be trained for the skills required by these new industries.

HOUSING AND COMMUNITY DEVELOPMENT

The President's request for more effective programs of housing and community development demands strong support on both economic and social grounds. Concern for the quality of living is empty rhetoric unless backed by such practical programs as better housing and better community facilities and services.

It is an essential obligation of the Federal Government to provide leadership and assistance to State and local governments to help them meet their needs for housing and community development. As the President said: "Much of our hopes for American progress will depend on the effectiveness with which these programs are carried forward."

The Joint Economic Committee strongly supports the general tenor and content of the President's program indicated in his message on March 2. We are particularly pleased with the emphasis on financial assistance to make certain private housing available to lower income families, particularly the elderly, handicapped, and displaced, or occupants of substandard housing. We are also pleased to note the emphasis on areawide metropolitan planning and the President's recommendation for the establishment of an Institute of Urban Development to help in the training of local officials in the wide range of administrative and program skills needed. This is in line with a previous recommendation of this committee.

We are also pleased with the emphasis in the message on making resources available in the years ahead for meeting the demand for housing of those low- and moderate-income groups who are now forced to reside in substandard housing, or who are being displaced by urban

reconstruction programs. The emphasis on housing development wherever possible through rehabilitation of existing structures, rather than new construction, is a welcome modification. There has been too great a tendency to resort to the bulldozer where the appropriate tools are hammer, saw, and paintbrush. In this connection, there should also be increasing emphasis at the local level on enforcement of building, sanitary, and zoning codes. In these ways rehabilitation can be stimulated and dislocation minimized so that the blighted areas of our central cities can be restored as decent places to live. Legislative programs providing financial assistance to purchasers of moderate income housing and for public housing must be continued and modified to meet expanding needs.

We believe that as these programs are implemented the economy will be invigorated, providing employment and, at the same time, meeting the housing and public facilities needs of an increasingly urban population.

SUPPLEMENTARY VIEWS OF CHAIRMAN PATMAN

The Joint Economic Committee has just completed intensive hearings on the Economic Report of the President, and members of the committee have devoted many hours of careful analysis to the crucial questions involved in achieving full employment in our economy. Prior to that, the President and his advisers spent many hard hours working on the content of the report, which is indeed an excellent one. Yet all this work can come to nothing because of a grave weakness in the existing system: the fact that neither the President nor the Congress controls the vast monetary powers of the Nation. The purposes of the Full Employment Act cannot be carried out unless the Government has the power to control and coordinate all of its economic activities, including the all important monetary powers which involve control of the money supply, the extent of the credit available, and the interest rates charged to borrowers—the very economic air that we breathe.

The policies of the U.S. Government for full employment, international stability, equitable taxation, and domestic prosperity can never be sound or dependable while the most important part of the Nation's economic powers is in the hands of a private group which exists as a separate government. We have two governments in the District of Columbia. One consists of the Congress and the President—the elected representatives of the people. The other is the Federal Reserve, operating as a self-appointed money trust, far removed from the will of the people.

This shocking state of affairs has been brought home bluntly to the American public by the assertion of the Federal Reserve that it is independent of the executive branch and that it can operate contrary to the President's wishes. It is an open and defiant proclamation that the Nation's gold and money printing press have been seized by a private group and are now being used by them in utter disregard of the principles of democratic government.

The Constitution clearly vests the monetary power in Congress, and with good reason. History has repeatedly demonstrated that possession of the monetary power gives its holder a life and death power over a society. But in spite of our Constitution, Chairman Martin left no doubt as to his views when he told this committee, on February 26, that "the Federal Reserve Board has the authority to act independently of the President," even "despite the President."

Federal Reserve System is banker dominated

What makes these claims even more appalling is the fact that our Federal Reserve System, as it functions at the present time, is a banker-dominated, banker-oriented autocracy. The fact of the matter is that there has been a struggle over control of the Federal Reserve System for 50 years, ever since it was founded. It is a struggle that the bankers have been winning, and it is clear now from Mr. Martin's statement that they have come out in the open defiantly. Savings

and loan associations, cooperatives, credit unions, and other financial institutions not within the privileged banking circle should take notice that this usurpation of monetary authority places them in jeopardy.

The key to an understanding of the Federal Reserve System is the method of selecting directors. Each of the 12 Federal Reserve banks has 9 directors. Three of them are called class A, three are called class B, and three, class C. The class A and class B directors are elected by member banks. Class A directors are chosen from officers of banks in the area. The class B directors are chosen from the fields of commerce, industry, or agriculture, and may be stockholders in banks. The class C directors are appointed by the Board of Governors, and they must not be officers, directors, employees, or stockholders of any bank.

It should be noted that the member banks, each of which holds "stock" in the System, do not vote according to their stockholdings. Rather, each exercises one vote. Obviously, the word "stock," is a misnomer.

The presidents of the 12 Federal Reserve banks are elected by the 9 directors of the bank. Significantly, no oath of office is taken by these presidents or by the directors of these banks.

Polls and studies have shown heavy preponderance of banking background among directors. Early in 1964 the House Banking and Currency Committee, in connection with a comprehensive review of the Federal Reserve System, sent to all B and C directors of the Federal Reserve System a questionnaire regarding bank affiliation and bank stock ownership. Since class A directors are chosen from officers of banks themselves they would be expected to have banking connections. But the study showed that of the 36 class B directors in the System, all of whom responded, 17 had been directors of banks before becoming Federal Reserve directors, and an additional 4 had held other positions or offices in banks. Of this total of 21, there were only 3 who did not own some bank stock. Of the remaining 15 who had never been directors or officers of commercial banks, 9 owned bank stock. Thus, out of 36 Federal Reserve directors, 30 had some connection with banking.

Of the 36 class C directors, all of whom responded, 18 had formerly been bank directors and an additional 2 had held other bank positions. Of this group of 20, there were only 3 who had never owned bank stock. Out of the remaining 16 who had never been directors or officers, 5 had owned bank stock at one time.

Thus, out of the total of 108 directors in the 12 banks, 91 are, or have been, connected with the private banking industry, which they are supposed to regulate.

Open Market Committee exercises tremendous power

The fundamental monetary powers of the Nation are exercised by the Open Market Committee which is made up, on the record, of five Federal Reserve bank presidents and the seven members of the Board. In practice, however, all 12 presidents participate in the deliberations which, of course, are conducted in secret every 3 weeks. Thus, the basic power for good or ill in our economy is exercised by a group closely identified with the banking community and operating willfully and knowingly outside the pale of Government. This extralegal power is so great that the banker-controlled group can create prosperity, or, by

turning the financial screws, can create recession, depression, or even panic. That this power can be abused to the advantage of a particular political party or candidate is too obvious to need elaboration.

The \$36.8 billion portfolio of the Federal Reserve System is a fund that could be considered a recession fund, or a depression fund, and if its masters so choose, a panic fund. There is nothing to prevent them, in an election year, from letting a candidate President know that if he didn't manage to see eye to eye with them for the next 4 years his November election might be endangered.

Present situation is a distortion of congressional intent

Contrary to notions spread around by spokesmen for the banking interests, this shocking state of affairs was never sanctioned by the Congress. It was deliberately engineered by the banking interests, aided, I regret to say, by the inactivity of the Congress which failed to take action as, step by step, the people's control of their own monetary powers was whittled away.

The Federal Reserve Act, as passed in 1913, was never intended to set up anything like the system that exists today. What the act did was establish 12 regional banks, each with autonomy in its own region and designed to operate more or less automatically to provide a flexible supply of money and credit under general supervision of a Presidentially appointed Board. There was no central bank; President Wilson was opposed to the whole concept of a central bank. He also laid heavy stress on public control. When the act was under consideration in 1913, President Wilson said:

The control of the system of banking and of issue which our new laws are to set up must be public, not private. * * * It must be vested in the Government itself so that the banks may be the instruments, not the masters, of business and of individual initiative and enterprise.

This is the crux of the matter. There is no reasonable basis in public policy for permitting bankers to run the central bank. Indeed, Wilson, when approached by bankers who desired to assure themselves of control of the Federal Reserve System when it was in the stage of formulation asked them, "Which one of you gentlemen would condone putting railroad presidents on the Interstate Commerce Commission?"

The leaders of the banking community did not win their points with Woodrow Wilson, but they achieved certain compromises in the final legislation, one of them being the provision under which a majority of six out of the nine directors of each regional Federal Reserve bank are chosen absolutely by the banking community. It is this provision, more than any other, that has been the Achilles' heel in the Federal Reserve System, permitting the bankers to dominate and centralize a system which was meant to be made up of 12 autonomous regional banks.

President Wilson opposed centralization of Fed

It is important to note that, at the time of the Federal Reserve legislation, in 1913, the basic issue was whether or not the Federal Reserve would be a central bank or a system made up of 12 independent regional banks. The Aldrich Commission had proposed a system of branch Reserve banks operating under the control of a central

Board of Directors. Under this system, the branch banks would have carried out mechanical operations without any control over policy. The Aldrich plan was a big bankers' dream and it was opposed strenuously by President Wilson. Thanks to his vigorous efforts and those of the many other patriotic legislators mindful of the public interest, the Aldrich plan was rejected in favor of a system of semiautonomous regional banks which had the power to buy and sell bonds and notes of the United States and of States and counties, to purchase and sell bills of exchange, and to establish discount rates. The Board, which was appointed by the President, had certain supervisory powers, such as the right of review over discount rates. The power to conduct open market operations, which is, of course, the basic power to control the money supply, was not recognized at the time, and it was believed that the power to establish rates of discount was the essential one in the system. It was this feature that was meant to provide a flexible money and credit system.

Under the Aldrich plan, the Central Board of Directors, which would run the System, would have been made up of eight people chosen from the System and the Comptroller of the Currency. Clearly, it would have given control of the System's policies to private banks through the power to buy and sell securities in the open market.

In contrast to the Aldrich plan, the 1913 Federal Reserve Act gave power to a Board of Governors that was entirely appointed by the President, and it also provided that one-third of the directors of the 12 regional banks be appointed by the Federal Reserve Board. There is no question that these Government-selected directors were expected to serve as watchdogs to insure against private banks' abuse of power at the local level of the System. Unfortunately, the legislation as enacted did provide that two-thirds of the directors be chosen by the banks and this proved to be the open door through which the big bankers managed to gain control.

Dominant banking interests move away from public control

One of the first steps away from public control was a palace revolution in 1922 which resulted in the formation of an *ad hoc* committee of the Presidents of five eastern district Reserve banks to coordinate open market operations. Somehow, they managed to obtain permission from the other banks to conduct the open market function. In 1923 this "Committee of Governors" which, of course, was completely outside the law, was acquiesced in by the Board, which called it the "Open Market Investment Committee."

As soon as the Committee was formed it started on a policy of tightening money and raising interest rates. This was the point at which the dominant elements in the banking community began to reshape the System to their own ends. It was then that they converted the System to a central bank, in direct disobedience of the law.

In the manipulation of open market operations these men recognized the tremendous power that could be exercised in controlling the money supply and interest rates. The open market function consists of buying and selling Government bonds by the Federal Reserve System. In this way it controls the bank reserves and, ultimately, the supply of money and credit in the country. When it sells bonds, bank reserves shrink, and when it buys bonds, they increase. The portfolio

of Government bonds has built up through the years to the present level of \$36.8 billion. These interest-bearing bonds were acquired by the Open Market Committee in exchange for Federal Reserve notes which are non-interest-bearing obligations of the Nation. Yet, instead of canceling these bonds and the interest on these bonds when they are repurchased, the Fed holds them and collects the interest. To me, this has always been like collecting interest on a mortgage that is completely paid for and canceled.

One other important step in the Fed's history was the provision in the McFadden Act of 1927 removing the 20-year limitation on the System so that it now has a perpetual charter. This was the bankers' vote of confidence. By then, they were assured of enough control for them to approve permanent existence for the Federal Reserve System. The two previous central banks had both expired after limited lives. The first lasted from 1791 to 1811, when Congress let its charter lapse after its 20-year life. In 1816, Congress enacted another charter creating the second Bank of the United States and this, too, was permitted to lapse after a 20-year life.

Change in Open Market Committee

In 1930, the membership of the Open Market Committee was informally expanded to include representatives from all 12 Reserve banks, and in the 1933 legislation this was put into law, thus giving legal sanction to this complete domination of the fundamental money powers by the private banking interests. Significantly, this legislation was reported by the House Banking and Currency Committee without any hearings and it slipped through the House without a record vote after an intensive campaign led by the American Bankers Association. In the words of Representative Lemke, of North Dakota, "A bill of this kind could never have been born in the bright sunlight of day. It had to be born in executive session."

Legislation of 1933 a banker's victory

The 1933 legislation also contained provisions extending the terms of the six appointed Governors to 12 years and placing them on a staggered basis. The legislation was clearly and bluntly contrived to put the Federal Reserve Board beyond the reach of the President and the administration, and it served its purpose. It was a great victory for the bankers.

But, this time, they had gone too far and there was a reaction. In the aftermath of President Roosevelt's overwhelming victory, he determined upon the work-relief program to ease the ravages of the depression. Recognizing that the Federal Reserve System would have a key role in determining the reception to be accorded the necessary borrowing by the banking system, he was fearful that the Reserve banks might exercise their power to block his program by failing to take appropriate action in the open market. In particular, he was afraid that they would offset the stimulative effects of large-scale Government spending. This situation is documented by Marriner Eccles, who served for many years as Chairman of the Federal Reserve Board.

The 1935 reform bill

In 1935, President Roosevelt submitted a reform bill. The original bill, as proposed by the administration and passed by the House in 1935,

would have kept a Board with six appointed members and with the Secretary of the Treasury and the Comptroller of the Currency serving as ex officio members. However, both of these officials were knocked off the Board in the Senate. In the final bill, appointments to membership were scheduled over periods of from 2 to 14 years so that not more than one would expire in any 2-year period. The 14-year term has remained in the law to the present time. Furthermore, the Chairman has to be selected from the members of the Board. When Chairman Martin's term expired during the administration of President Kennedy, the President found his hands tied so far as any freedom of choice was concerned. He was limited to the seven members of the existing Board.

A President who serves two full terms will not have the opportunity to appoint more than two members in his first 4 years in office. The third would come in the first half of his second term. Of course, under a recent amendment to the Constitution, no President can serve longer than two terms.

President is helpless to choose a Board

It is interesting to look at the specific situation at the present time as it affects President Johnson. Of the present seven members of the Board the first expiration date is that of Mr. C. Canby Balderston, whose term expires January 31, 1966. The second is Mr. Charles N. Shepardson, whose term expires January 31, 1968. Thereafter, the expiration dates extend on up through 1978 as follows: Mr. William McC. Martin, Jr., January 31, 1970; Mr. A. L. Mills, Jr., January 31, 1972; Mr. Dewey Daane, January 31, 1974; Mr. George W. Mitchell, January 31, 1976; and Mr. J. L. Robertson, January 31, 1978.

It is evident that this schedule of terms precludes the President from ever appointing a Board of his own choosing. He has two reappointments in his first term and, assuming a second term, he would have one reappointment at the beginning of a second term while the fourth would not come up until his last year of office.

Control of the Open Market Committee—the 1935 compromise

A most important feature of the original 1935 House bill was a drastic revision of the Open Market Committee which, because of its vast control of the money system, is the most powerful group in the world. The House bill would have placed this important function in the Federal Reserve Board and relegated the Committee of bank presidents to an advisory role. This House bill passed, 262 to 110, on a vote of record. However the Senate subsequently considered and passed a bill that was much more friendly to the bankers' position, and this substitute measure passed both House and Senate without a record vote. Its provisions, which remain in effect to this day, provided for an Open Market Committee made up of the Board of Governors and five bank presidents, and it sanctioned the 1933 removal of the Secretary of the Treasury and the Comptroller of the Currency from the Federal Reserve Board, thus eliminating the possibility of any day-to-day administration influence on the Board.

New York bank runs the show

Since enactment of the 1935 legislation, there have been other developments which strengthen control of the System by the banking com-

munity. For one thing, the president of the New York bank was made a permanent member of the Open Market Committee in 1942, effective March 1, 1943. Second, the operations increasingly have become centered in the New York bank which now conducts the open market operation in its entirety. The 11 other banks conduct no open market activities; they are mere service centers for check clearing and similar functions. They do not even know their condition until the New York bank sends them a telegram to advise them. It is the New York bank which assigns the other 11 banks their share of the portfolio of Government bonds held by the Committee. These bonds, of course, are the basis for the earnings of the various banks. Detailed questioning of the bank presidents during the 1964 hearings held by the Banking and Currency Committee revealed that most of the bank presidents don't even know how the allocation of the portfolio or its income is determined. That is all handled in New York and the other 11 banks are merely passive recipients.

This is particularly revealing inasmuch as the original Federal Reserve Act never mentioned New York. As a matter of fact, it contemplated taking the money market out of New York and decentralizing it to the 12 regional banks, with the sole overall coordination to come from Washington.

These developments in the history of the Federal Reserve, all of which were made possible by the inaction or indifference of the Congress, put the Federal Reserve System well beyond the reach of the people and their elected Representatives. It had become an autocracy and it has so remained.

This was accomplished through a number of steps which may have looked small or harmless at the time. But each formed part of a pattern that added up to control of the central bank by the private commercial banks.

Existing situation intolerable and dangerous

The existing situation is intolerable in our society which, as Madison said, is a "democracy in a republic." The welfare of the Nation is at the mercy of a group who not only are beyond popular control but openly admit it, and assert that the people, through their elected Representatives, cannot be trusted to exercise their own monetary powers—in spite of the Constitution which vests the money powers in the Congress.

Inevitably, the Federal Reserve System reflects the bias of those who dominate it. Interest rates are the bankers' income; and the higher they are, the more the lender receives. Bankers live on debt. If there is no debt, there is no money and no interest. Bankers want only high-grade, low-risk debt paper, especially Government bonds. In fact, the one thing they do not want is for the Government to pay off the public debt.

Prof. John Kenneth Galbraith, testifying before the committee on February 24, stated that "it is hard to recall any occasion when the Federal Reserve was known to be agitating for lower interest."

"* * * We have come to envisage the Open Market Committee," he said, "as a group of men of excellent character and reassuring demeanor who meet to consider whether there is good reason for tighter money."

Professor Emeritus Seymour Harris, testifying on the same day, stated as follows:

Financial groups seem to believe that the higher the price of their product, the more profits.

They exercised excessive influence in the 1950's when long-term rates rose by two-thirds. But, in my opinion, they will do better with lower rates. Their attitude toward restrictive monetary policy since 1961 only strengthens the case for the exclusion of the Federal Reserve bank presidents from the Open Market Committee, as Congressman Patman so effectively argues.

Lid taken off interest rates in 1953

It is instructive to compare the history of monetary rates in the period 1940-52, with the period of the Republican regime, 1953-60. In the first period—which included the recovery from a terrible depression, the most destructive war in history, a global reconstruction period, and the Korean hostilities—our Government was able to finance itself adequately and without the rate on long-term Government bonds ever going above 2½ percent. In fact, during these 12 years, no bond ever sold below par. By contrast, when the Republican regime came into power in 1953, the brakes were taken off and the Fed showed its true colors. Interest rates began to rise early in 1953. The yield on long-term Government bonds was 2.68 percent in 1952. By June 1953, it was 3.13 percent. The result was a recession that began in the middle of 1953 and, because the economy faltered and expansion slowed, interest rates finally dropped for cyclical reasons. Undaunted, however, the Federal Reserve began to push up rates again and, by June of 1957, the long-term yield averaged 3.58 percent. By October, it was 3.73 percent and another recession started. And all economic activity fell off, with the result that interest rates fell again for cyclical reasons.

In spite of these two bitter lessons, involving vast damage to the economy and heavy unemployment, the same conduct was repeated in the recovery period after the 1957 recession. This time, the Fed actually decreased the money supply and forced interest rates up to 4.37 percent by January 1960. The result, again, was a recession which lasted until the Democrats came back into power. From that time on, the Fed, tempering itself to the prevailing winds, has maintained a more adequate money supply—sufficient, at least, to permit the prolonged recovery we have had since then. But they are always ready to seize the slightest pretext to raise rates.

Congress must be vigilant

Congress must exercise the greatest vigilance against such attempts. Tragically, it has been the failure of Congress to exercise its responsibilities in the field of money that has permitted this deplorable situation of banker control to develop. Congress has not been alert to what has been happening.

A more detailed history of interest rates on long-term Federal obligations can be obtained from a publication of the House Banking and Currency Committee, entitled, "A Primer on Money," which is available at the Government Printing Office for 40 cents. This shows the actual rates monthly for each year, from 1919 to 1964.

Dangerous level of interest rates

Interest rates are at a dangerous level. The long-term rate on new issues is well over 4 percent and, as indicated in the report, there is a campaign underway to lift the present statutory ceiling of 4¼ percent on long-term Government bonds and force up the whole level of interest rates. It is well to remember that in 1958, when the Fed was in the middle of its last big money-tightening campaign, there was a determined move to lift the 4¼-percent ceiling. This move was forestalled only by prompt action on the part of a number of us in the Congress who formed a steering committee to resist the attempt.

The 4¼-percent rate was established in the Second Liberty Loan Act, which was passed in September 1917. Under its provisions, the Secretary of the Treasury, with the approval of the President, has the power to set the interest rates on long-term obligations of the United States within a ceiling of 4¼ percent. Thus, this ceiling has been in effect for almost 50 years, through the vast changes in that period ranging from deep depression to global war. And never in that time has the 4¼-percent ceiling been breached. But it is in jeopardy now, and it is obvious that the high-interest campaign has the enthusiastic support of Chairman Martin who, in his testimony before the committee, came out flatly for removal of the ceiling.

No congressional control

Federal Reserve officials frequently resort to the argument that they are in the last analysis answerable to the Congress. But this is misleading.

In the first place, the normal congressional control is through the power of the purse, through appropriating funds for the operation of Government agencies, and through its postaudit function, conducted by the General Accounting Office. The Fed, however, is not subject to either. It has never undergone an outside audit and it derives far more income than it needs through income earnings on the open market portfolio, earnings that exceed \$1 billion a year. The Federal Reserve System uses as much of these funds as it wishes, allocating some to surplus and paying the balance over to the Treasury.

In the second place, the Congress is not in a position to exercise the day-to-day supervision of important public agencies that the executive department is. The President is entrusted with this executive power under our Constitution. If the Federal Reserve errs in its monetary policy, the only sanction Congress has is to abolish the System, or revise it drastically. Obviously, this is a drastic control measure which cannot realistically be used. Moreover, the powerful bankers' lobby is always vigilant to protect the System's "independence" against any congressional scrutiny or direction. Such activities are invariably castigated by them as "political interference." As a result, the Federal Reserve System can be equally as resistant to the Congress as it is to the President.

Federal Reserve actions must be coordinated with other national policies

In the United States of today, the achievement of maximum employment is a specific national goal, and both the President and the Congress have a solemn responsibility under the Employment Act to

pursue it. The Employment Act of 1946, which I took the lead in formulating and getting through the House, did not say that all agencies *except* the Federal Reserve should contribute to the promotion of maximum employment, production and purchasing power. Clearly, the Fed's responsibility is to the Nation and its policy affects the whole Nation in a most fundamental way and should therefore be completely accountable to the whole Nation. Yet, in fact, the Fed has gone its own way and has never coordinated its activities with other Government programs, despite the fact that section 2 of the Employment Act of 1946 declares it to be the—

* * * responsibility of the Federal Government * * * to coordinate and utilize all its plans, functions, and resources * * * to promote maximum employment, production and purchasing power.

The President and the Congress must be able to require that the Fed refrain from jeopardizing economic policies which the Congress and the President, as the elected officials of the people, have established as necessary. When the President submits his economic program to the Congress under the requirements of the Employment Act, he has to include recommendations on monetary policy. These run to the very heart of our economic welfare. The President is the one person and the only one who can coordinate the whole national program. It is ridiculous to give the President the burden of responsibility for diplomacy and war, for national security, for our nuclear arsenal, the national budget, selective service, and debt management—and yet at the same time permit the Federal Reserve to assert that the Chief Executive cannot be trusted with authority over monetary policy. The same principle applies to the Congress, which has the vast responsibility of enacting the laws to establish our Army and Navy, draft young men, levy taxes, and pass hundreds of other laws that affect the lives of every citizen.

Such a state of affairs is intolerable in the world of today. Yet the Federal Reserve System continues to be organized as though its responsibilities and accountabilities were to the banking community. And the bankers continue to spread the doctrine that it is all right for the Government—the Congress and the President—to exercise all these tremendous powers, but not for the Government to control the money supply. That, they would have us believe, must be left to the mercies of the bankers.

Welfare of citizens imperiled by banker domination of monetary system

Interest rates have a tremendous effect on the well-being of every citizen. Our total national debt, public and private, is \$1.3 trillion. A 1-percent interest rate on this amount is \$13 billion. This conveys some idea of the tremendous leverage that the prevailing level of interest can exert. It is not too much to say that an arbitrary increase in interest rates automatically sentences millions of workers to unemployment and businessmen to **bankruptcy**.

So long as our most important institution remains under banker domination and beyond the reach of executive and legislative control, our welfare is imperiled. In my view, the most important economic and governmental problem facing the Nation today is the need for

immediate rehabilitation of the Federal Reserve System, so that it is again subject to the will of the people, acting through their elected representatives. If the big bankers are able to have their way they will continue to encourage monetary policies that will produce larger and larger public debt and higher and higher interest rates. If they have their way, our national debt will be \$600 billion in 15 years, which, at a 6-percent rate of interest, will cost the taxpayers \$36 billion a year. This would mean that so much of Federal revenues would be required for debt carrying charges that insufficient funds, if any at all, would be available for veterans' programs, social welfare, housing, community health, and the many other services needed by our people.

SUPPLEMENTARY VIEWS OF SENATOR PROXMIRE

With much of the majority report I find myself in happy agreement. This is particularly true of the discussion of monetary policies and the balance of payments.

I must, however, voice one strong protest.

The less than 1 year that has elapsed since the Revenue Act of 1964 became effective represents an insufficient period for appraising that measure as "an outstanding success," as the majority asserts.

The full fiscal effect will take years to measure. What happens to the price level and employment in 1966, and subsequently, will be a consequence of the Revenue Act of 1964 more important than what has happened to date.

The 1964 Revenue Act may have aggravated our acute balance-of-payments problem by: (1) Increasing the flow of corporate funds by almost the same dollar amount (\$1.25 billion) as the increase in corporate investments abroad (\$1.36 billion); and (2) by tending to keep American prices moving ahead.

And, of course, the tax cut did nothing for the four persons out of five over 65 years of age whose incomes are too low to require them to pay any Federal income tax. On the contrary, it tended to continue the edging up of their cost of living.

But most serious of all, the report's assumption that the fiscal case for the 1964 tax cut has now been established would seem to urge the Congress to a policy of deliberate, planned Federal deficits whenever unemployment is above 4 percent regardless of how well the economy is moving without such a stimulus.

The economy had been moving ahead well for many months when taxes were cut in 1964. Only God, not this committee, or even the Council of Economic Advisers, knows whether it would have continued apace without the cut.

And only future economic historians will be able to assess whether the economy's move in the remainder of the 1960's seemed to benefit or suffer from the 1964 tax cut.

If the philosophy espoused in this report takes hold we may kiss goodbye to balanced budgets in our lifetime and say a big hello to national debts of astounding proportions and to a steady and increasing inflation.

Once the Congress and the country have fully accepted this philosophy, fiscal restraint will be immensely difficult, maybe impossible.

What a political nirvana: Spend money, cut taxes, and do it in the name of responsible economic policy.

How can such a policy ever lose an election? And this is the reason why it is so dangerously tempting to a Congress all of whose Members are wholly reliant on elections.

This is not to make a dogmatic assertion that I can prove that the tax cut even in prosperous, expanding 1964 was wrong. It is simply to plead with the Congress and the American people not to leap to

the conclusion of this report that the case is proven and from now on the only responsible course is to slam our foot down on the fiscal accelerator, virtually all the time.

It is not to say that the brief, limited record of our economy since the tax cut went into effect does not represent an impressive argument for future tax cuts. It does.

It is to say that few, if any, economists from government, business, or academia seem interested in exploring the full implications of the tax cut which they now seem to feel is the sure, proven, economic elixir—the new economic miracle drug—that will guarantee employment for all, profits for almost all and, of course, elections for all incumbents who go along.

And as the old carnival barker would say: "Brother, you ain't seen nothing yet. Hold on to your hats, folks. You're about to be taken for the ride of your lives."

Consider this:

Within the past few weeks Republicans in Congress seem to have walked away from their traditional role as advocates of "fiscal soundness" and balanced budgets. They are now engaged in offering alternative spending plans to the administration's proposals that would cost far more: for medical care for the aged (without providing any pay-as-you-go financing basis); a school aid proposal destined to cost three times as much as the administration's proposal (\$5 billion compared to \$1.3 billion, according to the Wall Street Journal of March 9, 1965); and general resistance to such administration economy moves as the closing of veterans' hospitals and agricultural research stations.

But here's the main reason why the Federal spending boom is ticking toward explosion: almost all of the newly proposed education, housing, welfare programs will cost more and in some cases many times more a few years in the future.

Combine all this with the happy political medicine of regular, fat tax cuts. Result: expanding future deficits will be rushing on us and with virtually no political or economic opposition to temper them in view.

If this policy of more spending and less taxing, of greater deficits as long as unemployment is unsatisfactorily high—if this is to be our policy—then we need a far more careful analysis of the magic 4-percent unemployment figure.

If our Government is deliberately to plan deficits when unemployment exceeds this figure, we should be aware of just what that 4-percent unemployment represents. For example, suppose at 5-percent unemployment the rate of unemployment among married men is 2½ percent; suppose job vacancies because of labor shortage exceed or approach unemployment; suppose lack of skill, inadequate education, and regional economic changes account for most of the unemployment.

In such a case an even heavier reliance on education and training than the excellent program proposed by the Johnson administration would seem to be indicated. But stimulation of aggregate demand by a planned Federal deficit would be much more questionable.

Finally, if we are to commit this Nation to planned deficits for the foreseeable future we should take a far longer, harder, deeper look at the implications of a much more massive public debt than we have to date.

We are sailing on bright but unexplored seas in this post-World War II era. For the first time after any major war in American history, the price level has not dropped. Indeed, it has continued to rise, though modestly. After every other war, deflation has been swift. Usually prices have fallen a whopping 50 percent.

In terms of economic history, arresting a precipitous postwar deflation has been one of the great economic policy distinctions of this era. At the same time, are policies which after this past war have succeeded in preventing the usual postwar 50-percent drop in the price level likely to serve to maintain price stability in the future?

This is a question our committee has not even asked, let alone tried to answer.

We should do so.

SUPPLEMENTARY VIEWS OF SENATOR TALMADGE

The expression of these additional views in no way diminishes my support of the statement expressed by my majority colleagues. My purpose is only to emphasize and elaborate upon several points which I think are of the utmost importance and merit further consideration by the American people, their Congress, and the executive department.

The seriousness of the dollar deficit problem which confronts this country cannot be stated too often. We have been spending money overseas faster than it has been coming back to us—our expenditures breaking down into loans and investment, military commitments, foreign aid, and tourist travel in about that order of magnitude. This deficit has now continued for a period of about 15 years with the exception of 1957. The persistence of the deficit has, rightly or wrongly, led some foreign holders of dollar claims to wonder about the long-run international stability of the dollar, and they have indicated their doubts by calling upon us for gold in exchange for their dollar holdings.

The real problem which confronts the Congress and the country at the present time arises from the fact that since the conclusion of World War II we have acted pretty much as the banker for the world, as policeman for the world, and sometimes perhaps as a Santa Claus for the world. In so doing we have placed a heavier burden on the dollar than our efficiency in producing trade commodities and the returns on our foreign investments have been able to carry. The devaluation of the dollar would be calamitous internationally and domestically, and while there is no immediate prospect of this, we must lighten our burdens in some or all of the categories I have mentioned.

The Congress and the President have taken some steps, such as the interest equalization tax, the change in the gold cover, and asking for the voluntary cooperation of American businesses and bankers. All of these things are contributions in the right direction but we must be prepared to rethink such fundamental things as our place in the international political world which has now brought us into treaty alliances to aid in the protection of some 40-odd countries of the world, and has led us to station troops in some 30-odd nations. Our presence in Western Europe and our concern with their buffer position in the conflict with international communism should certainly be clear to the leaders in those countries without our continued support of five divisions in Western Europe in which we are getting little assistance in carrying the military obligation.

It is all well and good to say that large parts of the material costs of this establishment are being paid for in dollars and purchased in the United States, but it is high time that we call on our allies and the other free nations of the world to come in and carry their share of the burden and reduce some of our own burdens in that category. We are all in this together. They have a stake in the security of the world and,

though it may be easy for them to overlook, a tremendous stake in the stability of the dollar itself.

Intimately related to the balance-of-payments problem and our role in Western Europe is our domestic farm problem. We have, of course, been struggling with our domestic agricultural problem much longer than with our balance-of-payments deficit, but the rise of the Common Market in Western Europe and our need for maintaining agricultural exports markets only make the agricultural problem more acute and pressing.

Our present hodgepodge program of commodity price supports may be better than nothing, but it certainly has not cured our farm surpluses or provided the farmers with adequate incomes. It is, moreover, expensive to the taxpayers, restrictive and cumbersome for the farmer while making us less competitive in the world markets. We need to move away from acreage controls and shift to domestic allotments based on pounds, bushels, bales, and other such measures. This approach will not only mean more income to the farmer but free him from redtape and take the Federal Government out of the costly business of buying, transporting, storing, handling, and selling farm commodities.

If we are to save our family-farm system, keep our fair share of world trade, and make a start at saving the taxpayers' dollars, we are going to have to agree upon moving in the direction of direct payments as an incentive to curb production. We have done this in a modest way through compensatory payments in the voluntary wheat certificate program and in our feed grain diversion plan. A new approach of that kind offers the best hope of strengthening our position in world trade while making a frontal attack upon one of our most persistent and frustrating domestic problems—farm surpluses and an inadequate return to the farmer for his labor and on his investment.

MINORITY VIEWS

These minority views are not responsive to the Committee report. The extremely tight schedule prescribed for the committee by law provides insufficient time for the majority and minority to develop a report on areas of agreement and separate reports on areas in which our views diverge. Therefore, as in other recent years, the minority has developed independent views based upon the President's Economic Report, other messages, and this committee's hearings. The careful reader will be able to distinguish between the majority and minority opinions, both as to areas of agreement and disagreement.

SUMMARY OF RECOMMENDATIONS ¹

Fiscal and monetary policies: (a) Recommend that the Fiscal Policy Subcommittee of the Joint Economic Committee study methods of (1) strengthening automatic economic stabilizers, and (2) outlines of possible reductions in tax rates and changes in tax structure and also the effects of tax policy on (i) amount and direction of investment spending, (ii) price levels, (iii) small business expansion, and (iv) fiscal position of low-income families; (b) support additional and across-the-board tax cuts when budget balance is realized; (c) establish a Joint Committee on the Budget to improve the appropriations process and congressional control over expenditures of Federal funds; (d) set up bipartisan commission on Federal expenditure policy to examine the following areas: (1) establishment of spending priorities among Federal programs; (2) appraisal of Federal activities in order to identify those programs tending to retard economic growth; (3) improvement of Federal budgeting process; (4) examination of Government functions which could better be performed by private economy; (5) review of Federal responsibilities to determine which could be performed at State and local levels; (6) determination of proper level of user charges and other fees charged the public for special government services; (7) improvement of government operations to increase efficiency.

Balance of payments: (a) Recommend the administration attempt to create a better climate for domestic investment instead of using controls to reduce the capital outflow; (b) insure domestic cost and price stability; (c) expand exports; (d) review oversea military expenditures; (e) review foreign aid expenditures; (f) return to flexible monetary policy; (g) promote increased foreign investment in the United States.

International monetary reform: (a) Urge convocation of an international monetary conference to take action on the following points: (1) improved management of international credit; (2) devise new forms of international credit along with safeguards to insure that credits are used to give deficit countries time to correct imbalances and not as a substitute for such corrections; (3) establish ways to increase availability of long-term, low-cost credit to developing nations; (4) create a new form of organization and new methods of channeling private capital to developing countries.

Employment and unemployment: (a) Study the entire system of the Nation's economic security programs, both public and private, with particular emphasis on the employment consequences of these programs; (b) develop programs to open up potential jobs, particularly in the home services.

¹ In order to determine where members of the minority dissent from or elaborate upon specific recommendations, the reader should consult the body of the report where these recommendations are discussed in greater detail and where such dissent or elaborations are cited in footnotes.

Unemployment and technological change:

A. Education and training.—(1) Accelerate and extend vocational, apprenticeship, and manpower development and training programs; (2) Government should encourage the expansion of training programs sponsored by business and labor organizations; (3) amend law to allow businesses a 7 percent tax credit against expenses of providing training programs for employees and prospective employees; (4) improve and extend private plans which guarantee long-term private loans to students; (5) amend the Manpower Development and Training Act to give authority to allow financial assistance to a single unemployed worker attending a private vocational school or technical institute; (6) coordinate Health, Education, and Welfare's vocational education program, Labor's apprenticeship program, and military vocational training; (7) review draft law provisions as they impede education and employment of young men; (8) amend the tax laws to permit deduction as a business expense of the amount spent for education or training for a new or better job; (9) encourage States to broaden merit ratings under unemployment insurance laws to prevent a company providing on-the-job training from being penalized; (10) encourage States to permit individuals undergoing training or retraining to receive unemployment compensation up to the normal amounts and limits; (11) consider disqualifying from unemployment compensation workers who refuse referral to training without good cause.

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

C. Job information activities.—(1) Strengthen private employment agencies and improve the U.S. Employment Service so that it supplements rather than competes with private agencies; (2) establish a nationwide "early warning system" to allow preparation for technological job displacement; (3) establish a national clearinghouse of skills and job vacancies.

D. Alleviating the burden of unemployment.—(1) Support permanent State programs for temporary extension of unemployment insurance; (2) improve administration of unemployment insurance benefits; (3) consideration should be given to establishing a system of private mortgage unemployment insurance designed to prevent foreclosures resulting from high and prolonged unemployment; (4) endorse as a subject for labor-management relations a plan for employee-established funds to temporarily assist the jobless to meet installment debts; (5) recommend consideration of an "income averaging" plan for income loss due to prolonged unemployment; (6) press for rehabilitation programs and employer directed educational campaigns to employ the physically and mentally handicapped.

Strengthening the farm sector of the economy: (a) Reorient the whole network of Government price supports toward a strong market economy; (b) urge an updating of the Vocational Education

Act of 1917, among other measures, to assist the farm unemployed into moving into productive employment; (c) support efforts to develop new and increased industrial uses for agricultural products; (d) establish reserves of feed grains and wheat for use in case of national emergencies; (e) transfer the cost of the Public Law 480 program to the foreign aid budget; (f) study overlapping functions of the Departments of Agriculture and Interior in area of rural resources; (g) reject the repudiated doctrine of "supply management"; (h) adopt soundly determined inventory policies for all price-supported commodities; (i) administer the Economic Opportunity Act and similar programs to assure rural areas a proportionate share; (j) encourage industrial and economic development in rural areas; (k) avoid inconsistent actions in crop and retirement programs; (l) take immediate steps to halt discrimination in areas of federally administered farm programs; (m) expand authority for drought relief; (n) urge the President to set forth legislative proposals on dairy legislation and important commodities.

Kennedy Round of trade negotiations: Insist that the United States press for significant agricultural concessions from the European Economic Community at the current GATT trade negotiations.

Federal-State relations: (a) Recommend a congressional review of the concept and operation of the entire grant-in-aid system; (b) recommend that the Federal Government make provisions for more equitable compensation to localities for Federal property in such areas; (c) recommend the Fiscal Policy Subcommittee study methods of strengthening fiscal capacity of State and local governments.

Research and development and economic growth: (a) Recommend a tax deduction as a current business expense of outlays for machinery and equipment to be used directly in R. & D.; (b) urge strengthening of the patent laws; (c) the Small Business Administration should promote cooperative research firms catering to the needs of small business; (d) vest a single Government agency with the responsibility for coordinating Federal agency information on R. & D.; (e) overhaul of laws relating to depreciation, obsolescence, and amortization deductions; (f) urge legislation be considered to permit tax credits to individuals and corporations for their contributions to basic research; (g) establish a Congressional Office of Science and Technology.

Other recommendations:

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

II. National emergency strikes.—(a) Recommend the Joint Economic Committee study industrywide problems relating to collective bargaining strikes and lockouts with the purpose of shaping new legislation to deal with national emergency strikes; (b) urge that organization of tripartite labor, management, and government committees on local, regional, and industry basis be pressed, in order to improve productivity.

III. Discrimination in employment and training.—Require faster progress in eliminating discrimination, not only on the basis of race and age, but discrimination against the handicapped as well.

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

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

VI. Housing and urban development.—(a) Urge careful congressional scrutiny of all new programs and laws in the field of housing and urban development before taking action; (b) urge the establishment of a Federal Limited Profit Housing Corporation to finance middle income housing through the sale of tax-free bonds in the capital market.

VII. Miscellaneous.—(a) Encourage profit sharing by employees; (b) educational campaign needed to inform potential home buyers of the current and future financial requirements of home purchase; (c) urge development of a plan for the graduated withholding of taxes; (d) recommend the Joint Economic Committee study the extent to which Federal regulatory agencies are or should be guided by the Employment Act of 1946.

INTRODUCTION

The Employment Act of 1946 provides for the annual submission by the President to the Congress of an economic report which, among other things, will set forth a program for carrying out the policies of the act together with recommendations for legislation which the President may deem necessary or desirable. The Employment Act is thus clear in calling for recommendations for an economic program to be contained in an "economic report."

It further provides that this economic report, when submitted, shall be referred to the Joint Economic Committee. Practice in recent years has departed from this requirement. Instead, we have witnessed the submission of a growing series of economic messages containing recommendations upon parts and pieces of a program. One of the essential merits of the Employment Act is precisely that of focusing attention upon the development of a well-rounded economic program, and away from piecemeal, random, and unordered thinking about a problem here and a problem there.

We note the President's Economic Report in respect to the agricultural problems of the Nation promises a later message "for improving the effectiveness of our expenditures on price and income supports." We note with respect to strengthening the economic base of communities that the President will "propose measures to achieve these goals through an extension and strengthening of the Area Redevelopment Act." With respect to unemployment insurance we note that the President says, "I shall recommend such a program." With respect to productivity and full employment without inflation we note that "this administration is developing an active manpower policy." With respect to improving urban life we are pleased to note that the President will "shortly send to the Congress a message containing recommendations." A matter of such pervasive economic concern as the programs to deal with the balance-of-payments problem was left for a separate message transmitted 2 weeks later. We hope that in the future the administration will undertake to develop and present its overall economic program in the Economic Report and in sufficient time so that at least the broad outlines of its proposals can be discussed and judged in the light of the economy's current condition and short run prospects.

GENERAL CRITIQUE OF THE ECONOMIC REPORT

The 1965 Economic Report of the President and the Council of Economic Advisers is long on optimism and self-praise. It is short on recognition, analysis, and proposed solutions to a number of towering economic problems which could tumble our domestic economy like a house of cards. Most serious of these neglected areas is the report's failure to deal in a constructive way with the Achilles heel of the

domestic economy—the dangers of near collapse in the Nation's foreign economic policies. In fact, no other economic report in our memory gives such short shrift to international economic problems as this one does, and that at a time when those problems are pressing in upon us as they are today.

This administration came to power with a promise of a new era of leveling the barriers to the international movement of goods and services, people, and capital. Instead it is moving steadily toward restrictions and controls, as has been most recently illustrated by the interest equalization tax and the measures proposed in the belated message on our balance-of-payments position. The Trade Expansion Act, nearly two and a half years after its passage, has produced no visible progress in reducing trade barriers, while prospects for the success of the "Kennedy Round" of trade negotiations are far from encouraging.

Now, in a desperate and what will ultimately prove to be a self-defeating effort to eliminate the chronic balance-of-payments deficit, the administration has applied the interest equalization tax to bank loans of over 1 year and has asked for legislation to extend the tax for 2 years and broaden its coverage to include nonbank credit of 1 to 3 years. The president has also asked for legislation to limit the duty-free exemption of American tourists returning to the United States to \$50 and to remove tax deterrents to foreign investment in U.S. corporate securities and has embarked on a "voluntary" program to encourage American business to limit its direct investments abroad. But even this "voluntary" program carries with it the threat that Government will use its vast powers to force compliance if it is not voluntarily forthcoming. There should be no doubt that if a "voluntary" program does not work, the administration, judging by its past record and the direction of its drift, will ask for direct controls over U.S. private overseas investment.

Such action will not solve the fundamental causes of the balance-of-payments problem. But it could well signal the beginning of the end for the dollar as the world's leading reserve currency. And it could well mark the beginning of the end of the more open world which the free nations have so laboriously constructed since the end of World War II. In economic policy, this administration appears to be drifting toward a new and dangerous form of isolationism reminiscent of the economic nationalism of the 1930's.

While moving boldly in the direction of more and more controls over international transactions, the administration has thus far shown little enthusiasm for specifying and pursuing basic reform of the international monetary system, which should accompany any meaningful and long-lasting solution of our balance-of-payments problem. Apparently, we can only pray that the periodic shocks to the world monetary system, most recently the weakness of the pound, can continue to be dealt with on an ad hoc basis without the entire structure collapsing, and with it the domestic prosperity of every nation of the free world. Even short of that, it would disrupt our system of mutual defense and cooperation with our NATO allies and thus pose a threat to free world security.

At best, the recent action removing the gold cover from Federal Reserve deposits is a temporary measure, buying time for us to get at

the real cause of the balance-of-payments problem.¹ As the administration observed in advocating this repeal, however, there is now an even greater need for a "responsible and independent Federal Reserve System, functioning within a framework of responsible Government." We believe that the Federal Reserve System has functioned in a responsible manner in the past, and that no attempt should be made to change what Secretary of the Treasury Dillon has recently called "its unique place within our structure of Government and its special responsibility for developing informed, independent judgments concerning monetary policy."

We share the concern of the President and the Council of Economic Advisers over the continuing high level of domestic unemployment and have supported many proposals to deal with it. In fact, many of the measures designed to deal with structural unemployment have been suggested over the past several years by the minority members of this committee, particularly transferability of pension rights, improvements in the unemployment insurance system, and improving manpower training. However, we suggest that unless the administration gives more constructive and farsighted attention to our foreign economic policies than is evident in the economic report or the special balance-of-payments message, we may be headed for a world economic collapse that will cause economic distress at home greater than anything we have seen since the 1930's.

Continuing Domestic Problems

On the domestic front, the economic report seems designed to induce a state of public euphoria rather than meet a series of challenging economic problems that still face the Nation. In addition to the sharp increase in the balance-of-payments deficit in the fourth quarter of 1964, the facts are that unemployment remained at the high level of 5.2 percent last year and little or no improvement is forecast by the Council itself this year; the need to develop improved methods of dealing effectively and speedily with strikes affecting the national interest remains to be solved; the question of how to ease the adjustment of local communities affected by defense economies or changes in defense requirements is unanswered; U.S. leadership in the creation of an adequate pool of private and public capital to assist the developmental efforts of less developed countries is still lacking; the agricultural sector of our economy continues to suffer from a cost-price squeeze which saw farm costs of production increase \$3 billion during the last 4 years; and outdated antitrust laws continue to place a drag on the competitive posture of U.S. business overseas.

Aside from the administration's neglect of these unsolved problems, it is clear that the administration has failed to achieve the goals which it set for itself 4 years ago. The economy not only remains far from

¹ While Senator Javits fully agrees that the U.S. balance-of-payments problem is one of the most important facing the country, he also believes that the administration has exaggerated the emergency nature of this problem in view of the great international assets of the United States. Our private investors own nearly \$72 billion in earning assets abroad. Added to the \$22.8 billion in principal and interest the world owes the U.S. Government on loans, our assets abroad total \$94.8 billion. Even with foreign assets and investments in the United States totaling \$53 billion, the United States is left with a favorable international asset position of \$41.8 billion. In the final analysis, the entire productive capacity of our economy, which accounts for 50 percent of the free world's industrial production, stands as backing for the dollar.

full employment, but one senses that the administration has quietly shelved the interim 4 percent unemployment target.

The Council's report includes a number of charts depicting the record of the current expansion in relation to other postwar expansions. A notable omission is the comparison of unemployment rates during these expansions. The omission is understandable in the light of the fact that 44 months after the trough of the current expansion, the improvement in the unemployment rate was less than during any other expansion in the postwar period.

Furthermore, the record of GNP growth of the past 4 years looks less impressive when it is realized that the 1961-64 increase in GNP is measured from the low point of a recession and that the subsequent GNP growth, therefore, includes a large element of recovery as contrasted to normal growth.

It is also curious to note that the Economic Report fails to recommend action designed to close the so-called "gap" of \$20 to \$30 billion which is claimed to exist between actual and potential gross national product. In our 1963 and 1964 views we expressed our doubts about the validity of the gap concept. Even if one concedes the gap type of analysis, the fact is that the gap is not being closed. The Council's projection of a \$660 billion GNP in 1965 implies almost as large a gap in 1965 between actual and potential output as the Council says existed in the previous year. A chart on page 82 of the Council's report shows the gap essentially unchanged in the past 3 years. Also implied is no progress in reducing the unemployment rate. The Council observes, "The expected increase in the labor force is nearly as large as the prospective gain in jobs."

As for the economic outlook for the year, the keynote is uncertainty. This was reflected among the witnesses who testified before the committee. They wavered between a concern over inflation and a fear of possible recession. It is reflected as well in the Council report where the focus of official policy remains unclear. On the one hand, the Council stresses the need to avoid sliding into recession, while also emphasizing the need to promote full employment of labor and other resources. On the other hand, the Council expresses considerable concern over the possibility of an inflationary wage-price spiral. Some witnesses before the committee cautioned as well about the possibility of a demand induced inflation.

We believe the danger of an inflationary overheating of the economy in 1965 cannot be ruled out. In fact, the danger is that inflationary pressures may be building up at the very time the underlying expansionary forces in the economy are becoming less pronounced as 1965 wears on and as we enter 1966.

Economic Clouds

A number of factors cloud the economic outlook in the second half of the year. The continuation of large budget deficits during a period of high level economic activity and the problems of managing the growing Federal debt threaten the basis of our prosperity. The possibility of a steel strike and a letdown from the current buildup of inventories in anticipation of a strike are additional destabilizing factors.

To these sources of uncertainty must be added the potentially destabilizing effects of near-capacity operation, the paucity of powerful lifting forces in the second half of the year and beyond and the advanced age of the expansion. In addition, labor costs per unit of real corporate GNP are beginning to rise, which suggests that the long uptrend in profits may be approaching its end with adverse effects on the level of business investment spending.

The administration's policies themselves will contribute to economic instability. According to estimates prepared by the Council of Economic Advisers, the so-called full employment surplus will shrink from \$2.7 billion in 1964 to \$1.2 billion for the whole of 1965. However, in the second half of 1965, the hypothetical full employment surplus will rise sharply from exact balance to a surplus of \$6.5 billion estimated for first half of 1966. This will occur at precisely the time when the economy may most need a lift.

The primary reason for the expected sharp increase in the full employment surplus will be the increase in payroll taxes which the administration proposes take effect on January 1, 1966.

Thus, by the administration's own concepts and measurements and its own fiscal programs the outlook for 1965 and 1966 is anything but encouraging.

Regretfully, the Economic Report also obscures sound thinking about our economic problems by misreading the lessons of the recent past. The Council has called attention to the success of the tax cut in promoting a well-balanced expansion during 1964. Although the tax cut is said to have worked, nothing has been said to note that the tax cut went into effect along with a holddown on the rate of increase of Government expenditures. Originally the Council said that holding down expenditures while cutting taxes could eliminate much of the stimulative impact of the tax cut. Republicans conditioned their support of the tax cut on holding expenditures to \$97 billion in 1964 and \$98 billion in 1965, as was detailed in their recommittal motion when the tax cut was before the House. Essentially this Republican position has now been accepted by the administration. If the tax cut had been accompanied by large increases in Federal spending on the order of the previous 3 years, it is likely that the Nation would have experienced a serious inflationary overheating of the economy. An additional stabilizing factor was the unusually high savings rate of individuals during most of the year. The expansion has been well-balanced to this point in large part, however, because of the administration's belated acceptance of the Republican position that expenditure control was an essential condition for a well-balanced, growth stimulating tax cut.

FISCAL AND MONETARY POLICIES

The Kennedy-Johnson administration has made aggressive use of fiscal policy to stimulate the economy both by sharp increases in spending over the 1960 level and by tax reductions. From a small surplus in fiscal 1960, the budget moved to an \$8.2 billion deficit in 1964 and an estimated deficit of \$6.3 billion for 1965. The combined deficit for the 1961-65 period will total about \$31 billion.

The promise of a budget balance in fiscal 1967 seems certain to be postponed. Newspaper reports already indicate that Federal officials are trying to figure out the proper combination of tax cuts and spending increases which will avoid the accumulation of an unwanted full employment surplus and which, it is claimed, will thus keep the economy moving up through 1966.

If the President's proposals are enacted, Federal cash payments to the public in fiscal 1966 will be \$6 billion, or 5 percent higher than in the current fiscal year. Administrative budget spending will increase by 2.3 percent, while the gross expenditures of all Government administrative funds, except deposit funds, will aggregate \$155 billion, or 4.9 percent over the 1965 estimate and nearly \$10 billion over actual 1964 gross expenditures.

When the 1965 budget was sent to Congress, it was estimated that the cash deficit would be \$2.9 billion. Subsequent revisions raised this to \$3.5 billion and then to \$4 billion. At \$3.9 billion, the cash deficit now estimated for 1966 is almost identical with the 1965 estimate. However, sale of federally held financial assets is expected to rise \$900 million in 1966, which in economic and financial terms means that the fiscal 1966 cash deficit will be not \$100 million below the deficit for fiscal 1965 but that it will be \$800 million larger.

Looking to the future, the outlays for the so-called Great Society programs are certain to expand sharply. At the same time, in view of Vietnam and the international situation generally, it is unlikely that the administration will be able to rely on more cutbacks in defense or atomic energy spending in order to make room for burgeoning civilian programs. In fact, the reverse is likely. We also hope the practice used extensively in the 1966 budget of financially sapping highly-effective, time-proven but largely unpublicized domestic programs to pump life into the Great Society will be discontinued.

Along with an expansionary fiscal policy, the administration has operated in a climate of monetary ease. In recent years, the growth of money and credit has outstripped the annual increase in gross national product. In 1963 and 1964, bank credit rose 8 percent, while the money supply increased 4 percent, a record for any year since 1951. At the same time, the growth in time and savings deposits at commercial banks in 1964 exceeded 12.5 percent, somewhat below the 1963 increase but considerably above the expansion years of previous cycles.

Albert T. Sommers, Director of Economic Research for the National Industrial Conference Board, has pointed out that, "The American economy has, in fact, been very nearly flooded with liquidity." He points out that the "gigantic growth of personal debt" in the post-war period, which has accelerated in the 1960's, is a "legitimate source of concern."

These expansionary policies were carried out in an effort to restore full employment by eliminating the residual unemployment remaining after recovery had reduced the high-level recession rate of 1960-61. Their success will have to be judged by that standard. Thus far, the administration has failed to reach even its interim full employment target of 4 percent unemployment, and it expects to make little or no progress toward that goal this year.

Although there is no doubt that the use of vigorous fiscal policy had some success in moving toward the Administration's goals, Sommers

has pointed out that this was done "only at the cost of leaving some long-term problems untreated, intensifying some others, and creating a few of its own."

It would be a mistake to think that expansionary fiscal policy could be used indefinitely without regard to adverse side effects. A powerful public stimulus to the business sector has produced what has been called "at least a few forced flowerings" that may well "deserve close scrutiny in the next several years."

The growth of personal debt, already noted, is of potentially troublesome proportions. As Sommers has said, "The one dollar in seven now required to service the short-term debt of consumers is obviously not a matter to be taken lightly; at least it suggests a *sensitization* of some parts of the business scene that must be considered an offset to the widely acclaimed *stabilization* of other areas."

We view with alarm and deep concern the increase of \$12 billion in farm debt during the last 4 years, while net farm income (in constant dollars) increased only \$200 million.

The continuing balance of payments deficit; the growth of mortgage debt, often without relation to the actual addition to real estate equities in the personal sector; the sharp increase in mortgage foreclosures; and reports of overbuilding in apartment units represent some of the other costs of expansionary fiscal policies. In addition, some authorities feel that the prolonged use of fiscal and monetary tools to stimulate growth has blunted their use for countering short-term recessions.

A More "Flexible" Fiscal Policy

Not yet having reached its full employment target and once more concerned about the possibility of recession late this year or next year, the administration now seeks methods by which it can more flexibly and forcibly bring fiscal policy to bear on the economy.

Implicit in this approach is the belief that only fiscal policy can exert a major and effective influence in generating increases in aggregate demand. Monetary policy is generally accorded a relatively inactive role, except that a less easy money policy is claimed to lead almost automatically to recession, even in as vigorous and healthy an economy as the administration now says exists.

It is now, of course, generally recognized that for either restraining or stimulating total demand in the economy fiscal policy and monetary policy are both substitutes and complements. When this is recognized, discussion can proceed critically on the advantages and disadvantages of each policy tool. This sort of discussion is absent from the economic report, and the noninformed reader will be misled into thinking that budget deficits are a necessary condition for demand-stimulating action and that monetary policy cannot serve this function alone. Fiscal policy and monetary policy are much closer substitutes than the Council wants to recognize. An expansionary fiscal policy will get us in trouble with balance of payments just as will expansionary monetary policy. It is dangerous to assume otherwise.

It should also be noted that a fiscal policy leading to large budget deficits may impair the effective use of monetary policy because of the problems of managing the growing Federal debt. The existence

of the debt and the considerations of the cost of debt servicing have affected Federal Reserve monetary policy in the past and are likely to do so again in the future. The Federal debt can also impair economic growth. Federal borrowing in the long-term market will withdraw funds that would otherwise be used for private, growth-creating investment unless monetization of debt with the likelihood of accompanying inflation is the route followed.

More careful examination is needed on how much we can expect discretionary tax and spending changes to promote economic stability. The danger always exists that political pressures will lead to the unwise and unsound use of such powers. More importantly, many economists are skeptical about whether the state of knowledge is sufficiently advanced to result in the proper amount and timing of fiscal policy medicine. The record of the past is not reassuring about the ability of the economic managers to use the weapons at their command in such a way as to promote stability. In fact, the opposite has sometimes been the case. Economic forecasts eventually depend on the psychological reactions of people, and these are not accurately predictable.

One wonders what would have happened in the past 4 years if the administration had had discretionary powers to implement tax and spending decisions based upon its appraisal of the state of the economy. For example, just as the economy was beginning to recover in late 1961, the Kennedy-Johnson administration was taking a highly pessimistic view of the future. It implemented a number of its expansionary policies, but they actually did not take effect until the natural forces of recovery in the economy had already been at work for some time. Optimism early in 1962 changed to gloom by midyear, and there was talk of the need for an emergency tax cut. However, the economy gathered steam and proceeded upward before the administration had time to propose any new actions. Then administration economists turned gloomy again in 1963 and urged a quick tax reduction in order to prevent a recession. What happened, ultimately, was that the economy grew more without the tax cut than the administration predicted it would grow with the tax cut.

In the postwar period there were tax cuts in 1948, 1954, and 1964. These tax cuts were approximately the same size in relation to the size of the economy. However, the 1948 tax cut was shortly followed by a recession. Although the last two tax cuts were followed by a strong upturn in economic activity, it is still impossible to say how much of the recent upturn was due to the tax cut, how much to the restraint on Federal spending, and how much to monetary policy. As Federal Reserve Board Chairman Martin told the committee: "Even with the benefit of hindsight, it is very difficult to say how much of the expansion in activity last year flowed directly from the stimulus of tax reduction. It is equally difficult to say what part monetary policy played in last year's economic advance."

Careful research is needed to reveal how much tax cut medicine can be relied upon to cure our economic ills. It would certainly be incorrect to regard tax cuts as a panacea without, at the same time, considering the economic effects of the level and composition of Federal spending and the direction of monetary and debt management policies.

The extent to which Federal expenditures can and should be manipulated to stabilize the economy also is open to question. The basic policy issue involved is whether Government spending should be altered in response to changes in the economy or whether it should serve as a reasonably firm and predictable part of the economic structure within which other public policies operate.

In discussing the difficulties of trying to use discretionary *ad hoc* shifts in Government expenditures as an economic balance wheel, Prof. Walter D. Fackler, assistant dean of the Graduate School of Business Administration of the University of Chicago, notes three serious timelags which plague the policymaker. The first is the information lag. The policymaker never knows where the economy is at the moment because of the lag in statistical indicators. As a result, considerable time elapses before the need for policy action is clearly perceived.

Second is a decision lag. Even after the need for action is noted, decisions take time and often a great deal of time. These two factors alone mean that by the time any sufficient fiscal shifts take place, the need has often passed, and the effects are often perverse. The third lag is the time required for the economic adjustments themselves to take place. The effects of any policy spread only gradually through the economy, some more slowly than others.

Lags Limit Policy Scope

As Professor Fackler notes, these three lags severely limit the scope for stabilizing expenditure policies. They pose an ever-present danger that fiscal manipulations may accentuate the swings of the business cycle rather than moderate them. Stabilizing expenditure policies are also wasteful since it is highly likely that "whipsawing" Government expenditures back and forth is likely to lead to spending decisions that are even less rational than are those made under present procedures.

Our automatic fiscal stabilizers have worked well, particularly when compared with the uncertain results of discretionary stabilizing fiscal policy. We should rely primarily on the automatic stabilizers—taxes and expenditures—and upon monetary policy to promote economic stability. However, we believe the automatic stabilizers can be strengthened, and we recommend that the Fiscal Policy Subcommittee of the Joint Economic Committee give attention to this subject.

At the same time, we recognize the value which the effective use of fiscal policy may have for the economy if wisely and cautiously used. Our concern is that economic damage can be done if over-eager adherents of vigorous fiscal actions rush in to doctor the economy without due regard for the limitations of existing knowledge.

T. O. Yntema, chairman of the Research and Policy Committee of the Committee for Economic Development, told the Joint Economic Committee that after advocating the use of fiscal policy for 20 years, the CED is now concerned with whether adequate knowledge and decisionmaking machinery exist to do the things expected of fiscal policy. He mentioned specifically the technical difficulties of forecasting, the necessity of taking actions in a political environment, and the difficulty of carrying on fiscal policy through the decentralized processes of Government. In contrast, Yntema asks whether the administration may not be assigning "too minor a role to monetary policy

as an explanation of past economic behavior and as an instrument for the future.”

Before too much faith is put in fiscal policy, studies must be undertaken to evaluate the impact of recent fiscal policy actions in relation to the impact of other policy weapons. Success with the 1964 tax cut could easily be followed by a serious tax cut failure in another economic context. Aside from the damage to the economy, the effects on the future use of fiscal policy itself would likely be inhibiting.

The Full Employment Budget

The single most important tool used by administration economists to develop their overall fiscal policy is the so-called full employment budget, which purports to show the budget surplus that theoretically would result if the gross national product were at a high enough level to generate full employment. Professor Henry Wallich of Yale University has pointed to a number of weaknesses of the concept, principally the uncertainty of what constitutes full employment or how far unemployment can be reduced without inflationary consequences. A change of 1 percent in the full employment standard might mean a difference of \$4 to \$5 billion in the full employment surplus.

Neither does the full employment surplus by itself adequately describe the stimulating or restraining character of a given budget. The absolute size of the budget also counts. A full employment surplus of \$5 billion when revenues are \$95 and expenditures \$90 does not have the same effects as when revenues are \$105 and expenditures are \$100. The full employment surplus as a means of defining the stimulating or restraining character of a budget also abstracts from the monetary consequences of surplus and deficit. We believe that excessive stress on the concept of full employment surplus tends further to confuse the discussion of fiscal policy in this country. While a useful concept, it is statistically uncertain as well as an inadequate description of the economic effects of a particular budget.

In this connection, it is interesting to note that the Council of Economic Advisers on April 27, 1964, estimated full employment receipts for 1964 at \$118.7 billion and expenditures at \$118.2 billion, which left a deficit in the full employment budget for the calendar year 1964 of \$500 million. This estimate included the estimated effects of the 1962 and 1964 tax changes. A later estimate for 1964 provided on February 18, 1965, shows receipts of \$121.4 billion and expenditures of \$118.7 billion, or a full employment surplus of \$2.7 billion. The net fiscal stimulus of \$7.2 billion which the administration planned for 1964 was reduced to \$4.5 billion, or by nearly 50 percent. It is interesting to speculate on what the consequences for the economy would have been in 1964 if the highly stimulative expectations of the Council actually had been realized.

Even after last year's tax cut, we believe that the national tax burden is too high and acts as an impediment to economic growth. As Federal revenues grow with the economy and as we realize a balanced budget, we believe that additional modest and across-the-board cuts in tax rates can prudently be enacted. Combined with firm restraint in holding down the increase in Federal spending and in combination with appropriate monetary policy, we believe such a policy could pay high dividends in terms of stimulating growth.

At the same time, we were disappointed in the administration's neglect this year of basic tax reform. We urgently recommend that the administration develop recommendations now to be submitted in the next session of Congress dealing with essential tax reform as the major key to sound economic growth.

There is a need for a thorough study of the outlines which both reductions in tax rates and changes in the tax structure should take. We believe that the Fiscal Policy Subcommittee of the Joint Economic Committee can do much useful work in this area. We specifically recommend that the subcommittee and the administration pay particular attention to the following aspects of tax policy:

(a) Much evidence suggests that the level and direction of investment in the United States is inadequate to sustain a high level of growth. Some economists believe that the tax system is partly responsible. The effects of the tax system on the level and direction of private investment should receive high priority in the subcommittee's studies.

(b) Study is needed on the impact of the tax system on the price structure and, in particular, on the extent to which the tax system might be used in order to prevent a rise in prices and wages under the impact of rising employment.

(c) Study is needed to determine what steps could be taken to provide greater incentives for people to go into business for themselves and for existing small businesses to expand.

(d) Prof. Carl S. Shoup, of Columbia University, has suggested that one of the most pressing needs is the linkage of personal income taxation at low-income levels to the welfare programs at and underneath those levels. A study of the fiscal position of low-income individuals might show the way toward moving smoothly from welfare payments into taxes as incomes rise and, at the same time remove many of the faults of the present welfare payments structure. We suggest that the subcommittee undertake such an examination.²

Improving the Budget Process

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

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

² Senator Javits believes that the Congress should also consider cuts in U.S. consumer goods excise taxes to encourage productivity and small business in the second half of this year and the first half of next year.

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

In addition, Congress needs to broaden its review of spending. Murray L. Weidenbaum, of the Stanford Research Institute, has shown that only 58 percent of total funds and 23 percent of civilian agency funds requested by the administration in fiscal 1964 were subject to effective congressional review. The rest consisted primarily of permanent indefinite appropriations, continuing construction projects, and other items relatively fixed or uncontrollable as a result of substantive legislation on the books.

To assist in the reform of Federal expenditure policy, we repeat our recommendations of last year that—

(a) Congress establish a Joint Committee on the Budget which could improve the appropriations process and congressional control over expenditure of Federal funds. The committee would serve in the area of appropriations, roughly the same function which the Joint Committee on Internal Revenue Taxation has in the field of taxation. It should have a high-level professional staff which includes adequate minority representation.

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

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

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

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

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

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

(6) Improvement of Government organization and procedures in order to increase efficiency and promote savings, including a review of the recommendations of the first and second Hoover Commissions, in order to determine how

those already implemented have worked out in practice and whether those not yet implemented should be given further consideration.

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

Attention to high levels of Federal spending does not arise from a concern over spending money as such, but rather from the undue accretion of Federal power which such spending may cause. Since public needs must be met, institutional arrangements must be devised under which increasing Federal spending can be accomplished with a reasonable decentralization of decisionmaking in its expenditure. Big government and strong government is surely needed. What we hope to avoid is "manipulative government."

The recommendations of an objective and bipartisan commission of the kind described should command widespread support among the public. Its proposals would offer a sound basis upon which to begin the reform of Federal expenditure policy. In the interim, we believe these subjects are appropriate for consideration by the Fiscal Policy Subcommittee, especially in relation to present practices and procedures of the Bureau of the Budget.

THE BALANCE OF PAYMENTS

As the emphasis at the committee's hearings made clear, the chronic deficit in the U.S. balance of payments is the outstanding economic problem before the country.³ For the past 4 years the administration has tried, but failed, to solve the problem with a variety of temporizing and defensive measures. This bought time, but the fundamentals of the problem were virtually untouched. This was vividly demonstrated by the administration's attention to reducing the gold outflow, while the "time bomb" of foreign dollar holdings continued to grow.

At the same time, the administration has sought to induce a false sense of confidence about our balance-of-payments position. Only a week before last November's election, President Johnson issued a statement, taking credit for a sharp cut in the annual deficit to \$1.7 billion. The report was made public at the very moment the deficit for the quarter was soaring to an annual rate of \$6 billion.

In that same message, President Johnson also took credit for not seeking "easy" and fast solutions "through damaging controls and restrictions that would have curbed economic freedom * * * ." He has now—4 months later—moved farther down the road of restrictions and controls by invoking the Gore amendment, asking for an extension and broadening of the interest-equalization tax and by establishing a "voluntary" program to stem the flow of U.S. investment funds overseas.

We already have commented generally on the President's latest balance-of-payments program. While we agree with a number of the steps being taken, such as removing tax deterrents to foreign investment in U.S. corporate securities, we feel the program as a whole will damage long run U.S. and free world interests without doing the job intended.

³ See Senator Javits' views, footnote 1, p. 61.

It baffles us how the President's pledge in the Economic Report and in the balance-of-payments message to continue and strengthen measures to promote U.S. exports is served by curbing U.S. loans and investments abroad. In his testimony before the committee, Prof. Raymond Saulnier estimated a "net induced (favorable) trade effect for 1964 of U.S. private direct investment abroad" of \$1.8 billion in addition to the \$4.8 billion of private foreign investment income last year.

A new annual survey made by the Department of Commerce shows that on the basis of reports from a sample group of U.S. industrial companies, foreign affiliates of all such firms purchased from the United States at least \$5 billion of U.S. goods in 1963. The Department noted that this figure, which by itself represents about 23 percent of all U.S. exports, does not even represent total imports of foreign affiliates from the United States.

The study also shows that the direct reflection in the balance of payments of the activities of foreign manufacturing affiliates of U.S. firms is "a sizable surplus." Although gaps in our knowledge about indirect effects still exist, the Department said that "receipts in the balance of payments from foreign manufacturing affiliates exceeded payments in 1963 by \$2.4 billion."

The recent Government-sponsored Brookings Institution study on *The U.S. Balance of Payments in 1968* noted that "the longrun evolution of the U.S. balance of payments may well require that a higher percentage of U.S. receipts be earned by investments abroad." If this is true, the administration's shortsighted efforts to reduce deficits today may only lead to larger deficits tomorrow. The Brookings study showed, for example, that new direct foreign investment is fully offset in 5 years by the dollar inflow which it produces and that it becomes a plus in the 6th year.

Aside from reducing exports and investment income, the President's program has created fears that White House requests for voluntary restraint will lead to compulsory controls should compliance not be forthcoming. As the Chase Manhattan Bank recently noted, considerable balance-of-payments improvement might be made if large U.S. corporate liquid holdings overseas could be drawn back. This is one goal of the President's program. However, liquid funds overseas are often held until needed for investment in fixed capital. Faced with the possibility of direct controls in the future, the corporate manager may be reluctant to send funds back home if he expects that they ultimately will be needed for investment overseas upon which the future competitive position of his company will depend.

In order to dispel these fears, the administration should make clear that if the voluntary approach does not work, it will pursue the use of incentives rather than controls over foreign investment.

The whole approach of controls, whether voluntary or not, over U.S. loans and investments is wrong because it tends to subvert actions dictated naturally by market conditions. Rather than working against the market, the administration should try to work with it. It should be trying to do more to create a better climate for investment in this country. This would induce U.S. capital to remain at home and foreign capital to come in. The 1964 tax cut and other tax measures were steps in the right direction. But more can and should be done in this area.

Even if the administration's program temporarily eliminates the deficit, it would not restore basic equilibrium in the balance of payments. Artificial controls over trade and payments, voluntary or otherwise, do not restore equilibrium. They only paper over temporarily the underlying disequilibrium. They do this at a high cost in terms of loss of economic freedom, misallocation of resources and reduced levels of international trade and investment.

What will happen when the President's investment curbing program is withdrawn? Is there really any doubt that the backlog of investment projects and foreign demand for U.S. capital would lead to a renewed surge of capital outflows? In the absence of further attention to the fundamentals of the U.S. investment climate, this will be the inevitable result.

Balance-of-Payments Recommendations

Besides improving the investment climate at home, what other actions should be taken to correct the balance-of-payments deficit?

(1) *Insure cost and price stability.*—Nothing is as important to the restoration of balance-of-payments equilibrium as the maintenance of domestic cost and price stability. Cost and price stability will insure the competitive position of U.S. products overseas as well as in our own domestic market. Recent signs of inflationary pressures should serve as a warning that reliance on the wage-price guideposts at home and inflation risks abroad is a poor substitute for responsible fiscal and monetary policies by government. While noninflationary wage and price decisions by business and labor also are clearly required, as the President stated in his balance-of-payments message, we deplore the implication that government itself may have no part in generating inflation, through its own policies. In this connection, we applaud the President's promise to oppose legislative enactments that threaten to raise costs and prices and shall watch with interest to see how this pledge is implemented.

(2) *Expand exports.*—Aside from improving our competitive position in foreign markets by insuring cost and price stability, vigorous efforts are required to increase exports by bargaining down foreign tariffs and nontariff barriers to trade, providing better insurance for credit risks run by exporters, pressing for the removal of discriminatory ocean-freight rate differentials, stepping up trade promotion activities of the Department of Commerce and by exploring ways in which corporate tax payments could be rebated to exporters. Many foreign countries now rebate to their own exporters the purchase and turnover taxes which they impose. We think this discrepancy in tax treatment should be a subject for negotiation in the Kennedy Round.

(3) *Review overseas military expenditures.*—While balance-of-payments considerations should not dictate the size and deployment of U.S. forces overseas, the strength of the dollar is clearly an important element in our overall national strategy. In view

of the large dollar outflows (over \$2 billion) for military expenditures, we believe the entire area of foreign military outlays requires critical review. A number of witnesses before the committee spoke particularly of the need for a reassessment of the need for the large deployment of U.S. military forces now in Europe. It was felt that the United States might be able to honor its NATO commitments as well with smaller forces in Europe, particularly in view of today's enlarged airlift capacity. In the same connection, we urge the administration to press for an increase in offset agreements under which our allies purchase American military equipment as well as for a larger sharing of the common defense burden.

(4) *Review foreign aid expenditures.*—While we support the concept of Government economic aid to the underdeveloped nations, we disagree emphatically with the administration's implied position that such expenditures create virtually no balance-of-payments drain while private investment abroad does.⁴

The administration claims that 85 percent of U.S. aid is tied to U.S. exports. However, Secretary Dillon admitted recently before the House Banking and Currency Committee that the amount of U.S. aid to Latin America that was tied was "well over 50 percent, but we cannot tell you whether it is 65 or 80, or whatever it is." The Secretary also said that there is an unknown amount of indirect substitution of U.S. exports by aid recipients as a result of tying requirements. In any event, economic aid represents a large balance-of-payments drain, in spite of efforts to tie such aid.

We believe that aid programs need reexamination, particularly along the lines of the 1963 Clay Committee report. Aid should be limited to countries that support their development with their own capital resources, that create a hospitable climate for badly needed private investment capital and where the aid is likely to have a lasting impact in promoting economic and political stability.

(5) *Return to a flexible monetary policy.*—The administration's doctrinaire insistence on a continued easy money policy removes one of the most effective weapons from the balance-of-payments arsenal. In his balance-of-payments message the President said that he "expects" the continuation of essential stability in interest rates. This statement was generally interpreted as more of a directive than merely an expression of hope. As such, it is hardly calculated to inspire confidence abroad in our determination to eliminate the deficit. While only technical analysis would reveal whether higher interest rates are now needed for balance-of-payments purposes, we believe that the administration must give more than lipservice to the position that less monetary ease may be a feasible and appropriate addition or alternative to present

⁴ While Senator Javits agrees that the balance-of-payments effects of foreign aid should be minimized and that a new approach is required to foreign aid today, he firmly believes that the success of the Marshall plan in Europe and the progress achieved by the Alliance for Progress in Latin America underscore the soundness of the principle of economic aid to friendly nations. The real problem is that the \$8 billion in private and public capital which the United States and its allies are putting up to help newly developing nations is just about half of what is needed for a satisfactory economic rate of growth of developing nations.

policies. Market determined interest rates may be necessary medicine. If used in a timely and flexible manner, they serve well as a double-edged sword: first, they reduce U.S. money flows overseas and draw money from abroad; second, they may restrain an overexuberant economy and thus nip damaging inflationary pressures in the bud before they further erode the value of the dollar and impair the competitive position of U.S. exports. As Chairman Martin warned the committee, we are already "sailing very close to the edge" of inflation and that "we could find ourselves caught up very quickly in an inflationary spiral." For both domestic and international reasons every effort must be made to avoid an acceleration of the inflation of recent years.

(6) *Promoting increased foreign investment in the United States.*—We urge that the administration give greater attention to the recommendations of the Fowler Committee on promoting increased foreign investment in U.S. corporate securities and increased foreign financing of U.S. corporations operating abroad. We regret that the administration saw fit to follow only one major recommendation from this report.

INTERNATIONAL MONETARY REFORM

Reform of the existing international monetary system is urgently needed. We are pleased that the administration has embraced this broad objective, but we regret its lack of specific proposals as well as the disposition to delay action until the U.S. balance-of-payments deficit is corrected.

Because liquidity for the existing system is largely supplied by U.S. balance-of-payments deficits, the system could break down when the United States finally eliminates its chronic deficit. Although there is no shortage of liquidity at this time, a shortage could result in the future both for this reason and because of the growth in the volume of world trade and payments. We believe that positive action should be taken now to reform the system before a crisis leading to world economic collapse can arise.

In a resolution which we have introduced in the Congress, we urged the convocation of a well-planned and well-organized international monetary conference to find a basic solution to the weaknesses of the world monetary system. The limited results of the deliberations of the Group of Ten and that of Western financial leaders in Tokyo in 1964 only underscore the need for a conference on the scale of the Bretton Woods Conference.

The recent Tokyo meeting of the financial leaders of the West has resulted in but a modest beginning toward the reform of the system which was established to meet conditions in the immediate post-World War II period. The decisions made there, together with the ad hoc improvisations of recent years, have succeeded in avoiding the breakdown of the system but have not produced the fundamental reform which is dictated by existing conditions.

We do not wish to deprecate, however, the very real contribution that the existing system has made during the past 20 years in the area of international monetary cooperation. The International Monetary Fund and the International Bank for Reconstruction and Develop-

ment have been most helpful in easing the transition toward the convertibility of all major currencies, in reducing reliance on bilateralism, and in stabilizing swings between inflation and deflation in many areas of the world.

Our own dissatisfaction with the attitude of the world's financial managers is that their approach to adapting the system to current world conditions has been timid, being more disposed toward tinkering than facing such basic questions as these: Is the adjustment mechanism built into the existing system flexible enough to bring about a correction in the imbalance in international payments within a reasonable time? Does the existing adjustment mechanism place equal burdens on the countries which are in a temporary surplus position and those which suffer temporary payment deficits? Does the existing system generate sufficient credit to meet the needs of developing nations? Will it be adequate in the future to meet the needs of the developed countries?

At the present time, imbalances in international payments take years to eliminate and require, particularly on the part of deficit countries, measures which may hamper their economic growth and the expansion of world trade. The existing adjustment mechanism does not place equal burdens on surplus and deficit countries, but at times is contrary to the best interests of all concerned.

The chances for securing European cooperation for a conference to consider these questions are improving. Even while pressing the United States to eliminate its balance-of-payments deficit, European financial leaders are growing increasingly concerned about the impact that success in this endeavor will mean for their own international balances and for the stability of the world monetary system itself. Although enlarging the International Monetary Fund quotas is helpful, it in no way diminishes the need for a more basic reform.

The alternative to basic reform is the continuation of the existing system with more stringent forms of financial "discipline" added. The free world has already paid a high price for the existing system in terms of restrictions on trade and capital movements—such as the U.S. interest equalization tax—and in Government procurement policies which are undermining 30 years of progress toward trade liberalization.

The international monetary system has an enormous impact on economic conditions in both the developed and developing nations of the non-Communist world, on the well-being of their citizens, and on their ability to meet the many and varied challenges of Communist power. It determines, to a large degree, our freedom to pursue appropriate domestic economic policies, and it has a major impact on domestic political stability in many Western nations.

A well-functioning and flexible international monetary system has a major impact on our ability to supply an ever-increasing volume of economic assistance to the developing nations, which is essential to insure them a satisfactory rate of economic growth in a democratic framework.

For what distinguishes the free world from the Communist world and gives freedom its greatest inducement is the opportunity to extend credit to, and confer ownership on, the individual.

In order to bring about the required improvement in the performance of the existing international monetary system, the international conference that we have suggested should consider the following points:

(1) The availability and expansion of the world's supply of international credit should be managed and not left to such haphazard factors as how much gold is mined and how big the U.S. balance-of-payments deficit is. The appropriate role of the IMF and other international organizations in the management of international credit should be thoroughly reviewed.

(2) IMF and the Group of Ten should cooperate closely in developing new forms of international credit along with safeguards to insure that credits are used to give deficit countries time to correct imbalances and not as a substitute for such correction.

(3) The need to increase availability of long-term, low-cost credit to the developing nations.

New forms of organization and new methods of channeling private capital to developing countries must be found if private enterprise is to retain a major role in the economic development of less-developed countries. The example provided by the newly organized, multinational investment group called ADELA, the Atlantic Community Development Group for Latin America, should be ample proof that given sufficient energy and determination new devices and methods can and will be found.

The initial success of this venture in attracting major corporations and financial institutions in North America, Europe, and Japan is indicative of the will that exists in many countries of the world. Its power to attract additional public and private capital is great and its potential in proving that there exists widespread confidence in the potentiality of one developing region of the world—Latin America—is even greater.

In this connection, it is important that study be devoted to determining the effect of Government aid on private investment flows into the developing nations. Although Government aid need not inhibit private investment, this may be the result if the Government aid is given and administered in a manner prejudicial to private capital.

The existing system does not meet the credit requirements of the developing nations. According to the 1964 Annual Report of the Council of Economic Advisers, the total long-term receipts of developing countries from public and private bilateral and multinational sources now total in the area of \$8 billion a year. On the other hand, estimates made by a number of highly reputable experts place the capital needs of the developing countries at between an additional \$7 to \$11 billion per annum. This gap is based on the modest assumption that such additional funds would be required to permit developing countries to grow at an overall rate of between 4½ and 6 percent per year. Given the present 2.1 percent annual increase in the world's population the increase in per capita gross national product that will result from this additional flow of capital would amount to between 2.1 to 3.9 percent, per year. The average per capita GNP of developing countries is now estimated at \$130 per year. The need for additional capital indicated above is, therefore, by no means exaggerated.

There is a related problem which should be considered: the interest cost and duration of credit presently being extended to developing na-

tions. Today these countries are paying about \$2½ billion a year, or one-fifth of their gross capital inflows, for servicing their externally held public debt; and the charges are mounting rapidly. Still worse, the charges are mounting much more rapidly than are the export earnings required to service the total debt. Between 1956 and 1962 debt service rose from 3 to 7 percent of the value of developing countries exports of goods and services. The need for an increase in the volume of long-term, low-cost credits—both public and private—is, therefore, very real.

The opportunity for private enterprise in the United States and in other OECD countries to play an increasingly significant role in providing substantial credit is enormous; but this role requires a basic change in attitude by business and Government and new devices to meet the problems of the day.

We must begin devising an international payments system which takes cognizance of changes in the world economy since the Bretton Woods Conference in 1944 and which will be flexible enough to fit into the economic order of 5 to 10 years from now. A well-planned international monetary conference, in our view, is a necessary—and vital—first step toward such a workable system.

EMPLOYMENT AND UNEMPLOYMENT

The failure of the President and the Council of Economic Advisers to foresee any significant improvement in the unemployment rate during the year only confirms the opinions of a large number of economists. Indeed, there are a substantial number of economists who believe that the unemployment rate will increase during the year. The forecast of the National Planning Association, for example, implied an increase in the unemployment rate above the estimated 1964 level.

This is not to say that the economy is not producing new jobs. Last year, for example, total civilian employment increased by about a million and a half jobs, a number sufficient to bring about a decline in the overall unemployment rate of a half a percentage point. However, a large increase in the civilian labor force, along with stepped-up productivity, combined to hold down the reduction in unemployment that the administration expected from its highly stimulative monetary and fiscal policies.

Policies designed to reduce the unemployment rate to 4 percent and below will only be successful if they are based on an understanding of the real nature of the unemployment problem. Although we commend the administration for its growing, if belated, emphasis on labor market policies and its selective measures to combat structural unemployment, we regret that the administration's primary policy thrust remains an increase in aggregate demand. We believe that the economy has reached the point where further efforts to reduce unemployment below 5 percent through expansionary fiscal and monetary policies will encounter bottlenecks and other structural problems which will create serious inflationary pressures.

As Prof. William J. Baumol, of Princeton University, told the Fiscal Policy Subcommittee in a recent study paper:

I believe that there are dangers in placing too heavy reliance on deficits alone as a means for reducing unemployment

and eliminating sluggishness in the economy. With prices and wages determined in the way they are currently, significant inflationary pressures may be produced by such measures well before an acceptable level of employment is attained. I believe we have not really faced up to the problems of inflation inherent in standard full employment policy proposals. * * *

Examination of the unemployment figures for February shows that for all men 20 years and over the rate was 3.6 percent and for married men, 2.6 percent. For experienced wage and salaried workers the rate was 4.6 percent. These unemployment rates for adult men and married men were about the same as those recorded in the summer of 1957.

It should also be noted that help wanted advertising is running at a 12-year high. The last time it reached its current level in 1953 the national unemployment rate was only 2.9 percent. Also the workweek on a seasonally adjusted basis is at the highest level for any month since World War II. The workweek in January included an average of 3.3 hours of overtime at premium pay, a record January since the series began in 1956. Add to this the shortage of people in the 25-year-old to 35-year-old range, which reflects the low birth rates during the 1930's, and there is a developing picture of shortages of experienced help that will limit the growth of output in some lines in the year ahead.

The increasingly structural nature of our existing unemployment was recognized by Prof. John Kenneth Galbraith, of Harvard University, in his testimony before the committee. He remarked that "increasingly the problem of employment is not a deficiency of demand but unemployability that results from deficient education, preparation, or unrelieved social squalor." One could add a number of other structural causes of unemployment to this list, such as the special problems faced by the aged unemployed, or those living in areas of particularly severe economic distress.

A Social Problem

The nature of today's unemployment problem is no less serious because of its structural character. Indeed, persistent unemployment that falls with special severity on particular age, education, or racial groups poses a real threat to our democratic system. Unless our efforts to attack structural unemployment succeed in enabling these individuals to lead productive lives, a growing and insurmountable gap may appear between the have's and the have not's in our society, or between those who have good education and good jobs and those who have little education, inferior jobs or no jobs at all, and who are hostile or indifferent to their society. The increasing emphasis on high skills, on technical competence and on expertise will increase the problem in years ahead and pose an even greater danger for the survival of our free and open democratic system. It is precisely for this reason that the attack on chronic unemployment takes such high priority among our national goals.

It would be a serious mistake if those responsible for administration policy insisted upon using the overall unemployment rate as a guide to public policies to combat unemployment. We believe that the

global unemployment rate offers a poor guide to policy, and that critical analysis of the problem and the development of realistic solutions demand an examination of the components of unemployment.

We already have indicated the extent of the improvement in the unemployment situation among adult men and the fact that in some cases the labor market situation among adults is becoming tight. The high level of the overall rate in the face of a tightening labor market primarily reflects the special distress of three groups in our society.

There has been no significant improvement in the unemployment rate of young people over the past year. At 14.4 percent in February the teenage jobless rate was nearly three times the overall rate. The problem is certain to grow more serious as the number of youths turning 18 this year increases by nearly a million over the number reaching that age in the previous year.

Without minimizing the problem, it should be noted that much of the high teenage jobless rate reflects the normal shifts from job to job as teenagers seek permanent positions. Furthermore, about one-third of such teenagers were in school and most of this group were seeking part time employment. The fact that average duration of teenage unemployment is slightly more than 9 weeks, considerably less than the 13 weeks for adult workers, is evidence that job opportunities for teenagers do exist.

The unemployment figures also make clear that the unemployed are largely the uneducated. The unemployment rate for last year for those with less than 8 years of schooling was 8.4 percent, or far above the 5.2 percent for the labor force as a whole.

Finally, the remaining large category of unemployed consists of Negroes. The unemployment rate for this group is more than twice the rate for whites.

As Professor Galbraith has pointed out, the primary remedy for this kind of unemployment is not the creation of more aggregate demand, but rather better education, more job training, more job creation for youngsters, and an equal break in education and employment for Negroes. Also of critical importance is more and better vocational guidance and counseling. In short, the focus of the attack on the core of our unemployment problem must consist of specific policies aimed at the structural causes of that unemployment.

Thus the nature of our chronic unemployment problem compels the administration to think more creatively than it has to date about the causes and possible solutions. One line of examination which needs further thought relates to the growing proportion of total wage costs which are accounted for by indirect wage elements, including the social security tax, the unemployment compensation tax, workmen's compensation premiums, pension contributions, health and welfare contributions, paid holidays, vacations, and a number of other factors. There is a growing belief that the increasing costs of wage supplements—now estimated at about 25 percent of total compensation—may act as a barrier to the employment of marginal and submarginal workers and, at the same time, hasten the introduction of laborsaving machinery.⁵

⁵ Senator Javits does not agree that the evidence is convincing that wage supplements are in fact themselves either the important barrier to the employment of marginal and submarginal workers or the important stimulus to the growth introduction of laborsaving machinery. It is also his view that insufficient productivity, racial discrimination, and need for training are greater barriers to the employment of Negro workers and younger workers than the minimum wage.

While we support the minimum wage laws, there is a need for greater awareness of the effects that extension of minimum wage coverage or an increase in the minimum wage could have on employment opportunities for less skilled individuals, notably the younger workers and Negro workers. For those who are excluded from employment because of indirect, and unwanted, effects of the minimum wage, the result is not to raise their wages but to reduce them to zero.⁶

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

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

Since one of the most critical needs is to increase job opportunities for teenagers, collective-bargaining contracts should permit lower wage rates for unskilled teenagers, and a broadening of training exemptions under the minimum wage laws should be granted by the Federal Government. (See footnote below.)

Improving Job Opportunities

It has been suggested by Theodore O. Yntema, vice president of Ford Motor Co., that it might be possible to find a better substitute that would permit less than minimum wages for workers who would not otherwise be employed and provide, in addition, a government supplement to such employees. A plan to subsidize employment rather than unemployment deserves careful study. While such a plan would involve administrative problems, it might speed the movement of employees to areas of low wages and thus increase the demand for labor in such areas. Improving opportunities for young people and less skilled workers would also be likely to expand under such a plan.

Considering the impact of wage supplements, however, we strongly recommend that the administration study the entire system of the Nation's economic security programs, both public and private, on an integrated basis and with particular emphasis on the employment consequences of these programs. In the Government sector, particularly, we believe that the study is needed on the economic impact of the social security payroll tax and the level at which the payroll tax begins to act as the deterrent to adding new employees and as an incentive for the introduction of labor-saving machinery and equipment.

We also believe that programs should be developed to open up the millions of new jobs that might be made available in our society if imaginative ways could be found to get the workers to those areas of potential employment. Such jobs might be particularly abundant in the home services, where there is a shortage of gardeners, maids,

⁶ Senator Javits would agree only that consideration should be given to the impact of the minimum wage upon on-the-job training programs, which he believes should be stimulated to the maximum extent possible.

repairmen, and women to care for the small children of working mothers. It should be noted that these potential jobs are in addition to the many jobs in our society that already exist but which are going begging. One expert recently estimated there were 250,000 job vacancies now existing in the sales field alone. In order to identify these jobs and to develop more realistic public employment policies, faster progress must be made in developing a statistical series on job vacancies. We note with satisfaction the progress that the Department of Labor is making in this effort, and we urge that it continue to move forward with a sense of urgency. To the extent such figures pinpoint unfilled jobs by occupation and geographic location they would be invaluable in shaping effective manpower training and guidance programs.

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

THE IMPACT OF TECHNOLOGICAL CHANGE

It has been our belief, expressed in these minority views over the past several years, that the Nation is on the threshold of a technological revolution whose scope and intensity are as yet only dimly perceived. The impact of this technological revolution on employment and unemployment, leisure, education, collective bargaining, urban development, and business organization and management will be one of the most crucial domestic issues of the coming decade. The task of political leadership is to look ahead and summon the Nation to meet the challenges and overcome the problems of the emerging future.

The revolution has implications for individuals, labor, government, business, and communities. It will call for a creative response that may often run against the traditional grain of our thinking. Its solution will involve a reshaping of unemployment programs, placement services, apprenticeship programs, employers' job training, union organization, the collective-bargaining process, adult education, and the Nation's overall educational effort. In each case, we must minimize the human costs of adjustment without undermining the dynamic forces leading to growth and change in our society.

But this is not new; technological change has been going on since the earliest days of our history. What may be new and different in the current situation is the pace and nature of today's technological change. Economists differ on how far reaching these differences are, but there is general agreement that changes now taking place are fundamentally altering both the demand for labor and the nature of work in our society.

A key question is whether our rapid rate of technological change creates more jobs than it eliminates. Judging by history, we believe this is its effect. At the same time we would not assert "unquestioningly" that the current technological change will have a net favorable impact upon employment opportunities in our society. The subject needs constant proof and study in the light of changing conditions in the economy.

In this connection, a recent Department of Labor study on technological trends in 36 major American industries points out that historically reduced labor per unit of output, basically the result of technological advancements, has generally been a major source of expansion in markets and employment because of its impact in reducing costs and prices. In other words, technological advancements have resulted in lower prices, wider markets, and more employment to satisfy the increased demand.

A recent study by Dr. Yale Brozen, professor of economics, Graduate School of Business, University of Chicago, discusses in some detail the favorable employment effects of automation. In his study, Dr. Brozen states that "the primary effect of automation is not a reduction in the number of jobs available. Rather, it makes it possible for us to do many things which otherwise could not and would not be done."

Dr. Brozen says that those who fear a great rise in unemployment as a result of automation think in terms of a given list of goods to be produced. By enabling us to do more than we would otherwise do, however, technological change enables us to pay men more and, at the same time, provide more jobs. His study estimates that between 1951 and 1961, 20 million new jobs were created and 13 million jobs were destroyed, leaving a net gain of 7 million jobs.

There has been no increase in unemployment caused by technological change. What has happened is that some people are unemployed who would have been at work but for automation; others are at work who would have been unemployed but for the same automation. Automation changes who is unemployed but it does not increase unemployment.

One way to minimize the displacement effects of automation is to reduce the rate of increase in employment costs. A high rate of increase in employment costs diverts investment to modernization, which causes frictional unemployment by substituting machinery for men. Dr. Brozen estimates that approximately one man is released for every \$35,000 of investment in modernization. He points out that more investment will go to expansion if there is a slower rise in employment costs. He estimates that one new job will open up for every \$16,000 or \$17,000 of expansion investment.

High Rate of Savings Needed

Avoidance of displacement requires a higher rate of savings and investment as well as a less rapid rise in employment costs. The study shows that a larger flow of savings could provide as much capital as employers find it necessary to use for modernization and leave a larger amount available for job-creating expansion. Dr. Brozen points out that in this situation, we could have our cake (higher wage

rates) and eat it (no unemployment) too. In addition, it is clear that the more free and flexible labor markets are, the fewer will be the strains and difficulties in making the necessary adjustments.

One of the most interesting sections of the study discusses the shift in the structure of industry employment. It points out that between 1870 and 1960 the percentage of the total work force employed in the primary industries of agriculture, forestry, fishing, and mining fell from 54 to 10 percent. At the same time, the secondary or fabricating industries, including manufacturing and construction, have risen from about 22 percent of our work force to about 32 percent in 1960.

Also of growing importance are the distributive industries, which provide a large number of the new employment opportunities in our society. There can be no Great Society unless the output of our mature, mass-production industries is broadly and efficiently distributed.

Dr. Brozen suggests that the secondary or fabricating industries now face the same fate faced earlier by the primary industries. He notes:

Just as people might be said to have had their fill of primary products and did not want much of the extra primary product which could be produced with the increased productivity of a given labor force, they now have their fill of secondary products and do not want much of the extra product which can be produced with the increased productivity.

The fact that secondary demand is not moving as fast as productivity and income means that people must be spending their extra income for other goods. What has happened is that we have reached levels of income at which consumers desire the products of the so-called personal service and life-enriching industries, including education, entertainment, travel, research, and medicine. The shift in demand to the services of these industries, which has gone on in the past and which is now becoming even more dramatic, is one of the most persuasive signs of the real and meaningful economic growth that has been occurring in our country.

These changes are being accompanied by a change in the occupational mix in the secondary industries as well as altering the nature of the demand for labor. This growing need is for higher levels of skill and education, a development which has led to an increased emphasis on vocational education, improving the quality of our schools, Federal programs to spur manpower training and retraining, and an increased emphasis on the importance of on-the-job training and retraining in the private sector.

The complex manpower problems which our society now faces are likely to grow more difficult with the passing years. In large part these problems are a byproduct of the outstanding successes of our free enterprise system. Whether we meet the challenge of automation and overcome its accompanying human and social problems—and the manner in which we do so—will determine whether our free economic system as we know it will survive.

Thus far, the Johnson administration has failed to meet adequately this challenge. We are, however, gratified by the administration's support of a Commission on Automation, such as we have suggested in our minority views for the past several years. Nevertheless, the administration still apparently views the current pace of automation and technological change as essentially no different from the mechani-

zation of earlier years. It has failed to identify and attack the new problems of the mature, high-income industrial society. It relies on the search for full employment through the simple panacea of more Government spending, increasing aggregate demand, and more Federal involvement in the economic processes of our land.

The administration has neglected both the challenge and the opportunity through its single-minded emphasis on the role of the Central Government. One fact is clear. The critical need is for broad participation by the private sector in making the needed adjustments to change and sharing in its social costs. The job is of such magnitude that the most useful role for the Federal Government is to act as a catalyst for greater initiative and effort at the State and local level and in the private sector.

The wornout remedies of the great depression cannot be relied upon to build the Great Society. Full employment is essential, but full employment alone—if it should be achieved—will not solve the big problems of America arising from the technological revolution.

RECOMMENDATIONS ON UNEMPLOYMENT AND TECHNOLOGICAL CHANGE

In addition to recommendations already made dealing with the impact on employment of rising costs of wage supplements and the need to find ways of opening up potential job opportunities in our society, particularly in the home services, we make the following recommendations dealing with unemployment and technological change:

A. Education and training.—The direct relationship between the bulk of our unemployment and poverty problems and lack of education and skill as well as other personal handicaps require that we focus our attack in the area of education, training, and rehabilitation.

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

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

Gunnar Myrdal has pointed out that American industry spends on educational functions nearly a third of what government—Federal, State, and local—spends on formal education up to the

college level. This effort includes formal programs and informal training which take place during business hours or after work, in plants, offices, and classrooms with instruction provided by supervisors, other staff members, or outside experts and teachers. We believe that Government should encourage in every proper way such activities in the private sector.

To promote the education and training, we suggest the following:

(1) We recommend for consideration of Congress legislation introduced by Senator Winston Prouty, Republican, of Vermont, and Senator Len B. Jordan, Republican, of Idaho (S. 1130), which would provide a 7-percent tax credit against business expenses for providing training programs for employees and prospective employees. Such legislation would provide a credit for investment in human resources similar to the credit which the administration supported for plant and equipment expenditures in 1962.

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

Private loan assistance has a double advantage. Because of repayments, a given amount of loan funds will assist a great many students over a period of time. Loans also enable a student to “buy” his education on the installment plan in the same way he would buy a car. This is the kind of installment buying that brings vast future returns to the individual as well as to society. We urge that every encouragement be provided by government to improve upon and extend those private plans which guarantee long-term private loans to students.⁷

(3) We urge the acceleration and extension of programs and of training opportunities under the Manpower Development and Training Act and other Federal vocational and apprenticeship training programs. Such acceleration should be at a rate which permits the constructive use of public funds, but no faster.

(4) As suggested by the minority of the Senate Subcommittee on Manpower and Employment, we believe the Manpower Development and Training Act should contain authority to permit a single unemployed worker to be assisted while attending a private vocational education school or technical institute. Since an unemployed person may have a potential or aptitude different from that of other jobless individuals in his area, he should not have to depend for his training on the ability of Federal and State officials to organize a class of persons who need or want precisely the same type of training.

⁷ Senator Javits believes that legislation for loans should include a provision for partial forgiveness of repayment based on scholastic achievement. Such a forgiveness provision would have the effect of extending scholarship aid to the deserving student.

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

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

(7) Our tax laws should be amended to eliminate obstacles in the path of new skill development, which is so vital for the required escalation of skills along the skill ladder. For example, we should permit a taxpayer to deduct, as a business expense, the amount spent for education or training to obtain a new or better job. Today such expenditures are deductible only if required to maintain existing skills or to keep a present job.

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

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

(10) Just as workers who refuse employment without good cause are disqualified from further unemployment insurance benefits, we should consider disqualifying workers receiving such benefits who are referred to training, but who refuse it without good cause.⁸

⁸ Senator Javits urges basic safeguards to prevent injustice in the means by which workers could be disqualified from receiving benefits for refusing to take certain retraining courses. As has been demonstrated by the present system of depriving workers of benefits under the unemployment compensation system for refusing to take available work, this requirement can be evaded. On the other hand, problems of individual freedom in choosing appropriate retraining programs may arise. Therefore, he supports this suggestion in principle, but believes the mechanism for its application must protect against abuse of authority or its arbitrary exercise.

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

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

(2) In order to ease the impact of automation and other causes of economic dislocation in a dynamic economy, the Government should encourage both business and labor to find ways to provide the transferability of pensions and other job rights for individual workers who must change jobs.

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

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

C. *Job information activities*.—(1) The U.S. Employment Service should be encouraged to put more emphasis on preventing unemployment, rather than on alleviating its effects alone, as by increased emphasis on counseling. At the same time, it should supplement—not compete with—private employment services, which should be strengthened so that they can better perform their key role in facilitating labor market adjustments.

(2) The Department of Labor should pursue with great urgency its efforts to establish a nationwide job displacement "early warning system" to facilitate advance planning for technological change by business, labor and government at the community level. In using this information, however, the Department must provide safeguards to insure that information is treated as confidential and does not give a competitive advantage to a business competitor.

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

D. *Alleviating the burden of unemployment*.—(1) To alleviate the hardships resulting from long-term unemployment, we believe that the States—not the Federal Government—should adopt a permanent system of temporary extension of unemployment insurance which would go into effect when certain National

or State indexes or recession-level unemployment are reached. Eight States already have adopted such a permanent system.⁹

(2) Administration of unemployment insurance benefits needs to be greatly improved in order to reduce the drain on funds for the deserving. A person who loses a job because of misconduct, who quits without good cause, or who refuses to take a suitable job should be excluded from receiving insurance benefits. In numerous areas, such exclusion is now only nominal.¹⁰

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

(4) We endorse as a subject for labor-management negotiations, the concept of an installment debt assistance plan for unemployed workers which was first put forward by the minority of the Senate Subcommittee on Employment and Manpower. Under the plan, revolving funds would be established by employers which would give the jobless temporary assistance in meeting installment debts and thus serve to prevent the destruction of incentive and hope which so often accompanies joblessness.

(5) We also recommend that the Congress and the administration give serious consideration to an "income averaging" plan for sharp drops in income due to prolonged unemployment. This proposal, first put forward by the minority of the Senate Manpower and Employment Subcommittee, would extend the provision of the 1964 Revenue Act which clarified and extended the "income averaging" provisions of the Internal Revenue Code, sections 1301-1305, for individuals whose income undergoes a sudden upward surge. The merits of the provision of the 1964 act cannot be denied. However, there is even greater equity for a similar type of tax treatment for the person suddenly unemployed and without any income whatsoever. Similarly, we suggest study of a proposal under which an individual would be allowed a deduction for any loss of income he may experience because of unemployment, provided he registers with the U.S. Employment Service and actively seeks work. If the taxpayer, in the year of unemployment, does not have enough taxable income against which he can offset the full loss, he could carry over any unused part of the deduction to another income year.

(6) We must not neglect what is certainly one of the most discriminated against minorities in the Nation, the physically

⁹ Senator Javits recommends that Federal standards of unemployment compensation should be enacted to support and help those workers who, through lack of training and other factors, are at present at a disadvantage in the current stage of our economic development, and to strengthen their low level of demand until other selective measures give the needed impetus to U.S. economic growth.

¹⁰ See Senator Javits' footnote 8, p. 87.

and mentally handicapped. The rehabilitation of a handicapped person so that he or she is able to work represents a clear economic gain for the Nation as well as a service to the individual. Rehabilitation programs and employer-directed educational campaigns should be pressed with imagination and urgency.

STRENGTHENING THE FARM SECTOR OF OUR ECONOMY

The self-serving claims in the Economic Report that our country has been on a rising tide of prosperity are accompanied by the observation that net income per farm has been going up. Praise for the great efficiency and productivity of the Nation's farmers continues to be lavish. But these claims and such praise have worn thin in the face of the facts about the agricultural situation—facts which have been repeatedly overlooked instead of being squarely faced.

The fact is that the number of farm family and hired workers has declined by 900,000 during the last 4 years.

The fact is that total farm population has declined by well over 2.25 million during the last 4 years.

The fact is that farm parity, which reflects the ratio between the prices farmers receive for their products and the prices of items they purchase, has consistently been below 81, the figure in December 1960, and it is down to 75 today—the lowest since the depression years of the 1930's.

The fact is that continued inflation has been accompanied by an increase of more than \$3 billion in the costs of farm production during the last 4 years.

The fact is that the indebtedness of the Nation's farmers increased by \$12 billion during the last 4 years—from \$26.2 billion to \$38.3 billion.

The fact is that during the last 4 years total realized net farm income increased by \$700 million; but this increase is in terms of inflated dollars—not real dollars. The real dollar increase, in terms of 1960 dollars, amounted to \$200 million, which is far below the increase enjoyed by other segments of our economy.

These facts should be kept in mind when evaluating the objectives set forth in the administration's farm bills: "to increase farm income, reduce surpluses, and reduce costs to the Government."

The failure of the administration's programs to enable the farm sector to share fairly in the national net income, with the accompanying mass exodus of farmers and their families from the farms, has aggravated the serious unemployment problem. It has been estimated that at least a third of the excess employment in the United States is due to this movement.

Instead of facing up to the failure of its programs, administration spokesmen, such as Kermit Gordon, Director of the Bureau of the Budget, are now saying that we only need 1 million of the three and a half million farmers to produce for our needs. In the budget message itself appear these words: "But in view of the market outlook for farm commodities at home and abroad, farming alone cannot be expected to provide a decent living in the future for more than about 1 million farm families, *even with continued Government assistance.*" [Emphasis supplied.]

Farm programs should be aimed at moving agriculture toward—not away from—the competitive market system. And they should be accompanied by much greater emphasis on rural development to provide job opportunities for people who would otherwise move into the cities and face the hardship of prolonged unemployment. Some aspects of what is called the Negro problem are, in fact, an economic problem that arises when any group is in the process of migrating on a large scale from rural to urban areas.

We are pleased to note that recent statements by the President and Secretary of Agriculture recognize the need for action in rural development. And we are encouraged that the administration is talking of extending more of the assistance under the Economic Opportunity Act and similar programs to rural areas, where nearly 50 percent of the problem exists. Heretofore only about 10 percent of the assistance has gone to the rural areas.

Retraining and other educational centers to fit marginal farmers for more fruitful lines of work are needed, along with more vocational guidance and improved information services regarding off-farm jobs. In this connection, we urge the complete updating of the Vocational Education Act of 1917, which was long primarily directed toward agricultural skills, in order to put more emphasis on training for skills that are likely to be in greater demand in the future.

At the same time, we note that the greatest emphasis in the research activities of the Department of Agriculture is on the production side as distinguished from the consumption side. We believe the emphasis should be the other way, and that a crash program of research to find increased industrial uses for agricultural commodities, particularly those determined to be in excess production, should be carried out. There have been exceptional developments in this area in recent years, and continued success of these efforts will assure the profitable use of more farm resources.

Food Reserves

Republican spokesmen have for several years pointed out that the administration should establish reserves of feed grains and wheat needed to provide security to our country in the event of national emergencies. Not until this is done can one intelligently talk of “surpluses,” because only the amounts of such commodities which are in excess of such reserves are properly termed “surplus.” We are pleased to note that the President’s message of February 4, 1965, recommends such action.

We deplore the administration’s failure to provide for cross-compliance in the cotton land retirement program under last year’s cotton-wheat bill, with the result that \$45 to \$60 per acre is paid for retiring cotton land from production while the owner can turn around and plant these acres to feed grains and soybeans.

A recent study paper entitled *A Free and Prosperous Agriculture*, prepared by the Republican Citizens Committee of the United States, criticizes the administration’s commitment to the control philosophy for agriculture despite the fact that the regulated portion of agriculture is in deep and costly trouble. It points out that attempts to correct problems in the cotton industry have only compounded the problem. This program has increased Government costs, curtailed exports, shrunk acreage allotments, and piled up surpluses. The admin-

istration has sought to make these errors tolerable by the payment of a subsidy to cotton mills in 1964 and 1965.

Another example is the dairy program. In 1961, the Secretary of Agriculture increased price supports for dairy products. This increase in price supports produced a trebling in the Federal Government's purchase of dairy products. While only 3 percent of the national production of milkfat was purchased by the Commodity Credit Corporation in 1960, almost 9 percent was so acquired in 1962. To correct this situation the Secretary of Agriculture recommended Government controls on the marketing of milk. Congress rejected this recommendation and later the Secretary reduced dairy supports to the present minimum levels and the needed adjustments occurred.

The voluntary feed grain program, while credited with reducing stocks, has only managed to keep production at the same level as it was in 1961 and, in addition, has been extremely costly. Stock reduction has resulted from increased domestic consumption and exports—not the feed grains program. Between October 1, 1961, and October 1, 1964, the carryover of feed grain was reduced 25 million tons. The cost of this reduction ran close to \$2.5 billion, or \$100 per ton or \$3 per bushel. This compares with \$1.25 per bushel—the support price for corn. Through price supports, corn production has become more profitable, which necessitates even higher inducements to get farmers to refrain from growing it. Under the present program, it costs more per bushel to induce farmers to cut production of corn than it does to grow it.

Despite the historic and rapid decline in farm population, the number of employees in the Department of Agriculture has increased from 98,694 in 1960 to over 115,000 in 1964. At the same time, expenditures of the Department of Agriculture totaled more than half of net realized farm income for 1964. Less than half of this goes to farmers through price support and production control programs. A significant portion is used for commercial storage, transportation, school lunch programs, and foreign aid. There has been noticeable improvement in the breakdown of the Department of Agriculture budget so that even a brief examination makes clear how much thereof is not passed on to farmers. It would be even more helpful to public understanding to transfer the cost of the Public Law 480 program to the foreign aid budget.

We are pleased that the President's message of February 4, 1965, calls for the establishment of a national advisory agricultural commission on food policy which Senator Javits had, along with Republican Senators, proposed in legislative form as early as October 1962, and in every Congress since the 87th. A basic review of our food policy, including the goals of our existing agricultural programs and the effectiveness of their operation by an independent governmental body has long been badly needed. Study of the overlapping functions of the Department of Agriculture and Department of Interior in the area of rural resources should also be given consideration.

Summary of Recommendations

In summary, we recommend that the administration take coordinated action along the following lines:

- (1) Reorient the whole network of Government price-support programs toward a strong market economy for agriculture.

(2) Reject the repudiated doctrine of "supply management" which is based on strict Government controls and supervision over farmers.

(3) Expend greater efforts to develop new and increased uses for agricultural products.

(4) Establish sound inventory and reserve policies for all price-supported commodities, with disposal of such stocks not to be permitted in a manner which disrupts normal markets.

(5) Administer the Economic Opportunity Act and similar programs to give the rural areas a share thereof in proportion to the standard of living which exists in these areas in comparison with the rest of the country.

(6) Take action to encourage greater industrial and economic development in rural areas suffering from declines in farm population.

(7) Avoid inconsistent actions, such as failing to provide for cross-compliance in crop and retirement programs.

(8) Take immediate steps to halt discrimination in the use of public funds in the conduct of the Department of Agriculture's programs, ranging from education to land conservation. (We make this recommendation in light of a recent charge by the U.S. Commission on Civil Rights that such discrimination has been widespread.)

(9) The President's program does not place sufficient emphasis on expanded authority for drought relief, which farmers throughout the entire Northeast and Midwest sought so earnestly this year. Additional attention by the Department of Agriculture should be focused on farmers affected by high production costs due to natural disasters.

(10) We urge that the President set forth an administration position on dairy legislation in the near future. In addition, the details of the President's legislative proposals on wheat, cotton, tobacco, wool, and other important commodities should be presented.

AGRICULTURE IN THE KENNEDY ROUND OF TRADE NEGOTIATIONS

One of the most critical uncertainties now facing American agriculture is the outcome of the current GATT negotiations for the reduction of barriers to trade. The threat to U.S. agricultural interests arises from the protectionist and inward-looking nature of the emerging common agricultural policy of the European Economic Community. If American farm exports are not to suffer a sharp decline, it is essential that the United States receive significant concessions on agriculture from the EEC.^{11, 12}

¹¹ Senator Javits is also deeply concerned with the ineffectiveness of the administration's negotiations with our trading partners to speed the overall progress of the Kennedy Round and the lack of U.S. initiatives to heal the growing rift between the EEC and EFTA or to plan on trade liberalization beyond the Trade Expansion Act, which expires on July 1, 1967. Effective trade liberalization is essential not only to strengthen the competitiveness of the U.S. economy but also to strengthen the economic and political unity of the industrialized nations of the non-Communist world. This, in turn, is the key to growing markets for the goods of developing nations and our ability and that of our allies to extend the necessary assistance to developing nations which will enable them to develop within a democratic framework. Also, there is a great need for the harmonizing of policy among free world industrialized nations with respect to East-West trade.

¹² See Representative Ellsworth's additional views.

Importance of U.S. Agricultural Exports

The United States is the world's largest exporter of farm products. Approximately one-fifth of all agricultural commodities entering world agricultural exports are supplied by the United States.

In fiscal year 1963-64, the output of 80 million U.S.-harvested acres moved into the agricultural export market. Nearly 1 out of every 4 harvested acres produced for export. On a value basis, U.S. agricultural exports were equivalent to 16 percent of the \$36.9 billion cash receipts from farm marketings in 1963.

The export market in fiscal 1963-64 provided a market for three-fourths of U.S. wheat production; two-thirds of the rice; three-fifths of the nonfat dry milk; half of the dried edible peas; over two-fifths of the tallow, soybeans, and hops; about a 3d of the cotton, rye, and dried prunes; around a 4th of the lard, dried whole milk, and tobacco; a 5th of the cottonseed, raisins, and dried edible beans; one-sixth of the grain sorghums, and barley; and a 10th of the flaxseed and corn. (However in terms of farm sales, corn exports were equivalent to 23 percent.)

U.S. wheat and feed grain exports to the EEC alone earned \$385,335,000 in fiscal 1964.

(See table I.)

TABLE I.—*Share of U.S. agricultural production exported,¹ fiscal years ending June 30*

| Commodity | Average, 1959-61 | Percent | | |
|---|---------------------|---------|------|------|
| | | 1962 | 1963 | 1964 |
| Wheat, including flour equivalents..... | 41 | 58 | 58 | 75 |
| Rice..... | 52 | 54 | 52 | 64 |
| Nonfat dry milk..... | 34 | 40 | 45 | 62 |
| Dried edible peas..... | 58 | 60 | 50 | 49 |
| Tallow..... | 41 | 41 | 35 | 44 |
| Soybeans..... | 39 | 35 | 44 | 41 |
| Hops..... | 37 | 52 | 46 | 41 |
| Rye, grain..... | 25 | 27 | 51 | 34 |
| Cotton..... | 41 | 34 | 24 | 32 |
| Dried prunes..... | 28 | 30 | 28 | 30 |
| Lard..... | 21 | 18 | 18 | 28 |
| Dried whole milk..... | 28 | 18 | 43 | 28 |
| Tobacco..... | 29 | 29 | 23 | 26 |
| Cottonseed..... | 23 | 18 | 18 | 23 |
| Raisins..... | 21 | 28 | 24 | 21 |
| Dried edible beans..... | 17 | 8 | 20 | 20 |
| Grain sorghum..... | 15 | 18 | 23 | 17 |
| Barley, grain..... | 23 | 21 | 15 | 17 |
| Flaxseed..... | 23 | 7 | 13 | 11 |
| Corn..... | 6 | 11 | 11 | 11 |

¹ The commodities listed in this table represented over ¾ths of the value of agricultural exports in 1963-64.

Reciprocity in the Trade Negotiations

Agricultural exports account for about 25 percent of U.S. merchandise exports. Agricultural products represents an even higher percentage, about one-third, of total exports to the EEC, the United Kingdom, and Japan. (See table II.)

On the other hand, U.S. agricultural imports from the same countries, as a percentage of total imports, run as follows: EEC, 10 percent; United Kingdom, 2 percent; and Japan, 3 percent. (See table III.)

Thus, it is evident that the United States could achieve reciprocity in comprehensive trade negotiations with the three principal industrial trading partners, the United Kingdom, the EEC, and Japan only if there is significant liberalization of trade in agricultural products.

In the passage of the Trade Expansion Act, and since the Congress has made very clear its expectation that trade negotiations must assure improved access to world markets for U.S. agricultural products, Congress has been reassured by past statements by both President Johnson and his chief negotiator, Gov. Christian Herter, that this is the firm objective of the United States. We expect that this objective will be maintained.

TABLE II.—U.S. exports, 1961, 1962, and 1963

[In millions of dollars]

| | Total exports | Average exports | Average exports as percent of total exports |
|--|--------------------|-----------------|---|
| 1961..... | 18,908 | 5,024 | 26 |
| 1962..... | 19,216 | 5,034 | 26 |
| 1963..... | 20,739 | 5,585 | 27 |
| 1961-63 average..... | | | 26 |
| To European Economic Community: | | | |
| 1961..... | 3,504 | 1,160 | 33 |
| 1962..... | 3,584 | 1,151 | 32 |
| 1963..... | 3,887 | 1,173 | 30 |
| 1961-63 average..... | | | 32 |
| To United Kingdom: | | | |
| 1961..... | 1,110 | 430 | 39 |
| 1962..... | 1,057 ¹ | 408 | 39 |
| 1963..... | 1,144 ² | 408 | 36 |
| 1961-63 average..... | | | 38 |
| To Japan: | | | |
| 1961..... | 1,780 | 554 | 32 |
| 1962..... | 1,410 | 451 | 34 |
| 1963..... | 1,637 | 651 | 38 |
| 1961-63 average..... | | | 35 |
| To Canada: | | | |
| 1961..... | 3,565 | 1,491 | 14 |
| 1962..... | 3,745 | 1,513 | 14 |
| 1963..... | 4,039 | 1,597 | 15 |
| 1961-63 average..... | | | 14 |

¹ Includes \$70,000,000 in transit shipments.² Includes \$90,000,000 in transit shipments.³ Includes \$187,000,000 in transit shipments.

Source: U.S. Department of Commerce. Overseas Business Reports, May 1963 and May 1964.

TABLE III.—*U.S. imports, 1961, 1962, and 1963*

[In millions of dollars]

| | Total imports | Average imports | Average imports as percent of total imports |
|--|---------------|-----------------|---|
| 1961..... | 14,657 | 3,691 | 25 |
| 1962..... | 16,251 | 3,868 | 24 |
| 1963..... | 17,005 | 4,017 | 24 |
| 1961-63 average..... | | | 24 |
| From European Economic Community: | | | |
| 1961..... | 2,223 | 227 | 10 |
| 1962..... | 2,434 | 232 | 10 |
| 1963..... | 2,515 | 239 | 10 |
| 1961-63 average..... | | | 10 |
| From United Kingdom: | | | |
| 1961..... | 894 | 22 | 2 |
| 1962..... | 1,003 | 25 | 2 |
| 1963..... | 1,071 | 27 | 3 |
| 1961-63 average..... | | | 2 |
| From Japan: | | | |
| 1961..... | 1,076 | 45 | 4 |
| 1962..... | 1,352 | 46 | 3 |
| 1963..... | 1,494 | 46 | 3 |
| 1961-63 average..... | | | 3 |
| From Canada: | | | |
| 1961..... | 3,264 | 194 | 6 |
| 1962..... | 3,649 | 188 | 5 |
| 1963..... | 3,826 | 175 | 5 |
| 1961-63 average..... | | | 5 |

Source: U.S. Department of Commerce, Overseas Business Reports, May 1963 and May 1964, and USDA Foreign Agricultural Trade by Countries, calendar year 1963.

The GATT Ministers meeting in May 1963 to launch comprehensive trade negotiations adopted resolutions which, among other things, stated the following:

That a significant liberalization of world trade is desirable, and that, for this purpose, comprehensive trade negotiations * * * shall cover all classes of products * * * including agricultural products * * * that the trade negotiations shall provide for acceptable conditions of access to world markets for agricultural products * * * in furtherance of a significant development and expansion of world trade in such products.

In spite of this clear statement by the Ministers that the negotiations must include agricultural products, negotiations on industrial products only were launched on November 16, 1964. Agriculture was left aside. The explanation which we have been given for this action is that it was impossible to reach agreement with the European Economic Community on rules and methods for conducting the agricultural negotiations because the Community had not yet taken certain major decisions concerning its common agricultural policy, notably the level of grains prices. The European Economic Community Council of Ministers did, in December 1964, agree on common grains price levels to go into effect July 1, 1967.

So far the agricultural negotiations have not been engaged. Our negotiators should be aware of the apprehension this continued delay creates in the Congress and in the American public.

In the meantime evidence mounts that the common agricultural policy of the EEC is protectionist, trade restrictive and inward looking. Variable levies on poultry have recently been raised to over 17 cents a pound. This is more than the U.S. producer receives for his broilers. To compound matters some EEC member states are subsidizing poultry exports in competition with U.S. exports to third countries such as Switzerland and Austria in the full amount of the levies on imports into the Community.

The grain price levels adopted by the Community will result in a substantial increase in prices received by farmers in France, the principal grain producing area in the Community, and are certain to stimulate production at the expense of imports. Prices received by French farmers for corn and barley will be nearly double the prices U.S. farmers get. Variable levies will be imposed on imports to make them more expensive than domestically produced grains in the Community.

Extending Variable Levies

More recently the Congress has been disturbed that the Community would extend the variable levy system to a wide variety of other products, including some where the United States obtained concessions in the form of fixed bindings in the Dillon round. Our apprehensions have been aroused in this connection in respect to fruits and vegetables and even to soybeans, on which we obtained a zero duty binding in the Dillon round.

The Kennedy Round will be in serious trouble if our negotiators do not succeed in obtaining modifications and limitations in the variable system of the Community that will permit our share of the trade in agricultural products to be maintained. We do not argue that our percentage share of these markets necessarily be increased because as consumption increases the volume of our exports will increase, even though our share of the market remains the same.

The proposal of Vice President Mansholt who is in charge of agriculture in the Common Market merely to freeze agricultural price supports at the levels set by the Community Council of Ministers would not constitute trade liberalization and would not be acceptable. We hope our negotiators will reject this approach. The freezing of internal price levels in relation to a world reference price as the Community has proposed would eliminate all competition and make efficient agricultural exporting countries residual suppliers in world markets. We have already seen what has happened in poultry under such a system where the Community's levies on imports have advanced from 9½ cents a pound when its regulation first went into effect to the present prohibitive level of over 17 cents a pound.

We hope our negotiators will keep in mind the overriding need to obtain agricultural trade liberalization and congressional interest in this matter. If the agricultural logjam is not broken soon, we may come to the point where we should consider suspending the negotiations until progress is made in agriculture.

STRENGTHENING THE FEDERAL SYSTEM

In recent decades, the United States has undergone a startling transformation. The population explosion, the rapid growth of our cities and suburban centers and the accelerating pace of technological change pose new problems while aggravating old ones.

Mushrooming cities and suburbs, arising from the rapid growth of our population and the continuing migration from rural areas, create problems in the fields of housing, education, transportation, and health. Automation intensifies the search for new job opportunities and creates pressure for augmenting job security. The question is not whether Government shares responsibility for solving these problems. The issue is how our society can most effectively meet these pressing needs within the framework of our Federal-State system. As Professor Galbraith said during the committee's annual hearings:

The great economic anachronism of our time is that economic growth gives the Federal Government the revenues while, along with population increases, it gives the States and especially the cities the problems.

We oppose excessive Government centralization to solve these problems and support, instead, the Federal system of shared sovereignty. We believe that State and local governments are closer to the people and more sensitive to their own needs and have greater flexibility in experimenting with new approaches designed to meet those needs.

Today our Federal system is in danger. The threat arises primarily from the philosophy of the Democratic administration which supports the spread of Federal activity into areas formerly reserved for State and local action; it is intensified by the growing tendency of the Johnson administration to bypass the States and to deal directly with local governments; and it is perpetuated by the financial crisis facing many State and local governments, partly caused by revenue sources being turned over to the Federal Government.

The growing dimensions of the threat are indicated by the existing scope of Federal aid to the States with the controls that accompany such aid. The customary avenue of Federal financial assistance to States and localities has been the grant-in-aid program begun in the great depression when State and local governments were under severe financial pressure. Presently, there are more than 80 such programs, involving nearly \$10 billion annually.

The administration of these programs has become remarkably complex and costly. State and local governments are often critical of Federal grant provisions calling for matching funds which drain off resources required to meet other program needs which they deem pressing.

There is a compelling need for a periodic review of the concept and operation of the entire grant-in-aid system in order to eliminate inequities and shortcomings. We recommend that such a review be undertaken immediately by the appropriate committees of Congress.

In spite of the financial squeeze, State and local governments have increased their action to meet their responsibilities. Over the years they have expanded their expenditures to assume an increasing share of the responsibility for improving living and working conditions and

educational opportunities. State spending in the past decade has risen more rapidly than gross national product, personal income, or Federal expenditures. Both State and local debt have doubled over the past 10 years.

Although Federal grant-in-aid programs have been substantially extended during this period, taxation at the State and local levels has carried the burden of State expenditure increases. However, the expansion of State taxation plus growing Federal tax liabilities have strained the revenue-raising capacity of the States and local governments. It is clear that to effectively meet their growing obligations the States, as well as the local governments, must develop new revenue sources.

We do wish to note, however, that the local property tax has responded well to public needs, although it is generally felt that this tax can and should be improved upon by Government action. Those State and local governments that have moved vigorously to update the property tax have been among the most successful in meeting their revenue needs.

What might be done by the Federal Government to strengthen the fiscal capacity of State and local governments?

Federal property, traditionally tax exempt, is distributed unevenly throughout the country with 11 States containing four-fifths of all federally owned lands. Since State and local governments rely on the property tax for almost 50 percent of their revenue, this tax immunity is significant.

There are very few instances where the Federal Government makes payments to the States which are in lieu of taxes. There is considerable misunderstanding, and some payments are considered to be in lieu of taxes when they are not really that. Even in the few instances where payments have been authorized, it has not been done. The Federal Government should permit local governments to tax this property or provide more equitable compensation to aid localities in shouldering more State obligations.

Unrestricted Revenue Sharing

The Federal Government could return to the States a portion of Federal revenue collections. In this manner, the Federal Government could ease the State and local burden of providing for growing public demands without assuming control of the State and local functions. This proposal is not new. Press reports indicate that a Presidential task force report, which has not been made public, advocated a version of such an unrestricted revenue-sharing plan.

Although reports say that debate on the proposal within the administration was vigorous, there has as yet been no opportunity for the Congress and the public in general to participate in a thorough discussion of the plan and possible alternatives to it. In our view, the need to strengthen the ability of State and local governments to meet their rapidly increasing responsibilities is urgent. While we do not at this time take a position on unrestricted revenue sharing, we believe that it would be deplorable if opposition to the plan within the administration were to nip in the bud a full-scale public review and alternative plans.¹³

¹³ Congressman Curtis does not agree with the revenue-sharing plan, but feels it merits careful consideration and study.

In fact, press reports indicate the proposal may have already been killed in debate behind closed doors. The New York Times reported on December 15, 1964, that because of heavy opposition within the administration the plan would not be presented to Congress during the current year. We were pleased, however, at Budget Director Gordon's testimony that the plan was still under active consideration by the administration. We have also noted with interest that Professor Galbraith gave his support to unrestricted grants to State and local governments.

Even if the administration fails to make a proposal in this area, we believe there should be an examination by the Fiscal Policy Subcommittee of methods to strengthen the fiscal capacity of State and local governments and of the unrestricted revenue-sharing plan in particular. Public discussion now could lay the groundwork for soundly conceived and well-executed action in the future.

Projections indicate that revenue devices presently available to States and localities are not likely to adequately provide for future public needs. The solution is not increased Federal Government control through more grants-in-aid, but the provision of more revenue to State and local governments. A system of more productive taxation must develop to insure that important public needs are effectively met and not subordinated to Central Government objectives. Too large or dominating a role for the Federal Government will weaken State and local governments and impair the search for solutions to the problems of a rapidly growing and changing society.

RESEARCH AND DEVELOPMENT, ECONOMIC GROWTH AND THE FEDERAL ROLE

The impact of research and development on economic growth is large and likely to grow even larger in the future. It would not be an exaggeration to say that innovation—the development of new products, processes, and techniques—is the foundation upon which the most valued economic growth rests.

A McGraw-Hill survey released in 1963 showed that as a result of new discoveries in the laboratories, manufacturers expect that by next year 13 percent of their sales will be in new products not now known. The survey also pointed out the manufacturers as a whole said that 25 percent of their 1962 sales were in new products not made 10 years ago.

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

However, there already is some evidence that our margin of technological superiority may be diminishing as other nations step up their research and developments efforts. The Survey of Current Business published by the U.S. Department of Commerce, noted in its January 1964 issue that "*** technological advances in foreign countries are rapidly catching up with our own. ***" One indication of

increasing competitive pressures in an area where the United States has long been a leader is the increase in imports of capital equipment into the United States in the postwar period.

An aspect of research and development which demands particular attention is the striking growth of Federal support of research and development in the universities and within industry. This growth of Federal participation has changed the nature of the Nation's R. & D. effort and has raised serious questions about the proper allocation of scarce scientific personnel and resources and the ultimate effects upon economic growth of this deep and growing Federal involvement.

The Growing Federal Role

Today the Federal Government supports more than two-thirds of the national R. & D. effort. Total Federal spending in this area amounts to over \$15 billion, compared to \$3.1 billion in 1954. About 60 cents of every dollar spent in industry is supplied by the Federal Government, compared to 40 cents a decade ago. Universities now receive about \$1.6 billion annually in Federal R. & D. support. One expert estimated that Federal funds now support about three-fourths of the scientists and engineers performing R. & D. at our colleges and universities.

About 90 percent of total Federal R. & D. funds are devoted to defense, space, and atomic energy activities. By contrast, only about \$5 billion of the Nation's total R. & D. bill is spent for the development of new products, processes and techniques in the private sector. It is vital that a major effort be devoted to R. & D. related to national defense and space. But the Nation's security and well-being also demands a high and sustained rate of economic growth based upon a technical and scientific superiority that is only partly satisfied by defense and space-related R. & D.

The Nation must face up to the question of whether a disproportionately large share of scientific and technical personnel and resources are being devoted to the Government's objectives rather than to the promotion of economic growth and the creation of new civilian jobs. Some evidence indicates that other leading industrial powers are threatening to outstrip the technical superiority of the United States by spending a larger share of their gross national products on R. & D. oriented toward the promotion of economic growth and the development of new and better products for the civilian market.

Federal spending for R. & D. as well as other developments also may be weakening incentives for private investment in research by industry. Some of the Nation's most basic industries clearly are making an inadequate research and development effort. In 1957, the average company-financed research expenditure per employee in companies performing research was \$353 in manufacturing industries, but only \$54 in nonmanufacturing industries. In such industries as food processing, transportation, textiles, machine tools, lumber and wood products, only slightly more than 1 percent of total employees were scientists and engineers, contrasted to growth industries, such as chemicals and electronics, where the number of scientists and engineers is almost 10 times greater.

In the universities, fears have been increasingly voiced about possible imbalances that are developing between teaching and research, between basic and applied research and between science and the humanities. The Nation's scientific and technical resources are limited and cannot be expanded indefinitely merely by appropriating dollars from the Federal Treasury.

It is not enough to say, as President Johnson does, that no one need fear big and powerful central government. It is the duty of responsible citizens to question whether the activities of the Federal sector, however benign in intent, may not in the long run have a pernicious influence on the Nation's security and well-being.

The danger in the area of R. & D. is clear. The need is for thorough and objective study to devise a wise national policy for the future course of Federal support for R. & D. that would insure that (a) scientific resources are not unnecessarily diverted to public purposes at the expense of private R. & D.; (b) expenditures for R. & D. do not increase at a rate which impairs the high quality of the overall effort; (c) imbalances are minimized between the sciences, the sciences and the humanities, and between teaching and research; and (d) any major effort to control the direction of R. & D. will not slow down its progress and lead to serious long-run economic and social problems for the Nation.

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

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

Research and Development Recommendations

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

- (1) A tax deduction as current business expense of outlays for machinery and equipment to be used directly in research and development within reasonable limits in comparison with net income.

- (2) Strengthening of the patent laws to afford a higher degree of protection to investment for research and development and thus to encourage business to take the financial risks of a research and development program. We do not believe that a system under which the Federal Government will in all cases hold all patent rights arising from research financed in whole or in part by Fed-

eral funds is either equitable or conducive to maximum realization of our inventive potential.

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

(4) An overhaul of the law relating to depreciation, obsolescence, and amortization deductions. The recent administrative revision of depreciation schedules and regulations is not responsive to the real needs of the average business and is infinitely too complex for understanding and administration.

(5) Specific responsibility for coordinating the diffuse efforts of Federal agencies now engaged in providing an adequate and continuing body of information on scientific and technical manpower should be vested in a single agency of the Government.

(6) We urge that consideration be given to legislation which would permit tax credits to individuals and corporations for their contributions to basic research. For individuals, contributions to universities or nonprofit organizations for basic research would be treated as a credit against taxes. By the provisions of such legislation, the individual taxpayer could claim 90 percent of his contribution as credit against his tax liability up to a total of 5 percent of that liability. For businesses which undertake basic research, there would be a credit of 75 percent of the contribution made up to a total of 3 percent of the tax liability. Such a plan, as proposed by Representative Curtis, would not only encourage an increase in private spending for basic research, but it would also permit a reduction in the Federal share of the national R. & D. budget.

(7) A congressional Office of Science and Technology should be established to provide objective analysis which the Congress increasingly needs to make sound judgments among varying R. & D. proposals, as has been suggested by Congressman Widnall.

OTHER RECOMMENDATIONS

I. Antitrust

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

II. National emergency strikes

(1) Loss of time through work stoppages constitutes a heavy drag on the domestic economy, as the recent auto work stoppage and the dock strike demonstrated. There is considerable opinion that the protracted steel strike in 1959 was a major cause of the 1960 slowdown in the economy.

Because the adjustments required by rapid technological advance may contribute to a rise in serious and protracted labor disputes, we strongly urge that the Joint Economic Committee make an intensive study and report on problems relating to industrywide collective bar-

gaining and industrywide strikes and lockouts. The committee should study:

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

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

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

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

Legislation should be developed as a result of the studies of such a committee in order to more effectively deal with disputes which cause nationwide economic paralysis or which endanger the public health or safety.

(2) In the area of labor-management relations there is much room for cooperation between labor, management, and Government to resolve differences over wages, the impact of rapid technological change, and other problems which involve the public interest. The Manpower Development and Training Act of 1962 contains section 205(b) calling for the establishment of such tripartite groups on a local, regional, and industry basis. Forty-nine State and 975 local groups have been formed across the country under this provision of the act. This movement needs to be pressed, since there were 5,000 of these committees in the United States during World War II.

III. Discrimination in employment and training

(1) The Council of Economic Advisers on September 24, 1962, estimated the economic loss to the United States resulting from racial discrimination in employment at about \$13 billion a year. The full utilization of the present capabilities of the nonwhite population, the Council said, would increase gross national product by about 2.5 percent and assist significantly in promoting a higher rate of growth in the coming years. The drag which racial discrimination in employment and training exerts upon our growth makes it imperative that management and labor undertake a major effort to eliminate such discrimination. We are gratified that an Equal Employment Opportunity Commission to deal with discrimination in employment, such as we have suggested for several years in these views, has now been enacted. However, there has been far too great a delay in appointing commissioners and getting the program, which begins on July 2, 1965, underway.

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

desirability of legislation to prevent businesses engaged in interstate commerce from practicing age discrimination.

IV. Economic policy goals

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

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

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

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

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

V. Statistical research

The Nation's statistical programs are the best in the world but considerable work remains to be done in improving them. Better economic statistics will lead to better economic decisionmaking. We recommend that the statistical agencies of the Government undertake or accelerate their efforts to—

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

(b) Develop improved regional and State economic accounting.

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

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

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

VI. Housing and urban development

(1) We are encouraged by the administration's willingness to accept Republican proposals and Republican directions with respect to several important aspects of housing and urban renewal. Indeed, the Economic Report makes specific reference to the Republican plans, adopted last year by Congress, for rehabilitation and code enforcement, including a new low-interest loan program for homeowners, tenants, and businessmen. Similarly, in his message on urban problems, the President reversed his emphasis of last year on commercial redevelopment, and accepted the Republican suggestion for a new priority for providing adequate housing for all Americans. The substitution of the use of private rental housing in our low-income housing programs, for at least a part of the usual, unsatisfactory conventional public housing developments, is also an adoption of a plan first offered by Republicans last year.

Much more remains to be done, however, before we can be assured that the resources allocated to improving our cities and our living environment in general are being used in the most effective manner.¹⁴ The proposed dropping or phasing out of such programs as elderly and college housing loans, which Secretary Dillon in his testimony regarded as so successful, in favor of untried formulas involving additional government subsidies and control should be avoided. Announcement of any administrative regulations for the code enforcement and rehabilitation sections of last year's housing legislation have been unduly delayed. This has caused an unfortunate and unnecessary delay in their implementation. Adequate compensation and relocation assistance is still lacking for those displaced by Government projects.¹⁵ We recommend careful congressional scrutiny of all new programs in this field, and of the administration of present laws before taking any further action.

In particular, we are concerned that the Federal Housing Administration may become a hostage for welfare measures which, while they may be called for, do not belong under FHA jurisdiction, and only serve to undermine confidence in the FHA mortgage insurance system for conventional housing. We are also concerned with reports that constituent agencies of the HHFA are not responding as quickly as they should to the requirements of title VI of the Civil Rights Act of 1964.

We urge that thorough consideration be given to the establishment of a Federal Limited Profit Housing Corporation to finance middle-income housing through the sale of tax-free bonds in the capital

¹⁴ Senator Javits notes with approval that the President's message on the cities submitted to Congress on Mar. 2 recognized the need for a Department of Housing and Urban Development, as well as the principle of metropolitan regional planning, proposals which he has been urging for some years.

¹⁵ We note that the problem of adequate compensation and relocation assistance is not peculiar to urban development, but is of growing importance wherever Government projects are undertaken. We specifically refer to the recommendation of the Section of Mineral and Natural Resources Law of the American Bar Association made at its midwinter meeting in New Orleans this February. It reads:

"Resolved, That the American Bar Association urges the Congress to enact legislation which would clarify and affirm the right of a condemnee to the diminished value of the remainder of his property or property right, if otherwise entitled thereto under applicable principles of law, where the taking of the condemnee's property or property right for navigable river control purposes involves also the taking of the most feasible and economical means of access to such remainder by navigable stream or federally owned or controlled access road."

market, as has been proposed by Senator Javits for a number of years.¹⁶

VII. *Miscellaneous*¹⁷

(1) We recommend consideration of means to encourage profit sharing by employees, including restricted stock options, stock-purchasing plans, and other methods of stockholding, as part of or in lieu of increases in wages and salaries.

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

(3) The administration's plan to drop the withholding rate in 1964 from 18 to 14 percent, in many individual cases more than drop in tax liabilities, is working severe hardships on many taxpayers. Not only are many taxpayers being required to pay large and unexpected taxpayments, in spite of the tax cut, but many others will receive smaller refunds than usual. Aside from the personal hardships that this involves, the situation is likely to have a destabilizing effect on the economy. We regret the administration's lack of attention to the effects of the withholding rate on individuals and on the economy in general, and we urge that immediate attention be given to the feasibility of developing a plan for the graduated withholding of taxes.

(4) An investigation of ocean freight rate disparities by the Joint Economic Committee last year raised questions about the extent to which the activities of the Federal regulatory agencies were in conformity with the mandate of the Employment Act of 1946. In furtherance of its functions under the act, we recommend that the Joint Economic Committee study the extent to which the activities of the Federal regulatory agencies are or should be guided by the Employment Act of 1946, which commits the Federal Government to the promotion of "maximum employment, production, and purchasing power."

Senator JACOB K. JAVITS.

Senator JACK MILLER.

Senator LEN B. JORDAN.

Representative THOMAS B. CURTIS.

Representative WILLIAM B. WIDNALL.

Representative ROBERT F. ELLSWORTH.

¹⁶ Congressman Curtis and Senator Miller believe the whole concept of middle-income housing and the need for further Government action in this area need study before specific plans of this nature are explored.

¹⁷ Senator Javits believes that congressional action is long overdue on a program of medical care for the aged, using the social security approach for hospital care but including also a low-cost private enterprise plan covering additional medical benefits at a cost within the financial competence of 80 percent of the aged.

ADDITIONAL VIEWS OF REPRESENTATIVE ELLSWORTH

U.S. agricultural exports—particularly wheat and feed grains—to the European Economic Community have been large dollar earners, and have significantly contributed to our favorable balance of world trade in relief of our overall balance-of-payments deficits. In fiscal year 1964, for example, U.S. wheat and feed grain exports to the EEC alone earned \$385,335,000. As Europe's population grows and the people's standard of living and diet improves, this market for dollar sales of our high-quality low-cost farm products should grow steadily.

Instead, the EEC market for U.S. farm products will be difficult to maintain at present levels and may even be substantially reduced, partly because of domestic political considerations within the EEC and partly because of the reluctance of President Johnson and his special representative for trade negotiations to press in the Kennedy round for negotiations on competitive access rather than so-called guaranteed access to that market.

Internally harmonized prices to EEC producers of grains were settled at high levels last December, to take effect in 1967. EEC levies against imported grain (e.g., grain from the United States) will be designed to protect EEC producers, in general, against price competition from outside the Community, and, of course, to some extent this will tend to keep our grain sales to EEC customers from increasing or may reduce our sales opportunities. This is deplorable in many ways, for it not only affects our balance of payments adversely, it also increases the prices of bread and meat to the consumers of Western Europe. This decision nevertheless has already been made by the member nations of the EEC and it is hard to see how our Government could be expected to cause any change to be made at this time.

However, France is pressing for a high discriminatory internal price preference, within the EEC, favoring French-produced grain. The thrust of the French drive for such an internal preference is clearly aimed at forcing the United States largely, if not completely, out of reasonably competitive access to German, Dutch, Belgian, and Italian flour and feed mills. This would be in favor of increased French production and at the expense of our dollar markets with further serious aggravation of our balance-of-payments problems.

The President and his trade negotiator have so far in the Kennedy Round declined to press for negotiations on this point, choosing instead to focus on pleas for guaranteed quantitative access. Quite apart from the fact that chances for guaranteed access negotiations appear remote, I, for one, would have very little faith, over the long run, in a guarantee of quantitative access for farm products worked out by political negotiators. On the other hand, an arrangement providing for reasonably fair competitive access would benefit European consumers, would give American agriculture a fighting chance at the

market, would be less likely to cause international political problems in the future, and would have a less severe effect on our balance-of-payments problems.

If we are denied competitive access to the European market for our wheat and feed grains, it will be for the benefit of French grain producers. Of course the EEC is entirely a hard currency market, whereas most alternative markets in the world are not. If internal French politics require that French grain production increase, the French Government should be willing to dispose of that increase in the concessionary (underdeveloped) markets of the world, where indeed we already dispose of over half our wheat and 10 percent of our feed grain exports.

I urge the President and his trade negotiator to press hard at the GATT sessions scheduled to get underway in Geneva this April for negotiations with the EEC on competitive access for U.S. farm products. If they do not, our agricultural economy will be seriously and irreparably damaged and one more opportunity to substantially strengthen our balance-of-payments position by increasing exports will have passed forever by.

ROBERT F. ELLSWORTH.

COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

The Employment Act of 1946 (Public Law 304, 79th Cong.) directs the Joint Economic Committee to report to the Congress on the main recommendations of the President's Economic Report and to make a "continuing study" of the economy.

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

FULL COMMITTEE

The 1964 Economic Report of the President

On January 23, 27, 28, and 29 the committee held hearings on the 1964 Economic Report of the President, receiving testimony from the Council of Economic Advisers, the Director of the Bureau of the Budget, the Secretary of the Treasury, and two economists from outside the Government. Part 2 of the printed hearings contains invited comments from organizations representing bankers, business, labor, agriculture, economists, and statisticians.

The 1964 Joint Economic Report

The annual economic report of the committee was filed with the Congress on March 2. This report also contains minority and additional views (S. Rept. 931).

Discriminatory ocean freight rates and the balance of payments

Continuing its investigation of discriminatory ocean freight rates and their effects on the balance of payments, the committee held hearings March 25 and 26 to receive testimony from the Under Secretary of Commerce for Transportation and from the Chairman of the Federal Maritime Commission. In September the committee issued part V, appendix, "Hearings on Discriminatory Ocean Freight Rates and the Balance of Payments." In January 1965 the committee reported its findings and recommendations to the Congress (S. Rept. 1, 89th Cong.).

The U.S. balance of payments

In March 1964 the committee released its findings and recommendations on "The U.S. Balance of Payments" (S. Rept. 965) based on hearings and studies made in 1963.

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

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

The subcommittee released its report "Private Investment in Latin America" in May. This report was based on hearings held in January 1964.

SUBCOMMITTEE ON ECONOMIC STATISTICS

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

The Subcommittee on Economic Statistics and other members of the Joint Economic Committee have expressed considerable interest in the development of improved data on the wealth of the United States, both for some benchmark period and on a continuing yearly estimate basis. A study, "Measuring the Nation's Wealth," was presented to the subcommittee by the Conference on Research in Income and Wealth and was published in December 1964. The subcommittee plans to hold hearings this year on the improvement of wealth data, primarily based on this study. Principal witnesses will be those who prepared the materials and other experts who will give their appraisals of the findings contained in the study.

The staff, under the direction of the subcommittee, investigated suggestions for revisions in Economic Indicators and will incorporate such additions and revisions as seem desirable in this publication during 1965.

At the same time, the staff, with the assistance of the Bureau of the Budget and the Council of Economic Advisers, revised and brought up to date the Supplement to Economic Indicators (Historical and Descriptive Background).

As a part of its continuing program to understand and, wherever possible, to improve the quality of the available statistical and empirical materials relating to our economy, the subcommittee published a study on the concepts and data involved in the size distribution of personal income, "The Distribution of Personal Income."

SUBCOMMITTEE ON DEFENSE PROCUREMENT

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

The subcommittee staff issued a new edition of "Background Material on Economic Aspects of Military Procurement and Supply" which was used in connection with the subcommittee hearings held April 16 and 17. Testimony was received from the Department of Defense, the General Accounting Office, General Services Administration, the Bureau of the Budget, and the Committee on Hoover Commission Task Force Members. In September the subcommittee made a report on the "Economic Impact of Military and Related Civilian Supply and Service Activities on the Economy."

SUBCOMMITTEE ON FISCAL POLICY

The Subcommittee on Fiscal Policy was composed of Representative Martha W. Griffiths (chairman), Senators Paul H. Douglas, William Proxmire, Jacob K. Javits, and Representatives Hale Boggs, Thomas B. Curtis, and William B. Widnall. The subcommittee held its initial meeting on May 20, 1964.

In August and October, Chairman Griffiths, on behalf of the subcommittee, invited a number of leading economists from universities, business firms, and labor unions, and representatives of several interested organizations to submit their views as to the fiscal policy issues likely to concern the Congress in the coming decade. The replies submitted, which will assist the subcommittee in directing further inquiries, have been collected in a compendium entitled "Fiscal Policy Issues of the Coming Decade," published in February 1965.

In September the committee released "The Federal Tax System: Facts and Problems 1964." This study is a revision of an earlier committee publication. The revision was occasioned by major changes in the tax law enacted in recent years.

OTHER COMMITTEE STUDIES COMPLETED SINCE MARCH 1964

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

Economic Policies and Practices

The committee published further brief studies which are designed as aids to understanding comparative economic policies and institutions in the various industrial countries under the general title "Economic Policies and Practices." The following were published since February 1964:

Paper No. 4. "Private Trade Barriers and the Atlantic Community."

Paper No. 5. "Unemployment Programs in Sweden."

Paper No. 6. "Subsidies to Shipping by Eleven Countries."

Invention and the Patent System

This study is related to the Joint Economic Committee's continued interest in problems of technology, economic growth, and the variability of private investment.

Annual Economic Indicators for the U.S.S.R.

These materials were compiled and the analyses prepared by a group of experts on the Soviet economy. They were made available to the members of the Joint Economic Committee as a continuation of the studies which appeared in December 1962 under the title "Dimensions of Soviet Economic Power."

STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

In addition to conducting formal studies and arranging hearings for the committee and subcommittees, the staff participated in discussions of economic problems and research techniques with outside groups. The following list of meetings illustrates the nature of these activities in which the staff took part in 1964:

American Economic Association.

National Tax Association.

American Bankers Association, 90th Annual Convention.

McGraw-Hill Publishing Co. Informal Conference on the Business Outlook.

ABA Symposium on Economic Growth.

National Planning Association, Sixth Annual Conference of the Center for Economic Projections.

Industrial College of the Armed Forces.

Seminar of Government Regulatory Economists.

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

National Association of Tax Administrators.

California Department of Finance.

University of California at Berkeley.

Sacramento State College.

National Industrial Conference Board Economic Outlook Conference.

Graduate School of Business Administration, University of Michigan.

Graduate School of Banking, University of Wisconsin.

Insurance Investment Officers Group.

Cleveland Business Economists Club.

State Department's "Escort Interpreter Training Program."

Civil Service Commission's Institute in Public Problems and Federal Programs.

Pittsburgh Chamber of Commerce "World Trade Council."

Conferences were held with Japanese, Swedish, and French groups seeking information on the activities of the Joint Economic Committee, as well as with student groups from the following colleges and high schools in the United States:

University of Virginia, Graduate School.

Columbia University School of International Affairs.

Goucher College, Field Politics Center.

Amherst College.

Yorktown High School.

Student interns

As usual, the committee participated in the student intern training program. Last year eight college students worked in the committee offices and took advantage of the many programs offered to interns by the various Government agencies.

CHANGES IN COMMITTEE STAFF

Alan P. Murray, economist for the Fiscal Policy Subcommittee, resigned to take a position with the Joint Committee on Internal Revenue Taxation. John R. Stark, formerly clerk to the committee, returned to the staff as deputy director.

DISTRIBUTION OF COMMITTEE PUBLICATIONS

During the past year the Joint Economic Committee and its subcommittees issued 21 publications. Approximately 130,000 copies of current and previous committee publications were distributed during the year to fill individual requests. Committee publications are also on sale by the Superintendent of Documents. In the past year, individual copy sales and quantity orders of committee publications, current and past, exceeded \$38,000. This figure does not include the approximately 10,000 subscriptions to the committee's monthly publication, *Economic Indicators*, sold by the Superintendent of Documents.