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2d Session } { No. 1016

1968 JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1968 ECONOMIC REPORT OF THE PRESIDENT

TOGETHER WITH

STATEMENT OF COMMITTEE AGREEMENT, MINORITY AND OTHER VIEWS

MARCH 19, 1968.—Ordered to be printed

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

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MARCH 19, 1968.—Ordered to be printed

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

REPORT

together with

STATEMENT OF COMMITTEE AGREEMENT, MINORITY AND OTHER VIEWS

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

[NOTE.—Representative Hale Boggs states: "As a member of the Ways and Means Committee, I reserve my judgment on those parts of the report dealing with questions of fiscal policy."]

STATEMENT OF AGREEMENT BY MAJORITY AND MINORITY MEMBERS OF THE JOINT ECONOMIC COMMITTEE

Members of the Joint Economic Committee agree generally on certain conclusions resulting from the recent hearings on and consideration of the President's Economic Report. These are listed below with the added observation that they are not meant to be exhaustive and that there are, indeed, many other points of general accord. All of the issues of general agreement are highlighted in both the report of the majority members and that of the minority members, which follow this statement.

1. An urgent need exists for concerted congressional and executive department action to tighten control of Government expenditures and increase economy and efficiency in spending, based on an objective comparison of goals, alternatives, benefits, and costs. An assessment of priorities among public expenditures remains an urgent task for both the administration and the Congress.

2. In order for Congress to intelligently judge priorities and the desirability of the budget program, the Federal budget must include program projections for at least several years into the future.

3. Reform of the Federal tax system should be an important objective of public policy in order to broaden the tax base, improve equity, and contribute to economic growth.

4. Monetary policy should aim for a growth in the money supply roughly consistent with the projected rate of increase in real economic growth. While monetary policy must have some flexibility, the promotion of stable growth requires the avoidance of large and sudden policy shifts.

5. More effort is needed to develop specific measures to promote greater wage-price stability, including an examination of the impact of Government regulatory and procurement policies, the reduction of inflationary pressures on the supply side, and the encouragement of policies to raise productivity in the private sector.

6. The close link between rural and urban poverty requires more emphasis on the development of rural America. This should include improving the opportunities for rural people for off-farm employment within their locality and providing education and training on a par with that available in urban areas.

7. In the field of international trade and finance, there is general accord on the following conclusions:

(*a*) The United States must reduce its balance-of-payments deficit sharply and quickly, to strengthen world confidence in the dollar.

(*b*) The United States should not increase the price of gold.

(*c*) There is an urgent need for prompt ratification and activation of the IMF amendments creating the new special drawing rights.

(*d*) A danger exists that the world will retreat into a regionally divided and mercantilist system that will turn its back on the advantages of an open international economy.

(*e*) If the mandatory controls on foreign direct investment are prolonged, they will do critical damage to our international position.

(*f*) The program to tax U.S. foreign travel is too restrictionist in principle, likely to encourage widespread evasion, likely to lead to retaliation, and unlikely to realize its objective.

(*g*) The United States needs an affirmative trade policy to fill the void left by the conclusion of the Kennedy Round.

(*h*) The United States should do all in its power to persuade the Common Market to drop the system of border taxes and rebates and demonstrate our own readiness to cooperate in making the border tax system a thing of the past.

(*i*) Longrun action to correct the U.S. balance-of-payments problem must be concentrated on reducing Government expenditures abroad and increasing our trade surplus.

REPORT OF THE JOINT ECONOMIC COMMITTEE ON THE JANUARY 1968 ECONOMIC REPORT OF THE PRESIDENT

INTRODUCTION

Last year we pointed out that the challenge facing economic policymakers had shifted from that of achieving high employment to managing it. The same situation prevails now; today's problems clearly parallel those of a year ago. Then, prices were rising too rapidly; our balance of payments deficit was a matter of continuing concern; and high interest rates and tight money were jeopardizing the health of our housing industry.

In his 1967 Economic Report, the President recommended a surtax of 6 percent on individuals and corporations to alleviate demand pressures and permit an easing of money. This committee was not convinced of the need for this tax at the time. With the advantage of 2 additional months to view the economy, the committee, in its report, concluded that the case had not yet been made for a tax rise.[1] In retrospect, we believe that our position was justified by subsequent events. In the first half of 1967, the growth rate of the economy lagged at a disappointing rate of 1 percent, and industry operated well below capacity. This unimpressive performance record, which persisted in spite of a large Federal deficit and other expansionary elements, was a persuasive factor in the Congress' decision to reject the surtax proposal.

Once again, the Congress is asked to adopt a similar surtax proposal at a 10-percent rate. The President's report stresses and the committee finds that there are several expansionary factors:

- Our growth rate has risen to 4½ percent in the second half of 1967;
- The deficit in the Federal budget would be $18 billion for the fiscal year 1969, in the absence of a tax increase, on top of a $20 billion deficit for fiscal 1968;
- The rate of increase in prices and wages has stepped up;

There is a danger of a credit crunch similar to that which affected us in middle 1966; and our balance-of-payments difficulties are even more severe since the devaluation of the pound.

Accentuating the expansionary factors in the economy is the possibility of a substantial escalation of the Vietnam war, with the attendant

[1] Representative William S. Moorhead states:

"Last year's Joint Economic Report was filed in March 1967 and the administration did not send up the tax bill until August. In March the committee concluded that a case has not yet been made for a tax increase. But the committee unanimously agreed that on this issue 'The Congress should remain flexible.' By August I believe the case for a tax increase had been made. Today I believe that case is still valid. However, in view of the fact that it may be several months before the issue is actually presented for a vote, I believe that the committee should at least advise the Congress to 'remain flexible'."

increase in the budget. At the same time, the massive unmet needs of our cities represent a potential demand on the Federal budget that cannot be overlooked.

But there are impressive negative factors that raise serious questions about the boom that is predicted by the administration. Neither the President's report nor that of the Council of Economic Advisers gives adequate heed to these points:

- Capacity utilization in manufacturing is approximately 85 percent;
- Surveys of capital spending intentions in 1968 show very moderate increases which, when corrected for price rise, hardly exceed last year's levels;
- Consumer saving continues high and consumer expenditures moderate;
- There are 3.3 million unemployed workers actively seeking work, an additional 2.1 million who, for economic reasons, are working only part time, and many others who are not seeking work because they feel there are no jobs for them.
- The agricultural sector of the economy suffered setbacks in 1967 and could easily absorb a substantial rise in the demand for food;
- There is a good possibility that the rate of growth will decline in the second half just when the recommended tax increase would start to become effective.

The dominant questions facing economic policymakers for 1968 are:

First, how much overstimulation and inflation are we willing and prepared to tolerate, or, to use an economist's phrase, "trade off," against what level of unemployment?

Second, how can we manage public expenditure, taxation, monetary policy, price and income relationships so as to get the maximum from our economy with a minimum of interference with individual freedom of choice?

Third, what must be done to bring our foreign accounts into balance?

Decisions facing the Congress in meeting these objectives are likely, we believe, to have larger consequences, both long and short run, than any we have faced since the Employment Act became law 22 years ago. The future of our balance of payments and, hence, the international standing of the dollar; the slowing down of our accelerating wage-price spiral; the attainment of equilibrium in our domestic economy so essential to the maintenance of full employment and a high growth rate; the solution to the urgent social and economic maladjustments of our cities and many of our rural communities; all of these are at stake in the decisions we must make in the weeks ahead.

Because of the mixed portents and great uncertainties concerning the future, the committee is strongly of the opinion that the current problems of the economy require continuous examination throughout the year and we therefore intend to maintain continuing review of economic policy with particular emphasis on such questions as the need for a tax increase, the operation of monetary policy, the need for wage-price restraint, and the urgency of achieving better means of adjusting priorities in Federal expenditures. We are mindful that the Employment Act of 1946 calls upon the Federal Government, State and local governments, industry, labor, and agriculture to co-

ordinate their efforts to attain full employment, economic growth in line with our real potential, and the maintenance of the purchasing power of the incomes of our citizens and the value of their savings. In evaluating economic programs, the committee will concern itself not only with the effects of Congress' decisions upon events in the current year 1968, but also their consequences for the stability and growth of the economy over the years ahead.

In this report to the Congress, under section 5(b)(3) of the Employment Act, the Joint Economic Committee has weighed the consequences of alternative policy strategies for the longer future as well as for the current year.

While recognizing the many paradoxical elements in the economy and the possibility of further upward pressures, the committee has decided against making a recommendation on a tax increase at this time. We are not convinced that the vigorous boom that the administration anticipates will, in fact, materialize. The aforementioned negative factors certainly cause the objective analyst to hesitate in accepting that prognosis. Moreover, there is evidence that the effect of the tax increase will not be felt until the predicted boom has waned, thus adding an element of counter-productiveness to the proposed increase. Moreover, the presence of a strong cost-push element in wage-price movements raises questions as to the efficacy of a tax increase, at least for the year ahead, in mitigating price increases. At the same time, it is recognized that the possibilities of increase in military outlays and in urban requirements may cause the budget to exceed the levels projected in the President's Message.

In the following pages, the committee's position on the economic outlook and major aspects of policy are stated in detail. There are a number of issues that we consider most important to public policy; but there are three overriding needs that dominate the outlook.

First, there is the need for concerted congressional and executive department efforts to control Government spending. The expensive war in Vietnam and the increasingly urgent domestic needs for social and human resource development accentuate this requirement.

Economy and efficiency should always be a prime objective of government operations. This is particularly the case at the present time. Approximately 20 percent of national income flows through the Federal Government's hands. There are serious imbalances in program evaluation. We are far short of the attainable goals proposed in our last annual report. Assessment of priorities in public expenditure remains an urgent task for both the administration and the Congress.

Second, there is the need for a wage-price-income policy. This committee last year devoted a large section of its report to the need for guideposts in wage and price decision-making. This is another problem that 1968 inherits from 1967. The need for adaptable and effective standards to influence the behavior of market participants is more urgent than ever in view of the continuing and growing threat of cost-push inflation.

Third, the world economy is confronted with the most serious crisis of the past two decades. Continued prosperity

and growth of world trade and international exchange are at stake. We face a danger of retreat through restriction and retaliation into a regionally divided and mercantilistic world that will turn its back on the economic benefits of an open system. The United States must reduce its balance-of-payments deficit sharply and quickly, thus demonstrating that the U.S. dollar can be relied upon to play its unique part as a reserve and trading currency in a world monetary system that has good hopes of evolving into an international organization for the orderly creation of international monetary reserves.

ECONOMIC OUTLOOK AND FISCAL POLICY

The economic indicators reveal a mixed picture. Some point to further expansion or even overexpansion; others to stability or decline. The underlying pattern appears to be one of substantial strength. This outlook is based on the assumption that the budget estimates, presented in the administration's budget, will not be increased for new program needs either by the administration or the Congress.

Purchases of goods and services in 1968 by Federal, State, and local governments are expected to rise between $14 and $16 billion over the level of 1967. Purchases by State and local governments rose $8 billion in 1966 and $10 billion in 1967; there is no sign of slackening, so the rate of increase in 1968 should be at least in the $8 to $10 billion range. Federal purchases are expected to rise about $6 billion over 1967 levels if advances are in line with the budget projections.

Recent events at home and abroad make it clear that holding to the budget's spending projections will not be easy. While it is clear that Congress will make efforts to reduce nonessential spending, at the same time rising prices and wages are daily adding to Federal costs. Requirements under more or less fixed programs, such as social security benefits, veterans' payments, etc., are rising; and, abroad, the demands of the Vietnam war and expenditures to strengthen our other Asian allies are likely to cause the defense budget to increase.

In the private sector, a majority of projections of business investment suggests rises of $3 to $5 billion over the 1967 level, most of this representing price increases. The fact that capacity utilization in manufacturing continued at the low rate of 85 percent in January, and the Federal Reserve index of industrial production declined in January after a very unimpressive performance in 1967, would not appear to augur well for an increase in investment, although obviously prospects could change quickly.

Inventory accumulation may not average much more in 1968 than last year when it was weak. The prospect of strikes during the year have probably stimulated some additional forward buying, but this factor should abate within a few months.

According to most projections, housing probably will not exceed 1½ million starts, which would involve an aggregate expenditure of approximately $30 billion, which is far from extreme. There can be little doubt that the rising level of disposable income and increases in population could produce a demand for 2 million units or more a year, if activity were not restricted by the tightness of credit and high interest rates, as well as the rising construction costs.

Consumers have been encouraged by events of the past 2 years to raise their savings rate to the highest level since the Korean mobilization. The drain of young men into the Armed Forces, the restrictions on the availability of credit, high interest rates, and sharply rising prices provided incentives to consumers to restrain their borrowing and to forego the purchases this borrowing would finance. The low level of consumer borrowing has been reflected in the higher savings rate and

consumer spending has definitely not been strong. Obviously it could change, but such a development has not been indicated as yet in any way that we can discern.

As we see it, the major indicators do not portend overheating. Rather it is the possibility that these elements may "take off" on an upward course in the near future that constitutes the basic case for a tax increase. Actually, many experts expect a moderation in the rate of growth in the second half of the year, due to a decline in forward buying of steel and other inventory accumulation, the catching up of automobile sales and production after last summer's strike, and the fact that social security and minimum-wage legislation will no longer be adding to the increase in income as they now are in the first half.

Uncertainties in the present economic situation at home and abroad, the evidence of concern abroad about our balance of payments situation, and the many unknowns concerning foreign affairs, particularly in regard to Vietnam and Korea—all these suggest the need for caution and care in the designing of fiscal policies for the year ahead. We must be prepared for the eventuality that defense spending may rise significantly above the budget proposals, as well as for the happy contingency that tensions might ease and peace negotiations be possible.

We must be prepared for the possibility that the economy may turn out to be stronger or weaker than now expected, as well as the possibility that the balance-of-payments problem may not be improved, even in the short run, despite the mandatory controls over foreign investment and the proposed taxes on tourism. While we must be alert as the year progresses and prepared to act quickly if the situation changes, we can and should take action on the budget on the basis of what we now know and can reasonably anticipate.

The President's budget anticipates total outlays of $186.1 billion in fiscal 1969, an increase of $10.4 billion over fiscal 1968. On the assumption that the proposed surtax and other tax measures could be enacted in time to be effective by April 1, revenues were projected at $178.1 billion, an increase of $22.3 billion over the current year. If a surtax is not enacted, the revenues would be lower by something less than $10 billion. But it can be assumed that if the tax is not enacted, levels of income and therefore tax yields will be higher. The deficit in such case would be substantial, probably close to $20 billion for the calendar year. The existence of so large a Federal deficit at high levels of employment quite naturally gives grounds for concern to all members of the committee.

Approximately $3.4 billion can and should be raised by adopting the proposed extension of excise taxes, acceleration of corporate tax payments, and allied user charge proposals, as requested in the President's budget.

There seems little reason to quarrel with the proposals of the President that present excise tax rates should be extended beyond their terminal date, April 1, 1968; that corporate tax payments should be accelerated further to bring them into line with the rules governing individuals; and that certain user charges be adopted. We are pleased to note the prompt action by the Ways and Means Committee of the

House, and we hope that these measures will proceed to final enactment promptly.

Efforts are urgently necessary to tighten control over the expenditure side of the budget, to increase economy and efficiency in government, and to eliminate obsolete or low priority items.

Over the years, this committee has warned repeatedly of the need for economy and efficiency in government, for the establishment of priorities, and for the application of appropriate standards for comparison of costs and benefits as a guide to expenditure programing to weed out the less desirable programs.

The Federal Treasury is faced with continuing high demands for the conduct of the Vietnam war; the level is now estimated at over $32 billion a year. At the same time, it is faced with great unmet needs to rehabilitate our cities and improve the social health of our society. Over one-fifth of the Nation's income passes through the Federal Government's hands. Unless we achieve a more rational system for evaluating public expenditures, our economy will inevitably run the risk of lower growth and imperfect resource allocation.

There continues to be an urgent need for revision of the Federal revenue structure to broaden the tax base, to improve the fairness of our tax law, and to contribute to steady economic growth. The urgency of dealing with immediate tax and expenditure problems should not be allowed to divert us from removing longstanding inequities from the tax structure. Indeed, in the longer run, no fiscal policy can succeed unless this is accomplished.

This committee has been urging the Congress to proceed with reform of the tax structure ever since the pioneering studies of Federal tax policy by our Subcommittee on Fiscal Policy over a decade ago, under the chairmanship of the distinguished and able Congressman from Arkansas, the Honorable Wilbur Mills. Some progress has been made, but every student of tax questions is agreed that grave inequities still exist in the Federal tax structure and that many aspects of our tax system are not conductive either to economic stability or to growth. Despite other pressing matters of short-term tax and expenditure policies, we must not lose sight of this longer term objective of revenue reform. There can be little doubt that much of the objection to using the tax system in emergencies stems from the manifest inequities in the present tax structure that permit innumerable individuals with very high incomes to escape with little or no tax payments to the Federal Government. Strong support for a reasonable balancing of the Federal budget cannot be expected if tax revision is not achieved in the foreseeable future.

There is an imperative need for more systematic procedures for comparing alternatives as to their costs and benefits and for establishing priorities on this basis. The newly adopted technique, called planning-programing-budgeting, would go a long way toward meeting this objective. This system has been used in private business, in the Department of Defense, in some city and State governments, and, to a lesser extent, in some other agencies. Up to now the Federal Government has lagged in demanding a thoroughgoing application of this

technique, which should enable Congress more fully to exercise its constitutional authority over the purse.

The committee's interest in such improvements in Government control over expenditures goes back many years. In 1957, the Subcommittee on Fiscal Policy conducted extensive hearings, compiled a compendium, and submitted a report, considering among other subjects the use of cost-benefit analysis and discount rates in the evaluation of Federal programs. In 1962–63, the Subcommittee on Economic Statistics carried out a detailed study of the Federal Budget as an Economic Document. In the fall of 1967, the Subcommittee on Economy in Government held hearings on the more recent developments in PPBS, increased departmental and agency awareness of program objectives, and alternative means of attaining them.

There is promise of substantial improvement in Government efficiency and economy, but much progress is yet to be made. More work must be done in defining national objectives and finding means to calculate appropriately the costs and benefits from alternative programs. In particular, the discount rates used to judge economic feasibility of programs must reflect the rate of return a given amount of resources would earn if employed in the private sector or as a minimum cover the cost to the Treasury of borrowing funds. Either of these standards represents a far cry from present practices.

In October 1967, the President's Commission on Budget Concepts made public its report giving the results of its thorough and objective review of the way in which the budget of the Government of the United States is presented. The Commission recommended reforms in the presentation of the budget to bring about a single unified presentation of expenditures, receipts, and financial transactions. In the January 1968 budget document, all but two of these recommendations were incorporated for the first time. It was announced that work on incorporating the remaining two recommendations within the next couple of years will go forward as soon as preliminaries are completed.

We commend the President, his Commission, and the Bureau of the Budget for the report and its use in the budget document this year. This is a notable improvement in the presentation of the Government's fiscal plans to the Congress. It accords with earlier recommendations of this committee, particularly those contained in our report, "The Budget as an Economic Document." The combination of an improved presentation of the choices implicit in the budget document with the adoption of PPBS techniques for evaluating programs should substantially advance both the cause of effective congressional control over expenditures and the achievement of maximum economy and efficiency in government.

We regret that so far the administration shows little inclination to adopt another recommendation of this committee, that the budget include program projections for several years into the future. Congress cannot intelligently judge priorities in the budget nor the desirability of the budget program if it does not have authoritative projections of where current decisions are leading over the next several fiscal years. We believe this is an official function of government to be performed in the regular process of preparing the budget. We understand many of these projections now are prepared in the various executive agencies and we see no reason why Congress should not have the use of their presentation on a regular basis in the budget document. The committee strongly urges the administration to adopt this practice in its presentation next year.

MONETARY POLICY

The President's Economic Report, predicated as it is on the need for restraint of an economy growing at a pace "too fast for safety," tells us that "high interest rates and tight money can restrain the economy and *will do so* if fiscal policy fails to do so." [Emphasis supplied.] The memory of 1965 and 1966 is too recent to leave anyone in doubt about the all too obvious truth of the first part of that statement. We hesitate, however, to accept as unqualified the commitment implied in the latter part of the statement. In similar vein, the Council of Economic Advisers says, "If there is no tax increase * * * *it is certain* that the expansion of demand would be checked to some degree by credit restraint." [Emphasis supplied.] The country is seemingly offered a surcharge on taxes or a surcharge on interest rates, on an "or else" basis.

In the past this committee has criticized the frequent failure of effective coordination in the use of the Government's stabilization tools; but we are concerned now lest such language from the President, and his advisers, and repeated in the press, be taken too readily as a tight money directive by a monetary authority understandably eager for outside encouragement in the stabilization task which an easy fiscal policy has thrown upon it.

This committee last year vigorously rejected any notion that relief from excessively tight money should depend on a tax increase. Now we find it necessary to reiterate that warning.

It is agreed, of course, that fiscal and monetary policies—the Government's principal stabilization tools—need to be coordinated. This is no time to forget, however, that the timing and degree of monetary ease or restraint should be guided by the unfolding health of the economy, recognizing the frailty of economic forecasts, the changing needs of the international situation, and the special case of housing and State and local finance, rather than be guided alone by the state of the Federal budget. So long as the monetary authorities continue to depend upon the "feel of the market" as a guide to monetary policy, one of its chief virtues is its flexibility. We think it far better under the circumstances to keep our monetary options open, rather than accept them as prejudged and closed.

Furthermore, it seems quite clear that neither monetary nor fiscal policy, alone or together, is the sole instrument of economic policy. As indicated below, wage-price guidelines can and should be made more effective. Measures already developed to insulate housing and small business from an oppressive interest rate structure should be maintained and strengthened. Finally, we ought not rule out the possibility that the Nation, albeit reluctantly, may elect to adopt selective controls of some sort if the credit situation or rate of price or wage increase should become intolerable. We hope that the Federal

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Reserve System and the administration have formulated plans to cope with contingencies of this sort.

At present, interest rates—in spite of some softening around mid-year 1967 and since mid-December—are still hovering around the levels of a year and one-half ago when the country was struck by the so-called credit crunch, in which long-term rates reached peak levels for this century. Although home mortgage credit is currently reported to be somewhat more readily available, the yield on FHA new home mortgages was 6.81 percent at the beginning of 1968—the same as it had been a year earlier.

With interest rates at these levels and the housing industry struggling to maintain the pace of its recent hesitant recovery, it is not surprising that fears continue to haunt us of a serious credit shortage, similar to that experienced during the summer of 1966.

This concern is based primarily upon the possibility of two developments. The first is that corporations may again besiege the money markets leading to another round of rapid "disintermediation" as depositors withdraw funds from savings and loan institutions to invest directly in high yielding marketable securities. The committee was given reassurance on this score by expert evidence presented at our hearings that the total net increase in corporate bonds this year is expected to be about $11 billion, compared with a record $15 billion in 1967. There are two main reasons for this expected reduction: (1) corporations undoubtedly stockpiled funds last year to some extent in anticipation of a credit squeeze; and (2) corporations are likely to rely more heavily this year on borrowing from the commercial banks in anticipation of a decline in corporate bond yields in the latter part of the year.

The second concern is that if inflationary pressures should lead the Federal Reserve to reverse suddenly its course in expanding the money supply, the likely first victim would be the mortgage institutions because of the superior ability of commercial banks to compete for scarce funds. On this point there is comfort in the statistics indicating that the thrift institutions are in a much better financial condition today than they were at the time of the last money pinch. By the end of December 1967, federally sponsored savings and loan agencies had recovered from the crunch and reduced their debt to the home loan banks from $6.9 billion 1 year earlier to $4.4 billion, and had at the same time built up reserves of cash and U.S. Government securities to $12.7 billion, more than $1.6 billion higher than a year before. Combined share capital and deposits of savings and loan associations and mutual savings banks were nearly $16 billion larger. In addition to greatly improved liquidity, the thrift institutions have learned by experience and have devised new and more effective instruments to compete for and hold thrift and savings funds.

Perhaps even more important are the increased powers given to the regulatory agencies in September 1966 for fixing ceiling rates for interest paid on time and savings accounts in various types of institutions. Hopefully the regulatory authorities are, as a result, better able to cope with the threat of "interest-sensitive hot money" being caught up in an outward flow from deposit-type institutions. Obviously, it is in the public interest, and we are sure that the regula-

tory agencies will set the differentials so as to offset any impairment of the savings and loan institutions' capacity to supply funds to the important housing industry.

Finally, the Federal Reserve, under legislation enacted in last year's crisis, is now empowered to purchase obligations of the Federal National Mortgage Association and the Federal Home Loan Banks to bring about a reduction of interest rates on home mortgages. Reports of both the House of Representatives and the Senate on this legislation contain clear expressions of legislative intent that the Federal Reserve Board should assist the housing market by making such purchases in meaningful amounts whenever homebuilding is unduly retarded by overall monetary stringency. In spite of this directive, the Board has thus far seen fit not to take action designed to stem the diversion of funds from the housing sector.

We recommend renewal of the authority given to the Federal Reserve to purchase and hold obligations of the Federal National Mortgage Association and the Federal Home Loan Banks and strongly urge that the Federal Reserve use this authority consistent with congressional intent.

Analysts, basing their views on an apparent decline in free reserves in recent weeks, have read signs that the monetary authorities have already shown an inclination toward a less easy policy. This view has subsequently been confirmed by release of the record of policy actions taken at the Open Market Committee meeting on December 12, 1967. The policy directive was altered to call for open market operations "conducive to resistance of inflationary pressures and progress toward reasonable equilibrium in the country's balance of payments." Discussion at the meeting, as reported, stressed that the decision was made to move only "slightly" toward firmer conditions reflecting, in part, concern about the possible adverse effects of higher interest rates on financial intermediaries. While it may be no more than a rhetorical change in emphasis, it is significant that the new directive, concentrating on inflationary pressures, omits reference to the objective of fostering financial conditions "conducive to sustainable economic expansion" which had appeared in other recent directives, along with language noting the need for reasonable price stability.

There are some who will say that a policy of less ease is long overdue, but it is only prudent to recognize that tightening should proceed cautiously. In view of the large increases in the money supply in 1967, it seems clearly wise, under present circumstances, to reduce the rate of increase in money. But if tightening is overdone, as was the case in 1966, it will be harmful. We must use the brakes, but learn also to sense their power to stall all progress.

As indicated in the preceding "Outlook" section, industrial production edged off in January. And, while Federal spending will remain stimulative, the President reminds us that the rate of Federal spending has not been growing rapidly since mid-1967 and, barring increased defense needs, will not increase rapidly in the next year. Moreover, the consumer sector, the Council of Economic Advisers tells us, is "clearly an area of particular uncertainty." The savings rate has been unusually high, and consumers are still spending cautiously.

All of this brings us to a reiteration of the recommendation in last year's report that in increasing the money supply, monetary policy should move in the direction of a moderate and steady jog instead of in alternate sprints and rests and thereby avoid the disruptive effects of wide swings. Sudden changes in the money supply have clearly given rise to instabilities in the economy.

The Nation's money stock, measured by private demand deposits plus currency held by the public, has increased at the annual rate of 7.3 percent since a year ago, in contrast to a sideway movement—actually a 0.2 percent rate of decrease—in the preceding 9 months. The relatively high rate of expansion in money last year may of course be attributed in part to the need for offsetting the low levels of the year immediately preceding, but this is clearly the mark of a stop-and-go driver.

During parts of the year, the Fed was permitting an increase in the money supply at a 9 to 10 percent rate through its open market, discount, and reserve requirement policies. The rise in demand deposits and currency exceeded recent records. This high rate obviously had an inflationary effect just as an extremely low and negative rate of increase in the money supply in the prior months had had a deflationary impact on the economy. In our opinion, not only are the extremes undesirable, but wide swings are inimical to stability. They increase uncertainty and give rise to anticipatory actions that often aggravate the evils which the monetary authorities are trying to reduce.

Some persons say, after study of the minutes of the Open Market Committee, that the Reserve authorities apparently try to adjust policy by weighing transient factors of the particular moment. Admittedly the Fed can, in the first instance, affect money supply only indirectly, through changes in bank reserves. The trouble is that the persuasive rationale put forth to support policy—even the same policy—seems to shift. One day it is essentially the "feel of the market"; at another time the needs of Treasury financing or a concern for the housing mortgage market seem to be controlling. Quite frequently, the guiding influence seems to focus chiefly upon the balance of payments.

At the other extreme from such "feel of the market" policies, many economists support a view, characterized at our hearings as "putting an educated horse in charge of the Fed," and having him create money at some purely mechanical rate.

The view of the Joint Economic Committee has consistently been between these extremes in urging that the preferred course would be to follow a pattern of steadily creating money in keeping with the growth in the economy, aiming perhaps at the higher side of some range at times of slow economic growth, and in years of inflationary pressures leaning toward the low end of the register.

We are thus convinced that a steady rise in the money supply more or less consistent with the projected rate of economic growth—generally within a range of 3 to 5 percent per year—would be a healthy longrun ideal. But the very

essence of such a policy is to avoid large and sudden changes or reversals. The present situation is no exception.

Mindful of the current high level of interest rates—which is, after all, one of the most meaningful measures of monetary conditions to the credit user—and mindful of the need to provide financial support for housing activities, we feel restraint must be tempered with caution while moving to serve economic expansion and to avoid wide swings.

INTERNATIONAL TRADE AND FINANCE

Our international payments must be brought into balance both for our own longrun advantage and to protect the dollar in the short run against such threats as resumption of speculative gold purchases abroad and possible delaying of the IMF special drawing rights agreement.

The events since last November lend emphasis to the urgent necessity of bringing the international payments of the United States into balance at the earliest possible moment. Crises of confidence in national currencies have found their most notable expression in the shift of private funds from national currencies—particularly the dollar—into gold.

If the free world, and particularly the United States, had not already learned the lesson, the experience of these months should have confronted all national authorities with the necessity of recognizing that confidence in the stability of the individual currencies and of the international monetary system as a whole is *not* something that appears and is maintained automatically. We all should have learned by this time that collaborative measures are essential. Therefore, we should at once demonstrate our ability to balance our international payments so thoroughly as to insure complete confidence that the dollar is not only good to use, but also to hold as a store of value.

It has been repeatedly demonstrated that bringing our payments into balance and strengthening confidence in the dollar will not only be of economic advantage to the United States, but will also contribute to the stability of world political order. In the present circumstances, however, we should recognize that there is a shortrun necessity to protect against further threats to the dollar *now*, not later. We cannot afford to postpone drastic action on the balance of payments until there is a crisis too big for temporary measures to deal with. We must protect against such threats as speculative purchases of gold through the London Gold Pool, and possible derailing of the IMF agreement for the creation of special drawing rights that might express foreign authorities' displeasure at our failure to get our balance of payments under control. The danger of a worldwide contraction of trade and investment is too high to take risks by further procrastination.

The President's January 1 balance-of-payments program deserves support as a reasonable shortrun measure, but it is not enough even in the short run, and some parts of it, particularly the travel expenditure tax, are undesirable.

The President, on January 1, 1968, announced a new balance-of-payments program to deal with the immediate shortrun threats to our international position. It contained three essential ingredients: (1) a proposed travel expenditure tax; (2) mandatory control over international investment and bank lending; and (3) a suggestion of

the imposition of border taxes should it prove impossible to obtain modification of similar taxes by other countries.

The obvious aim of the program is to reduce the outflow of funds from the United States and improve our balance-of-payments position in the short run. For this reason, and in view of the critical situation, it deserves general support as a reasonable attempt to do what needs to be done now. But the program does not go far enough and does not deal with important and critical areas in the balance of payments, and one of its features is open to serious objection.

(1) ***The proposed travel expenditure tax, designed to save $250 million by restricting American travel to Europe, is too restrictionist in principle, likely to lead to widespread evasion, likely to lead to retaliation, and unlikely to realize its objective. It should be shelved and replaced by an all-out immediate effort to save the same $250 million by vigorously implementing the February 19 McKinney Committee's recommendations for attracting European travelers to the United States with packaged discounts.***

It is clear that in the short run, we can reduce the outflow of funds from the United States by some form of control over direct investment abroad and bank lending to foreigners. In view of the urgent shortrun situation, the President's mandatory program of controls deserves support.[1] The experience of the Commerce Department with the earlier voluntary controls provides the basis for a temperate and flexible administration of the mandatory controls. The committee recommends that the Commerce Department should retain its proved methods of consultation with affected firms.

(2) ***Direct controls over international capital flows should be ended, the sooner the better, since the very existence of such controls, whether mandatory or voluntary, kills the goose of investment that lays the golden egg of future investment earnings remitted to the United States. This program, if continued for more than a year, will inevitably mean a significant reduction some time in the future—and not too far in the future—of America's earnings on its investments abroad. We cannot afford this storing up of future weaknesses in our basic balance-of-payments position.***

(3) ***We must take care to keep up our 30-year record of removing trade barriers. What we need is an affirmative trade policy to fill the void left by the conclusion of the Kennedy Round. At the very least, this would include authority for future***

[1] Senators Symington, Talmadge, and Ribicoff reserve support of the so-called temporary mandatory program of direct controls on international capital flows. Often such measures, once imposed, tend to become long term; and long term controls on U.S. investments overseas would in the future weaken our balance-of-payments position. In addition, the report would seem somewhat inconsistent in its arguments on the one hand against recommended controls of travel expenditure outflows, and on the other for support of shortrun controls on investment outflows.

broad tariff bargaining, for negotiations concerning the removal of nontariff barriers, and for more adequate adjustment procedures.

In connection with the President's program, there is a hint of resort to border taxes if we cannot obtain an agreement with other countries, particularly the Common Market, to get rid of the border taxes which they now apply and the rebates which they give to their exporters. While the rules of the General Agreement on Tariffs and Trade allow this procedure for indirect taxes, it discriminates against the United States and other countries which do not use it, and against the United Kingdom which has been trying to get rid of it.

We should bargain hard with the Common Market to persuade them to drop the use of border taxes and rebates, and we should demonstrate our willingness and readiness to cooperate in making the border tax system a thing of the past.

The President's balance-of-payments program is inadequate, for it does little about reducing the balance-of-payments costs of our military expenditures abroad. The drain of such expenditures on our reserve position must be terminated quickly.

The foreign exchange costs of our military expenditures abroad in Europe and Vietnam are the largest single adverse item in our balance-of-payments deficit. The annual foreign exchange costs of our troops in Germany have been estimated at about $800 million. A similar estimate for Vietnam is about $1½ billion per year. An additional $2 billion represents the foreign exchange cost of our military posture elsewhere.

So far as Western Europe is concerned, the administration is simply asking the Germans to lend us all or part of this foreign exchange cost at 5-percent interest, for 4½ years. This procedure merely postpones the day when something must be done about the foreign exchange costs and, in addition, piles ever higher the obligations that must be met in some future years. Germany is not the principal country demanding gold, in any case. We believe the United States should discard such futile financial arrangements and instead ask those surplus countries in NATO that want the United States to maintain troop commitments in Western Europe to remit to the United States annually the foreign exchange costs involved in our troop commitments there. This would be a budgetary item for them of perhaps only one-fourth or one-fifth of the total cost of the troops which at the present time amounts to about $4 billion or more per year to the United States. Perhaps if this Nation stopped "pussyfooting" about this foreign exchange problem in connection with our troops, some European statesmen would make a serious review of the present conclusions about the number of U.S. troops and dependents actually needed in Western Europe. They might find, after their review, that a number of such troops stationed in the United States, with adequate air transport for ready dispatch to Europe, would be equally useful and cause less foreign exchange problems for everyone concerned. They should be aware that such a removal of troops from Europe is the alternative, and perhaps the only alternative to a real, thoroughgoing agreement on their part to cover the foreign exchange costs of this operation.

Similarly, much more needs to be done to reduce the foreign exchange costs of the Vietnam operation. We are convinced that a vigorous civilian oversight of American operations in the Southeast Asia area could do much to slow the increase in these countries' national monetary reserves, which are dollar holdings growing out of our operations. Our clear objective should be to establish more realistic exchange rates, reduce the leakage of imports into unimportant uses and, finally, reduce the purchases of the Defense Department from overseas sources for the support of this operation. South Vietnam international reserves, for example, have grown from $141 million on January 1, 1965, to $334 million on November 30, 1967. Certainly we should attempt to put this military operation to the maximum possible extent on a goods and services basis, eliminating financial transactions in Southeast Asia in American currency.

South Vietnam's present "official" exchange rate of 118 piastres to the dollar, as opposed to the unofficial black-market rate of 160 to 165 prevailing elsewhere in Asia, should be reexamined. It not only adds to our foreign exchange costs, but unfairly penalizes U.S. servicemen in Vietnam by a concealed tax on their civilian spending.

In the long run, we must recognize that our governmental foreign expenditures (military costs of some $4.25 billion per year, plus some hundreds of millions due to foreign aid leakage) are the root of our balance-of-payments difficulties. Our trade accounts, our investment accounts, and our travel accounts are all, in combination, in overall balance or a slight surplus. Long-term action, therefore, must be concentrated on the governmental account for these reasons:

(1) ***First, it is unreasonable for us to hope in a competitive world that we can widen our trade surpluses so far that we can cover the costs of enormous overseas military expenditures. Of course, we must in all events keep the U.S. economy noninflationary so as to preserve the trade surplus we have and soon restore it to the levels of earlier years.***

(2) ***Second, we can hardly hope in the long run to improve matters by reducing our imports, by cutting off our flow of investment funds abroad, or by reducing the freedom of American citizens to travel abroad—all of these are techniques that will quickly lead to retaliation by other countries.***

(3) ***We cannot achieve an external balance by deflating the economy into a depression.***

There are those who suggest rigorous restrictive monetary policies or other devices to deflate the domestic economy and base this recommendation on the assumption that such a depression at home would reduce our imports and our capital flows sufficiently to bring about an external balance. Even if this scheme would work, which seems doubtful because of its effects on the economies of other countries, we cannot afford it. American labor, business, agriculture, and consumers cannot accept a depression in order to save the Government the agony

of reappraising its military and diplomatic stance abroad, difficult as that reappraisal will be.

(4) ***An attempt by us to devalue unilaterally would quickly bring competitive devaluations around the world, leaving the situation worse than it is now.***

Nor is it possible to accept the suggestion that we devalue the dollar, for other countries would not permit it. They cannot afford to allow the United States to achieve the competitive advantage that such a devaluation would bring in its wake.

Thus, unless the United States wants to go down the road followed by postwar Britain, we had better reexamine now the swollen and unbalanced governmental accounts abroad, bringing these into control, and avoiding at the start the whole sequence of regulations and vain hopes.

The free world's liquidity needs require prompt ratification and activation of the IMF's amendments providing the new special drawing rights.

The free world's liquidity needs cannot be satisfied by continued reliance on gold, accumulations of dollars in foreign hands, and increased sterling liabilities. Nor can we depend on increases in the presently provided drawing rights under the IMF agreements. A sizable part of the apparent growth of foreign exchange reserves in the past 2½ years has been dependent on fortuitous deficits which the countries of the world wish to see terminated at once. Nor is there any prospect that increased availability of gold will do the job. It is, therefore, imperative that the new IMF agreements, providing for special drawing rights, should be ratified at once and activated at the earliest practicable moment.

The United States must make completely clear that we will not agree to an increase in the price of gold and that we will restore confidence in the dollar by other means.

The United States must make completely clear to the nations of the world, and particularly to the speculators, that we will not agree to an increase in the price of gold. We cannot increase the price of gold for at least three reasons:

- One, it would leave undisturbed the present fragile gold system and merely defer the day of reckoning in monetary reform for a few years.
- Two, it would reward the Soviet Union and South Africa, the French, and some other central banks that have sought to embarrass us, as well as the speculators. At the same time, it would penalize every country that has relied on our pledge and supported us by holding dollars in their international reserve accounts.
- Three, an increase in the price of gold—say, doubling it—would create uncontrollable additional liquidity and provide the basis for an immediate burst of inflation, followed by a new international shortage of reserves when price levels had adjusted to the new price of gold.

We note that the House of Representatives has already acted to remove the gold cover. We can also, between now and the time the SDR's are in effective operation, find means of dealing with shortrun confidence problems.

One way is by agreements with the other countries for them to hold at least existing dollar balances, possibly with a guarantee by us against devaluation losses; another is agreement whereby the present $43 billion of monetary gold would stay in the system but not be augmented or diminished; a third is the setting up in the IMF of a gold conversion account, to which countries would transfer their gold and possibly other reserves in return for new drawing rights; finally, for a limited period of time and to the extent of our ability, we could offer to pay off official dollar claims in gold, and, thereafter, we would support the dollar, as other currencies are supported, by exchange operations.

While the present system of more or less fixed exchange rates seems preferable from the standpoint of eliminating uncertainty for traders and investors, it is not possible to guarantee that it will always be satisfactory. We should continue to discuss the merits of a more flexible system.

PRICES, COSTS, AND INCOMES

The Consumer Price Index advanced at an annual rate slightly in excess of 3 percent in both 1966 and 1967. After slowing up during the first half of 1967, prices increased at an annual rate of about 4 percent during the last half of the year.

Clearly, the recent rate of inflation, if allowed to continue, will cause serious distortions and dislocations in the economy. It is already producing inequities in the distribution of income.

One conspicuous example is the fact that between 1965 and 1967 real weekly earnings of production and nonsupervisory workers increased only 1.4 percent. Moreover, real spendable average weekly earnings (which takes account of social security and Federal income taxes) actually declined from December 1966 to December 1967; and the average for the year 1967 was no higher than it was in 1965. This gives cause for deep concern, particularly when one considers that the number of production and nonsupervisory workers on private nonagricultural payrolls is approximately 45 million, over half of the total labor force.

Thus, there may be a growing imbalance in the distribution of income resulting from such causes as inflation and tax loopholes. Such an imbalance may have contributed to the recent weakness in consumer spending and the high saving rate. Not enough is known about income distribution, particularly on an after-tax and after-Government-transfer basis. Additional research and better data are needed on this subject.

During the past 2 years, the rate of inflation has been far in excess of the long-term upward creep in the cost of living, amounting to approximately 1.6 percent per annum from 1948 to 1965. Although our price record since 1961 compares favorably with that of any other major industrial nation, the record since June 1965 is somewhat less reassuring. Since June 1965, Germany, France, and the Netherlands have had better price records than the United States. Little consolation can be derived from the fact that these three countries achieved their superior price records only at the expense of higher unemployment and a reduction in their rates of growth. The distortion and the adjustment problems created by the accelerated price increase in the United States will create serious problems for economic policy.

In the circumstances, one might expect to find some firm proposals for dealing with the problem of rising prices in the Economic Report. But this is not the case. As a matter of fact, it would appear that the administration has retreated further from the weak position of last year which the committee found necessary to criticize in its 1967 Economic Report.

The development of specific measures to promote greater wage-price stability must be made a principal element in public economic policy; otherwise our economy will fall short of its potential for both stability and growth.

The basic problem is obvious: we must, as an immediate objective, reduce the rate of inflation but at the same time avoid any rise in the current unemployment rate. A longer term objective of economic policy must be its reduction to 3 percent. While fiscal and monetary policies always play an important role in price stabilization efforts, we must resort to more specific policy instruments. A strong Government wage-price policy is one indispensable requirement in our complex economy. A vigorous antitrust program is another. In addition, the Government's regulatory program has an important influence on prices. Regulation of public utilities, particularly transportation and communication, can play an appreciable role in price movements. At the present time, it is by no means clear that the Federal, State, and local regulatory agencies are carrying out their decisions in a manner that is most conducive to the efficiency of our economy and to general price stability.

Furthermore, the Federal Government spends approximately $180 billion a year, a significant share of total expenditures in the economy. The manner in which the Federal Government spends its money, conducts its stockpiling, negotiates its contracts, and otherwise operates in our market economy can have substantial effects on price movements. Here, too, there is room for much more executive branch action to promote economic stability.

With respect to guidepost policy, it is important to note that costs and prices increased less during the period 1962 to 1965 when the guideposts were in operation than they did under similar circumstances in the period prior to 1962. This conclusion was emphasized by the witnesses at the Joint Economic Committee hearings on the guideposts, January 31, 1968. At that time, it was indicated that the guideposts, to a significant extent, brought about greater stability.

In sectors characterized by market power of large firms and large unions, guidelines for helping to bring about wage-price actions in line with those which prevail in the parts of the economy that are governed by the market are more necessary today than they were when the Council first introduced the guideposts in 1962. It is, therefore, disappointing to note that the art of "guidepostmanship" has not advanced and, indeed, has receded when it is needed most.

The proposed Cabinet Committee on Price Stability is a move in the right direction, but does not go far enough. The Joint Economic Committee fully endorses its purposes, which, as stated, are "to achieve a new and more effective cooperation among business, labor, and Government in the pursuit of price stability in a free market economy." Indeed, many of the functions of the Cabinet Committee are similar to those envisioned for a Price-Productivity-Income Office proposed in the Joint Economic Committee Report of 1967.

The Joint Economic Committee's proposal differed from the proposed Cabinet Committee in one highly important respect. As stated in the Economic Report of the President, the Cabinet Committee "will not, however, become involved in specific current wage and price matters." We feel that this offers no resolution to the critical cost and price problems of 1968 and 1969. In the committee's view, the new office should be empowered to deal specifically with current wage-price problems, on a case-by-case basis.

Stress should also be given to policies to reduce inflationary pressures on the supply side. A Price-Productivity-Income Office or Cabinet Committee on Price Stability should develop and recommend measures that would raise productivity in addition to measures that would discourage unjustifiably large cost and price decisions.

The country needs more specific and more effective wage-price policy guidelines. The existing ones, such as they are, do not take account of price increases. Yet it is unrealistic to try to divorce them from such changes in the economy. As a more realistic means of dealing with the problem, the guideposts might be set at the long-term rate of productivity increase plus some fraction of the preceding year's increase in the cost of living.

Because the recommendations for clearer wage-price guidelines and for a Price-Productivity-Income Office in the executive branch, originally set forth in the committee's report of last March, are of greater urgency than ever in the operation of full employment and economic policy, we repeat them here in essence:

> **The administration should develop a more effective, realistic, and definite set of wage-price guideposts. In addition, a high-level unit should be established in the executive branch to apply those guideposts to important industries. This office could be charged with assembling and analyzing data from all available sources on prices, productivity, output, inputs, wages, and incomes.**

In its activities, the office could be assisted by industrywide productivity, price, and income boards consisting of labor, management, and consumer representatives. The office, with the help of the boards, should be authorized to hold fact-finding hearings and make recommendations regarding wage-price behavior in the light of desirable economic policy.

AGRICULTURE

Long years of agricultural surpluses and Government subsidies have led many people to regard agriculture as a sick, poorly managed industry of waning importance in national affairs. The fact is that agriculture has demonstrated its adaptability in adjusting to massive technological changes.

Between 1940 and 1966, aggregate output of American farms increased more than seven times the increase in production inputs. There are only two persons on farms today for every five 30 years ago. One farmer today supplies abundantly the food and fiber needs of more than 40 persons, compared with 10 persons a short generation ago. Agriculture's progress has been passed on in sharply lowered food costs relative to consumer income.

U.S. consumers in 1967 paid out only 17.7 percent of their disposable income for food, of both improved quality and convenience-packaging, compared to 22.2 percent in 1950. The so-called parity ratio, computed by dividing an index of prices received by farmers by the index of prices paid, has fallen from 100 in 1957–59 to 79 today, even when Government payments made directly to farmers are included as receipts. At the same time, growing agricultural exports bulwark our economy at home and abroad. The harvest of 1 out of every 4 acres moves into foreign markets. The net favorable balance of agricultural trade makes up over half of our country's total favorable balance of trade in all products, even though agricultural shipments make up only 22 percent of total exports.

Since World War II, the pace of technological progress in agriculture has been so rapid that nonagricultural industries have been unable to provide jobs for large numbers of displaced farmworkers. At the same time, increased productivity per man and per acre has meant that America's agriculture has had to live with, and will continue to have to adapt to, excess productive capacity for many years ahead. It is estimated that in 1967 unutilized reserve capacity, including acreage restricted under Federal programs in agriculture, was 12 percent compared with 15 percent in manufacturing industries. Given the rapid increase in productivity here and abroad, it is not likely that the Nation will need to call on agriculture's reserve capacity during the next decade at least, making Federal farm support programs a continuing imperative until balance is restored.

While the rest of the economy debates the need for guidelines and voluntary restraints in the negotiation of wages and the fixing of prices, we are impressed with the point put before the committee repeatedly that, in order to speed agricultural adjustment, the farmers of the country need more effective bargaining power.

Even with the increase in productivity per man and in the size of family farms, output per farm unit is so small, relatively, that individual farmers cannot influence total output or the price of agricultural products. Voluntary production control and price support programs have helped farm income on some crops; but as the Secretary of Agriculture pointed out, about 60 cents out of $1 of farm cash marketings come from the sale of crops and livestock not covered by Federal farm programs. In this "no program" area particularly, the farmer must essentially "go it alone," unable to bargain effectively in the marketplace, characterized as it typically is by a limited number of relatively strong buyers.

We agree with the Secretary that farmers need help in strengthening their bargaining power. Nevertheless, we recognize the difficulty in developing workable procedures by formal legislation for price negotiation in agriculture between a great many small producing units and a relatively small number of large purchasers.

The idea of organized marketing committees selected by the producers, meeting in negotiation with a purchasers' committee in establishing minimum prices for farm commodities, is worthy of consideration by the private and public policymakers. Over the years, existing agriculture adjustment programs have given farmers experience in the use of marketing committees. It seems to us far more questionable whether a purchasers' committee selected by prospective purchasers would be a desirable instrument in negotiating minimum prices.

Today, when many sectors of the economy enjoy positions of power, maintaining prices and wages through negotiations with large enterprises and strong labor unions, we strongly urge that the Congress give specific consideration to developing measures so that the bargaining power of producers of agricultural commodities may be strengthened.

While agriculture is not touched upon in the Economic Report itself, the President in a supplemental message has stated well a principle that should guide such consideration: "The Government may act as an adviser, or it may serve as an umpire. But the plan must be designed for farmers to use if they choose. It cannot be forced upon them. Under any proposal, farmers must make their own decisions and control their own destinies."

Increased farmer bargaining power and higher prices cannot, of course, solve all of rural America's problems. They cannot meet the needs of what Secretary Freeman calls the "in between" people of rural America. Our rural communities have a great many such people—small farmers, displaced rural laborers, the unskilled, and the uneducated who have been bypassed by progress.

The critical and explosive situations in our urban ghettos are not unrelated to the concentration of poverty in rural America. The very rapid increases in farm productivity resulting from rapidly improving technology and mechanization of agriculture have meant that huge numbers of agricultural workers became redundant in agriculture. The farm population between 1940 and 1966 has declined by almost 20 million, or from 30.5 million in 1940 to 11.6 million in 1966. In 1950, the net emigration from the farm amounted to 1.5 million people, and by 1966, the annual rate of net emigration was still

858,000. The published statistics would indicate that although the incidence of poverty was higher among farm people than other people, the incidence of farm poverty has declined from about 41 percent in 1959 to 21 percent in 1966. However, it seems obvious that the poor in agriculture became the poor in the ghettos of the large cities.

The link between rural and urban poverty has profound implications for public policy. A much greater emphasis should be placed on the need to develop rural America. This broad policy should have two major aspects: first, to improve the opportunities of rural people for off-farm jobs within their locality; and, second, to improve the preparation of farm youth and farmworkers for nonfarm jobs. From the human resources point of view, a strong effort should be made to provide opportunities for education, training, and employment for rural people on a par with those available to persons living in urban areas.

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INVESTMENT IN HUMAN RESOURCES

In the past 5 years there has been mounting evidence that wise investment in human development is the main ingredient of economic growth and progress. Education and training returns its cost many times over in the form of tax receipts on higher earnings. Promotion of health, improved housing, and environmental rehabilitation likewise permit people to become more productive.

At the present time, our economic prosperity and growth potential are encumbered by the existence of large pockets of poverty affecting millions of families. This situation represents waste in a double form. In the first place, these unfortunate families cost society many billions of dollars a year in welfare and sustenance payments to provide food, clothing, and the other necessities; and, in the second place, their potential productivity, if effectively utilized, would make the Nation far richer.

The report of the President's National Advisory Commission on Civil Disorders brings home most forcefully the tragic consequences of this kind of waste in respect to the racial crisis that confronts this Nation. But at the same time, the need for human resource investment emphasized by the Commission applies just as much to the rural poor, regardless of race, and to all members of the vast minority who suffer from inadequate training, poor health, ignorance, or social maladjustment.

For this reason, we must maintain the momentum of public and private human resource programs. They should be given priority over other competing claims upon our resources. In particular, it would be a great mistake to deprive these vital activities of funds because of our involvement in Vietnam.

The committee is impressed with some of the recent studies of specific results obtained from training programs and other human resource investments. It used to be assumed that these aspects of government activity were justified by humaneness and decency alone. But, apart from these very important considerations, it is obvious that expenditures for human resource programs are investments in the more traditional sense inasmuch as they often have quick and substantial "payoff." For example, the Secretary of Labor testified that the cost of retraining hard-core unemployed can be recovered in the form of higher tax receipts within 4 years, and in the form of reduced welfare benefits in only 2 years. If these estimates even roughly approximate the true figure, then these returns would certainly compare most favorably with those on investment in tangible assets in the private economy.

Nor is manpower the only example of payoff, although it is probably the most dramatic. Recent research shows that the capacity of children to learn and to become effective members of society is importantly affected by the time they reach the age of 4. It follows that

children who are born into severe poverty suffer in the early years of life drastic deprivation that handicaps them permanently in their social potential and personal development. This is a serious source of human waste that our society has not yet begun to cope with in any comprehensive way.

Our past underinvestment in poor children is reflected in the fact that nonwhite teenage unemployment was more than 27 percent in the fourth quarter of 1967—even higher than the unemployment rates for this group during 1965 and 1966. When this is considered in conjunction with the obvious unrest among young Negroes in urban areas, it suggests strongly the need for stepped-up efforts to solve this problem. Unfortunately, outlays under the Job Corps are estimated to fall in fiscal 1969 rather than rise. And the budget item "youth, school, and summer work" indicates a decline as between 1967 and 1968, although there is some modest increase again in 1969.

The President is to be commended for his leadership in presenting to the Congress the programs set forth in his messages regarding housing and cities, job training and occupational health, and health in America. These are necessary and very constructive steps in dealing responsibly with the problem of underdeveloped human resources, and with the vast problem of the inner city which, in itself, is the core of a significant part of our human resource problems.

The committee urges the Congress to consider seriously the need for expanding such programs along with others that help to transform the impoverished into more productive members of society.

The existence of deep social needs accentuates the importance of developing better means of identifying national goals and establishing priorities for their attainment. As indicated elsewhere in this report, there is urgent need for a reordering of priorities in our public programs. The committee strongly believes that the human resource components of the Federal budget have not been given high enough priority in relation to the funding levels of other programs.

There is also an accompanying need to improve the machinery for identifying and promulgating goals in the area of human resource development. There is widespread and growing recognition that our national social objectives have to be identified in a more concrete and quantitative manner and in a manner which is of more assistance in determining priorities. Furthermore, work should go forward as rapidly as possible to develop techniques to measure the progress that is being made toward the attainment of our national goals.

The committee is convinced that consolidation of programs should be a basic objective in efforts to identify goals and program objectives more clearly. A recent detailed study by the committee's Subcommittee on Economic Progress reveals a great profusion of programs in the human resource field with considerable overlapping on the one hand, and serious gaps on the other. There is great need for more cohesive and more effective programs to achieve social objectives. In view of the high priority warranted by increased investment in the social sector and its obvious importance for the continued growth and development of our society, this kind of evaluation is badly needed now.

Moreover, achievement of an effective program structure will require more than a consolidation of programs that duplicate one another. There are more difficult issues to be resolved. In some cases, the objectives of programs seem to work at cross-purposes. For example, housing programs, it would appear, have not always taken account of the availability of employment opportunities for workers near the place of residence. Also, as emphasized by the Congress last year, our welfare programs have not always taken full cognizance of the desirability of providing training and increased earning capacity for relief recipients, even granting that this is not feasible in many cases. Another kind of problem that must be faced in the expansion and development of new programs is their effect on existing supplies of resources and services. In the case of health, for example, it is obvious that the medicare and medicaid programs need to be matched with measures to train more personnel and to provide additional medical facilities. Otherwise a severe shortage on the supply side may frustrate program objectives. Health care prices rose at approximately the same rate between 1966 and 1967 as did per capita spending on health services. This indicates that, unless measures are strengthened to increase resources in this sector, government programs in the health area will merely add to demand and redistribute the amount of health services available in the economy.

INCOME MAINTENANCE

Various plans have been offered for the improvement of our existing programs to provide minimal income to people in need. As in the case of human resource investment, we have come to recognize that such expenditures are a necessity in a civilized society; that in addition to benefiting the particular individuals concerned, they also serve the whole community through supporting consumption, at levels necessary for the individuals to participate in society; and that, in addition, they contribute to social stability and the mitigation of dissent and unrest. Moreover, it is increasingly recognized that the provision of adequate income is a necessary precondition to other developmental programs such as education, training, and community rehabilitation.

Our existing programs represent a patchwork based largely upon emergency legislation in the depression years. There is a great need for a fundamental review of basic framework, objectives, and philosophy in the light of present-day realities.

Public payments for income maintenance in the United States amounted to almost $50 billion in 1967. Yet, almost one-sixth of the population still have incomes below what is considered a poverty level, as defined by the Social Security Administration. The primary programs in our income maintenance and family support system include Old Age, Survivors, Disability, and Health Insurance, unemployment compensation, the public assistance programs, and veterans' pensions and compensation. It is estimated that only about one-half of these transfer payments go to persons who would have been poor without having received transfers, and a little less than a quarter of total transfers is received by persons who are defined as poor even after receiving transfer payments. While few persons would suggest that our income maintenance programs should help only poor people, the statistics suggest that not enough is now being done for the persons who really need aid.

There are many shortcomings in our present system of income maintenance. Only certain categories of the poor have any claim to federally aided public assistance, for example, the blind, the permanently and totally disabled, dependent children in families lacking a breadwinner, and the indigent aged. Among the poor who do receive public assistance under the existing Federal-State-local system, there is a wide range in the level of public assistance, from approximately $10 per recipient per month in some States, to approximately $50 per recipient in other States.

At this juncture, the Nation faces some very serious choices in regard to public welfare payments. A few years ago, the general opinion was that part of the so-called fiscal dividend from economic growth could and would be allocated for public assistance improvement. Now it is apparent that our international commitments may have preempted the fiscal dividend for some time to come. The key

issue, then, is: Are we willing to shift our priorities and divert a larger share of the national income to raising the large body of the poor to a standard of living that at least approaches a minimum of decency?

As in the case of the human resource programs, there is a great deal of room for improvement in the organization and coordination of welfare programs, particularly for the provision of services. It is obvious that a more rational and more effective system of providing such services should be established promptly.

The Joint Economic Committee, through its Subcommittee on Fiscal Policy and its Subcommittee on Economic Progress, has been studying various aspects of income maintenance and family support, including our present system of old age income assurance. During the coming year, the committee intends to focus on various income maintenance proposals in its study program.

MAXIMUM EMPLOYMENT AND POTENTIAL GROWTH

Although the Council had estimated a potential GNP growth rate of 4 percent in 1967, actual real GNP grew only 2½ percent, with most of the gain in the last 6 months of the year. This was a disappointing record in comparison with a 5½-percent annual rate of increase from 1961 to 1966, and is clearly insufficient from a longrun standpoint.

> **The administration's projection of a potential real growth in 1968 of approximately 4 percent and its acceptance of little improvement in the unemployment situation are too pessimistic. This assessment falls on the low side of most estimates of long-term potential, and comes on the heels of a poor performance in 1967.**

We should not complacently accept the theory that there must be a tradeoff between increased employment and growth on the one hand, and price stability on the other, once unemployment has been pushed below 4 percent. In the committee's opinion, this notion of a tradeoff at approximately 4 percent unemployment does not give enough credit to Government and private programs directed at manpower training. In short, the administration appears to underestimate the potential of its own programs to combat long-term unemployment and underemployment of disadvantaged groups, particularly the excellent new initiatives proposed this year to hit at the "hard core" of these groups.

> **We believe that the appropriate unemployment goal should be 3 percent. This goal is closer than it was last year by reason of our achievement in reaching the committee's interim goal of 3.5 percent.**

At the same time, the long-sought achievement of a 3.5 percent rate of unemployment has heightened our awareness of the inadequacy of goals focused solely on the overall rate of unemployment. This total rate conceals a structure of unemployment varying widely among population groups and areas of the country. For example, in 1967, when the total unemployment rate was 3.8 percent, the unemployment rate for nonwhites was 7.4 percent, and for teenagers 12.9 percent. Moreover, the man-hours lost by the unemployed and persons on part time who could not find full-time jobs amounted to 4.2 percent of the potentially available labor force man-hours. And it should be pointed out that the unemployment figure does not include hundreds of thousands of men and women who should be working but are not even looking for work.

In this connection, the committee commends the efforts of the Department of Labor to provide more detailed information concerning the composition of unemployment among various groups and areas, and to seek data on those people who are not working and are not included in the unemployment statistics.

A recent survey by the Labor Department of the 20 largest metropolitan areas highlighted "the great weakness in the law of averages," as the Secretary of Labor put it. It showed that unemployment rates for different localities, as well as for different groups of individuals, were significantly different. Thus, while unemployment in Minneapolis-St. Paul was 2.2 percent, and in Washington 2.3 percent, it was 5.6 percent in Los Angeles-Long Beach, and 5.4 percent in San Francisco-Oakland.

Moreover, while Negro unemployment rates averaged 2.3 times as high as white rates, there were important differences by area. The ratio between Negro and white rates was as low as 1.5 in New York and 1.6 in Washington, but 3.1 in Cleveland and 4.2 in St. Louis.

This kind of more detailed information should allow us to better concentrate our resources and facilities in areas where the need is greatest and where our manpower programs can have the most effect.

It is highly appropriate that our manpower policies be shifted, as indicated by the President, toward a more concentrated approach to employment problems. The committee, therefore, welcomes the emphasis on the "concentrated employment program" and the "JOBS program" (Job Opportunities in the Business Sector), and on the hard-core unemployed in the manpower development and training programs.

At the same time, it is important to bear in mind that these programs which attempt to concentrate aid cannot be successful unless there is a strong demand in private industry for labor. The success of these programs depends on continued strong aggregate demand, without interruptions or weakness. Weak general demand would destroy the effectiveness of the programs and create far more unemployment. That is one reason why we need to be very careful about the possibility of "overkill" from a tax increase. The Council of Economic Advisers, in a letter to the chairman of this committee, indicated that the proposed income tax surcharge would diminish the number of jobs during this calendar year by 150,000 and by 300,000 for the fiscal year 1969. Moreover, the proposed surtax would hit just at the time when many economists feel that the economy is likely to be softer. The job-destroying implications of the surcharge should receive very careful consideration in view of the national effort to improve the employment opportunities of the disadvantaged. By the same token, the Labor Department's stepped-up manpower program will be a definite asset in increasing the supply of trained and skilled workers, which will reduce inflationary pressures and make possible a faster rate of growth. By adding to the supply of skilled manpower, the training programs should reduce the need for any fiscal action to stem upward pressures in the economy.

COMPETITION AND THE GROWING CONCENTRATION OF ECONOMIC POWER

The Joint Economic Committee, over the two decades since the passage of the Employment Act of 1946, has stressed the great importance of our competitive free enterprise system in achieving our broad policy goals. Effective monetary and fiscal policy alone cannot carry the enormous burdens of our society, without the aid of a well-functioning market system. In short, we rely upon the market system as the primary means of achieving our goals. The market system, in turn, history has demonstrated, has not performed satisfactorily without a vigorous antitrust program.

Extensive problems are developing at the present time and demand attention. The merger movement apparently has reached an alltime high. According to the Federal Trade Commission, preliminary data indicate that larger mergers, involving the acquisition of manufacturing and mining firms with $10 million or more of assets, rose approximately 50 percent in 1967 in terms of the number of firms acquired and over 100 percent in terms of the aggregate assets acquired. This suggests that fundamental changes are taking place in our economy which should be studied critically. Our antitrust agencies—the Federal Trade Commission and the Antitrust Division of the Department of Justice—are well equipped with legal authority to investigate and challenge monopoly and monopolistic tendencies, and particularly monopolistic mergers. The record indicates that since Congress in 1950 amended the Merger Act, there has been a well conceived and developed enforcement policy. The question remains, however, whether the respective agencies are applying sufficient enforcement vigor and imaginative application of these statutes.

It seems apparent that some of the Government's own policies may be encouraging these mergers. The tax code should be examined in relation to its effect on the concentration of economic power. For example, under the present circumstances, the loss of one company may be another company's gain, if the first company is either acquired by or merges with the second company. Another provision of the tax code which may promote mergers is the provision for multiple surtax exemptions. Under this provision, a company contemplating a merger or acquisition can count on all the benefits of such a merger without having to weigh the disadvantage that would occur if the merged profits were subject to a proportionately higher tax, which would be the case without the multiple surtax exemption. Still other provisions encourage the sale or merger of family companies, prompted by the need for valuation and liquidity on the death of the principal owner.

One of the principal objectives of Congress in passing the Celler-Kefauver Act in 1950 was to stem the growth of the concentration of economic power, wherein a few huge corporations dominate our lives. In setting up this objective, Congress relied upon the traditional antitrust approach, namely, to enable the antitrust agencies to challenge

mergers which may substantially lessen competition or tend to create a monopoly in any line of commerce in any section of the country.

The record shows that the antitrust agencies have successfully challenged, in key cases, horizontal and vertical mergers. Recently, the Supreme Court has ruled favorably on cases involving various kinds of conglomerate mergers. Yet, the fact remains that conglomerate mergers continue to increase to an alltime high.

We urge that the antitrust agencies reassess their role to determine whether they are employing all the resources at their command in meeting this challenge of an ever-increasing tide of conglomerate mergers. At the same time, we believe that the Federal Trade Commission, in particular, should probe deeply into the ramifications of the growing concentration of economic power flowing from the increasing conglomerate mergers.

We also believe that the Council of Economic Advisers should explore the implications of the changing structure of the economy on its own program for achieving broad economic goals. The Council's strange silence on these serious problems in its report—in the face of the greatest merger movement in history—suggests that the Council should reassess its program. In the long run, the success of the wage-price guideposts depends for proper maintenance on a vigorous antitrust program.

SUPPLEMENTARY VIEWS OF REPRESENTATIVE PATMAN

The committee recommendations stress the importance of achieving greater wage-price stability. In addition to a strong wage-price policy, the report, quite correctly, in my opinion, emphasizes that Government regulatory agencies and antitrust policies have a role in promoting this desired stability. The basic design of the Employment Act of 1946 was to preserve, as well as place primary reliance on, the market system, and those of us who worked for passage of the Employment Act had this uppermost in mind. Indeed, this purpose was set out in the declaration of policy in the Employment Act, which states that it is the continuing policy and responsibility of the Federal Government—

> * * * to foster and promote free competitive enterprise and the general welfare * * * to promote maximum employment, production, and purchasing power.

The President has taken a very constructive step in establishing a new Cabinet Committee on Price Stability for the purpose of attacking the underlying structural basis for price inflation. As indicated in the report of the Joint Economic Committee, this Cabinet committee, unfortunately, is not equipped to deal with the immediate problems of wage-price increases. However, it does have a longer run value of great importance and faces a great challenge.

I urge the Cabinet Committee on Price Stability, in looking to the structural causes of price problems, to work in close collaboration with the antitrust agencies and the other governmental agencies that are concerned in any way with the price question.

At the forefront of the structural changes having a profound influence on problems of price stability is the revolutionary alteration in the American economy now taking place as the result of the greatest merger movement in the history of the Nation. For over a decade, this merger movement has been in full swing, with industry after industry affected. Huge conglomerate firms, straddling a multitude of industries and engaging in all manner of activities, have arisen, much as the public utility holding companies and bank holding companies emerged in the 1920's and 1930's. Congress finally moved to curtail the pyramids of power erected in those areas with the passage of the Public Utility Holding Company Act and the Bank Holding Company Act.

The Federal Trade Commission reports that in 1967 the conglomerate merger movement "experienced the sharpest increase in modern industrial history." Some of the Commission's findings just released are startling. The Commission states:

> New highs were established not only in total merger activity, but in the number of "large" mergers. Large mergers, the Commission pointed out, are those involving the acqusition of firms with assets of $10 million or more. Large-merger activity is considered a critical barometer of changes in industrial organization, since some 84 percent of

> all manufacturing and mining assets are held by the approximately 2,400 corporations with assets of $10 million or more.
>
> The Commission recorded 155 large mergers in manufacturing and mining last year. The aggregate assets of such large-company acquisitions. totaled $8 billion, nearly a 100-percent increase over the $4.1 billion recorded for 1966. During the first 2 months of 1968 the rate of large mergers continued at a high level. Some 19 large mergers, with aggregate assets of $1.3 billion, were consummated, while 20 other announced mergers, involving a total of $2.3 billion of assets, were pending.

In a word, the current merger movement is far outrunning the merger movement of the 1920's which preceded the stock market crash and the depression of the 1930's. I am fearful that many of the conglomerate giants being built up through this merger process are "jerry-built" and insecure. Also, it is my conviction that most of these mergers are not undertaken to achieve greater economic efficiencies, but rather are motivated by empire builders for the aggrandizement of a few inside promoters.

As one of its first undertakings, the Cabinet committee should call upon the FTC and the SEC to make a thorough investigation of this merger movement. Among the questions which should be explored are the following:

1. The basic causes of the merger movement and a forecast of its likely future course.
2. The impact of the merger movement on opportunities for small- and medium-size businesses to survive and grow as independent competitive entities, as well as the effect of the movement on entry opportunities.
3. The economic consequences of growing aggregate concentration and its relationship to competition and the market process.
4. The interrelationship between mergers and the securities markets, as well as the sufficiency (or insufficiency) of corporate reporting of divisional profits as a protection for investors.
5. The vulnerability of publicly held companies to "take over," including an examination of the way in which the merger movement may be stimulated by such vulnerability.
6. The effectiveness of the antitrust laws in coping with the conglomerate merger movement.
7. The impact of various governmental policies, including procurement practices, tax policy, and research and development grants on the merger movement.
8. The relationship between the American merger movement and the flow of capital abroad, foreign acquisitions by American companies, and international competition.
9. Any recommendations for needed legislation to correct adverse structural developments caused by the merger movement.

In the field of monetary policy, it is most important to stress the committee's warning against any presumption by the Federal Reserve Board that the present conditions give them a tight money directive. The point cannot be overemphasized in my opinion. The Federal Reserve has managed to raise interest rates to the highest level of the century.

Throughout the past 16 years, we have had recessions and we have had booms, but rates spiraled up steadily in that period. We have learned the bitter lesson that high interest rates lay a heavy burden on the housing industry, on the farmer, and on the consumer. High interest rates multiply the cost of the public debt to the American people. Our cities, faced with massive construction requirements for public facilities, are starved out of the capital market by zooming interest rates. The extensive dislocation caused by high interest brings about an aggravation of imbalances that exist in our economy—imbalances that hurt primarily the poor and the disadvantaged.

I urge the Congress to make lower interest rates the first objective of economic policy. At the same time, Congress should move rapidly to renew the Federal Reserve's authority to purchase and hold obligations of the Federal Home Loan Banks and the Federal National Mortgage Association. The committee deserves praise for this most important recommendation, and for urging the Federal Reserve to follow congressional intent and use the authority. It is essential to restoring the health of the housing industry.

SUPPLEMENTARY VIEWS OF REPRESENTATIVE BOLLING

The committee's report contains much with which I agree, but it does not address itself to the central fact that the Nation is in a crisis: it is faced with massive requirements in Vietnam and equally massive and urgent requirements for rebuilding our domestic society; yet, present inadequate programs leave the budget with an inflationary deficit of at least $18 billion for fiscal 1968 and again for fiscal 1969 in the absence of a tax increase.

I am convinced that we can and must do everything necessary to achieve success in Vietnam. In fiscal 1969 this will require expenditures of at least $30 billion, possibly as much as $32 billion according to some informed estimates. I see no other practical course than to spend whatever is needed to carry this operation through to success.

At home, we have, for almost three decades, postponed action to deal with pressing economic and social problems, offering each year the same customary excuses of budgetary stringency or international crisis. If the riots of recent years have not convinced everyone of the folly of this course, the voluminous and pungent report of the National Advisory Commission on Civil Disorders, appointed by the President, should finally dispel the illusion that further procrastination can be tolerated. It is no longer possible to plead ignorance or uncertainty as to the consequences of delay or the programs needed. While precise costing of such a program package is not available, it is obvious that solution of pressing social and economic ills and injustices may add as much to the Federal budget as is now being spent on the Vietnam conflict.

With inflation adding daily to the cost of the Federal budget, as it is to every family budget, it is folly to further postpone action on the President's request for a tax increase. Indeed, the Kerner Commission's report outlining domestic needs to solve pressing social problems indicates all too clearly that the President's requests on the expenditure side of the budget are far too low. If the Congress rises to its responsibilities, it will increase—not reduce—the total expenditures this session.

I am prepared, therefore, to join with my colleagues in voting not for the President's 10-percent surtax, but for such higher surtax—be it 15 or 20 percent, or whatever figure technicians determine to be necessary—in order to finance the overwhelming priorities at home and abroad which demand immediate action by this Congress.

Some will say once more that we should postpone action on domestic problems for a year or two, until the end of the Vietnam conflict provides room in the budget for these programs. I have no such illusions. Given the world situation, and the pressing character of our long neglected domestic problems, I am convinced that this Nation—one of the richest in the history of the world—can afford to and must carry out both its operations abroad for maintaining the peace and freedom of the world, and also the social and economic reconstruction at home that will provide the strong domestic base for our role in the

world community. If we do not have the will to undertake both at once, we will soon face failure not only at home but abroad—indeed, we may face domestic disasters of appalling dimensions.

Consequently, though I join my colleagues insofar as the committee report points toward the more responsible policy posture that we must adopt, I feel compelled to go beyond them to face squarely the central responsibility before the Nation—that of adopting programs adequate to our day, both at home and abroad, and to vote the taxes necessary to pay for those programs *now.*

My determination that we must act at once to increase both expenditures and taxes is reinforced by recalling some words that this committee put in its report 17 years ago, at the time of the Korean crisis—a crisis which many also used as an excuse to postpone needed domestic programs. Some excerpts are as pertinent today as they were then:

> Perhaps the most important fact that needs to be constantly kept in mind is that the situation now facing this country appears to be neither one of all-out war nor of peace. It may be rather a 10- or 20-year period of two-way preparedness or armed alert, although the possibility should in no wise be ruled out that a relatively shorter period of extremely critical danger may lie immediately before us. * * *
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> The economic problems of a long period of armed alert cannot be met by indiscriminate application of the techniques useful either in war or in peace. We cannot afford the luxury of thinking with our memories. New problems require new solutions. Nor can we find the way out of our predicament by carping criticism of one another or by searching out and condemning one another's economic and political sins. The way out lies along the road of quiet tolerance and patient cooperation.
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> Moreover, it is not enough merely to increase industrial capacity. Nor is it enough, in addition thereto, to develop natural resources with maximum speed and economy, and to direct public works programs toward increasing farm output and industrial production. More is required. To promote productivity means, above all, developing and husbanding the most important resource which the country possesses: the potentialities, the skills, the loyalties of its workers, its farmers, and its businessmen, irrespective of differences of background, affiliation, status, and point of view. No nation can either be strong or prosperous in which groups mutually frustrate and exhaust each other by striving to gain position at the expense of the general welfare.
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> * * * * * * *
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> It will not do merely to pile the unsolved problems of war upon the unsolved problems of peace. In the long preparedness effort ahead, a much harder task must be faced—that of devising a consistent and comprehensive set of economic policies that will attack our economic problems on all fronts.
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> (Joint Economic Report, January 1951, pp. 10 and 11.)

SUPPLEMENTARY VIEWS OF REPRESENTATIVE REUSS

While I join with my colleagues in the Joint Economic Committee report, I take this opportunity to present some additional views of my own:

I. Monetary Policy—The Joint Economic Committee Versus the Federal Reserve System

In recent years, dialog between the Joint Economic Committee, in its annual reports, and the Federal Reserve System, in the minutes of the Open Market Committee, might as well have been conducted in Urdu on the one side and Swahili on the other.

The Joint Economic Committee, in its 1967 Report, urged upon the Fed "the policy of moderate and relatively stable increases in the money supply, avoiding the disrupting effects of wide swings in the rate of increase or decrease * * * generally within a range of 3 to 5 percent per year."

Our "advice" is obviously not being followed. For the period April 1966 to January 1967, the money supply (narrowly defined as demand deposits in banks, and currency outside banks) actually declined, at a rate of 0.2 percent. From January 1967 to January 1968, it increased at a rate of 7.3 percent. To find a period when the money supply increase was within the suggested range, one has to look at the period November 1967 to February 1968, when it increased at the rate of 3.5 percent.

Obviously, the Fed had more on its mind than the money supply, narrowly defined. Perhaps the Fed has some cause for complaint. It was not told, for example, why time deposits in banks, or deposits in savings and loan associations, mutual savings banks, and credit unions, were not included in its purview. It was not told what, if any, attention was to be paid to levels of interest rates, production, employment, prices, and bank reserves; to the timing of Treasury borrowings; to the balance of payments; to the housing industry.

Equally, the Joint Economic Committee has trouble making head or tail out of what the Fed is doing from the published minutes of the Open Market Committee. For example, from January 1967 to August 1967, the Fed increased the money supply at a rate of 9 percent. Yet at its meeting of July 18, 1967—at a time when the administration was stepping up its warning of inflationary pressures—the Fed declined to tighten up on its expansionary creation of money supply. The minutes of the July 18, 1967, Open Market Committee meeting give the following rationale for this action:

> In the course of the Committee's discussion, considerable concern was expressed about the recent, high rates of growth of bank credit and the money supply, particularly in view of the prospects for more rapid economic expansion later in the

year. It was generally agreed, however, that the Treasury's forthcoming financing militated against seeking a change in money market conditions at present. Moreover, even apart from the Treasury financing, most members felt that it would be premature to seek firmer money market conditions at a time when resumption of expansion in overall economic activity was in a fairly early stage; and some also referred in this connection to the growing expectations that the administration would press for measures of fiscal restraint. In addition, some members expressed concern about the possibility that any significant further increases in market interest rates might reduce the flows of funds into mortgages and slow the recovery underway in residential construction activity.

Was the Fed continuing to create money at the rate of 9 percent—in the face of the Joint Economic Committee's 3 to 5 percent "advice"—because of Treasury borrowing, the level of production, expectations about future tax increases, worries about residential construction, or what? What weight was assigned to these factors? We are not told.

Obviously, the Joint Economic Committee and the Fed are not talking the same language. In an effort to get the parties to the dialog to talk the same language, the following guidelines for Federal Reserve monetary action are suggested as a basis for discussion:

The Federal Reserve System, through open-market operations, reserve requirements, and discount policy, shall endeavor to accommodate a growing full-employment gross national product by expanding the money supply (narrowly defined to include commercial bank demand deposits and currency outside banks) by 3 to 5 percent yearly, with the following qualifications:

1. *The target figure should be adjusted up or down from the above band from time to time to reflect the extent to which time deposits in commercial banks, and in savings and loan associations, mutual savings banks, and credit unions, substitute for the narrowly defined money supply;*

2. *The target figure should be on the higher side of the band in periods of less than full use of resources, on the lower side in periods of full use of resources;*

3. *The target figure should be exceeded when resources are underemployed and simultaneously businesses are making exceptionally heavy demands on credit, not for current business expenditures, but for additional liquidity in anticipation of future needs or to replenish unexpected liquidity losses;*

4. *The target figure should be exceeded to the extent necessary to reflect the increase in dollar gross national product estimated to be attributable to cost-push inflation;*

5. *The target figure need be sought only over periods, such as 3-month periods, sufficient to allow the Federal Reserve System to accommodate large Treasury borrowings, with the averaging out to occur over the remainder of the period;*

6. *Balance-of-payments considerations should affect monetary policy only through varying the maturity of the Federal Reserve System's portfolio, so as to achieve to the extent possible appropriate interest differentials as between long-term and short-term securities;*

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7. *The consequences of monetary policy for the homebuilding industry should be taken into account by including Federal National Mortgage Association and Federal Home Loan Bank Board securities in the Federal Reserve Systems' portfolio in meaningful amounts, and by lengthening its portfolio, whenever homebuilding finance is unduly retarded by overall monetary stringency.*

I have transmitted this proposed guideline to the Fed for its comments. The Fed obviously does not agree with the Joint Economic Committee's "advice." Perhaps the advice has been too tersely stated, with insufficient regard for other factors than the money supply, narrowly defined. The above proposed guidelines are designed to elicit precisely what the Federal Reserve regards as proper monetary criteria. Perhaps the resulting exchange can enable both parties to make their future dialog more meaningful.

II. Tax Policy—Surtax Versus Loophole-Plugging

For the last 15 months the administration has been pointing out the need for additional revenues in order to reduce the budgetary deficit. The deficit requires excessive Treasury borrowing, with its harsh impact on interest rates and the housing industry.

The administration's proposed solution has been the surtax, an additional income-tax levy on individuals and corporations. At the same time, despite the urging of many of us, the administration has refused to sponsor a program designed to increase the revenues by plugging loopholes in the tax system.

Congress has declined to act on the administration's surtax proposal. An important ingredient in Congress' failure to act—one repeatedly pointed out by the Joint Economic Committee—has been a genuine doubt as to whether the economy has been strong enough to withstand the decline in effective demand which the administration's surtax would bring about. During the past 15 months more than 15 percent of our industrial capacity has gone unused, compared to less than 10 percent in early 1966. While unemployment has been low overall, it has been concentrated among Negroes and young people. Under these circumstances, while a surtax would initially increase the revenues, it would do so only at the cost of diminishing demand, slowing down growth, and thus preventing the creation of jobs that otherwise would have been created.

Thus for 15 months Congress has rejected the surtax and has had no opportunity to act on a loophole plugging program, because the administration has failed to place such a program before it.

Those of us who have been unsuccessfully urging the administration to forward a loophole plugging program have pointed out that loophole plugging can raise part of the needed revenue, yet do so in a way that reduces effective demand as little as possible. A surtax, as we have seen, operates on demand and thus diminishes growth and employment. Loophole plugging, on the other hand, gets its revenues primarily not from funds which would otherwise have gone into consumption and into real investment in plant and equipment, but instead from funds which simply bid up the prices of existing stock equities, commodities, and real estate, or go into overseas speculation. Sopping up these funds by loophole plugging would thus do the economy the least amount of harm.

The need for loophole-plugging tax reform has been well set forth by the chairman of the House Committee on Ways and Means, Mr. Mills:

> The laws are full of special provisions through which a shrewd or lucky taxpayer can often escape paying anywhere near his full share * * *. If we have a tax system riddled with preferential benefits and falling on only a part of our economy, the heavy tax burden on those that must carry more than their share will limit our whole national program. As I see it, a fair and equitable tax system is not only desirable for itself, but well may be an element in our national survival.

A rich assortment of loopholes stands ready for a vigorous administration loophole plugging program. H.R. 13490, sponsored by myself and six other Members of the House, for example, would raise at least $4 billion additional annually by plugging the following loopholes:

1. Taxing capital gains on assets which escape taxation at the death of the owner—savings, $2.5 billion.
2. Eliminating the unlimited charitable deduction—savings, $50 million.
3. Eliminating special tax treatment for stock options—savings, $100 million.
4. Eliminating the $100 dividend exclusion—savings, $200 million.
5. Eliminating the benefits derived from multiple corporations—savings, $150 million.
6. Reducing the mineral-depletion allowance from 27½ percent to 15 percent on oil and from 23 percent to 15 percent on 41 other minerals—savings, $800 million.
7. Establishing the same rate for gift and estate taxes—savings, $100 million.
8. Eliminating payment of estate taxes by the redemption of Government bonds at par—savings, $50 million.
9. Eliminating accelerated depreciation on speculative real estate—savings, $100 million.

The administration's sole answer for its failure to present a loophole-plugging tax bill to the Congress is that such a bill takes time to enact. While true, this is all the more reason why the administration should have brought up such a bill 15 months ago. Even at this late date, the responsible thing to do is to forward such a measure at once. Then the Congress, assured that the administration actually supports a meaningful loophole-plugging program, can proceed to the immediate enactment of whatever temporary quick revenue-raising surtax measure is necessary, with the understanding that it will be wholly or partly supplanted by the loophole plugging measure as soon as the latter can be enacted. The two now-missing factors needed for the passage of a loophole plugging measure will then exist: (1) strong Presidential leadership, and (2) a lobby of 50 million moderate-income taxpayers saddled with a temporary surtax that can be shaken off only by the enactment of the loophole-plugging measure.

III. Expenditure Policy—Guns Versus Butter

Public policy economics often is characterized as a choice between military and civilian programs. Given limited amounts of available resources, policymakers act to establish some ranking of programs to permit their allocation among the growing demands of competing sectors.

At present the argument is raised that the American economy can meet all its pressing needs. But military involvement in Southeast Asia and elsewhere soaks up most Federal revenue increments, forcing application of stringent budgeting to vital domestic programs. With one current estimate putting Vietnam expenditures this year well above $30 billion, domestic programs are already suffering from malnutrition. Increasing resources—both human and capital—are committed to Vietnam, while the lack of those resources at home means that the causes of civil unrest get inadequate treatment. Indeed, costs of maintaining a massive military presence throughout the world cannot be balanced against necessities of relieving domestic poverty and arresting urban decay. Such an attempted choice is spurious.

The recent report of the National Advisory Commission on Civil Disorders states the issue clearly:

> Only a greatly enlarged commitment to national action—compassionate, massive, and sustained, backed by the will and resources of the most powerful and the richest nation on this earth—can shape a future that is compatible with the historic ideals of American society.

According to the Commission, that commitment should be undertaken "in spite of a war." The commitment must be dramatic. Prevention of domestic chaos and racial conflict should assume prime priority.

A brief comparison of existing programs to solve our critical domestic needs with recommendations of the Kerner Commission points out how thin antipoverty and urban efforts are being spread:

EMPLOYMENT

The Kerner Commission seeks 250,000 public service jobs to be created in fiscal 1969 as the initial step in a 3-year, 1-million-job expansion plan. Existing administration plans call for only around 150,000 such jobs for 1969.

The report recommends a stepped-up job training program for hard-core unemployed by broadening the existing 7-percent incentive tax credit for investment in new equipment and machinery with a tax credit for hiring and retaining chronically unemployed persons. Along with the revised tax credit plan, the Commission recommends a 3-year program aimed at creating 1 million new private-sector jobs, with 300,000 of them in fiscal 1969.

The administration's goals are only 100,000 private-sector jobs in fiscal 1969, and 500,000 by the end of fiscal 1971.

EDUCATION

The Kerner Commission asks significant increases over funds requested by the administration for its existing programs and for new appropriations in areas untouched by the President. The Presidential education message to Congress emphasizes higher and vocational education. The Commission stresses these fields, but it also wants more funds to aid school systems to eliminate de facto segregation; attain exemplary integrated schools superior to nonintegrated schools; construct educational parks; and provide a program of year-round public education, including camps, jobs, and job training to start this summer.

The Commission advocates increased funds for school construction. As an economy measure, the President has asked for a sharp cutback. The Commission favors federally funded year-round compensatory education for adults. Such a program is not mentioned by the President. The Commission recommends higher title I allocations to school districts containing significant proportions of disadvantaged students. The administration mentions no comparable program.

But the differences involve more than just program levels. The most striking criticisms from the Commission deal with the utter inadequacy and misdirection of these existing Federal programs.

The Commission seeks extension of Headstart to include every disadvantaged child in the country. Current Headstart programs provide a single year of preschool education for a maximum of 40 percent of eligible children in disadvantaged communities. To give all disadvantaged children 2 years of Headstart—since the Commission notes that 1-year programs are inadequate—it would be necessary to increase present funds fivefold. Yet, even such a massive increment would not be enough to include the food, medical care, new facilities, and community-education classes the Commission says must be added to create an effective Headstart program. For fiscal 1969 President Johnson has asked for less than a 12-percent increase in Headstart appropriations.

The Commission estimates 16.3 million people—of whom a disproportionate number are Negroes—need adult basic education today. That figure is nearly 40 times the number to receive basic education under the administration's increased program, which is planned to reach 411,000 persons in fiscal 1969.

The President has asked Congress for an expansion of Upward Bound, so that this program, which prepares needy students for college entrance, could assist 30,000 students this year. The Commission says that 600,000—or 20 times that number—could usefully be helped. Its recommendations go far beyond the 6- to 8-week summer sessions of the current Upward Bound program; one request is for special year-long post-high school college preparatory schools for disadvantaged youth.

HOUSING

The Commission seeks an immediate speedup of administration housing plans. President Johnson's recent housing message asks for construction of 6 million new homes over the next decade, with 300,000 to be built in fiscal 1969. The Commission's requests are for 6 million in 5 years, and 600,000 for fiscal 1969.

In the critical public housing field, the Commission looks for a greatly expanded program, but the administration is only asking $53 million more in fiscal 1969. And while the administration wants 65,000 new public housing units for the current fiscal year, it has sought less than a 20-percent increase in appropriations.

The Commission notes that a model cities program should begin at a minimum level of $1 billion. Fiscal 1969 budget estimates are for $500 million.

WELFARE

Total Federal, State and local public-assistance expenditures in fiscal 1967 were $4.3 billion. In order to implement Commission recommendations, such expenditures might require six times the total now spent. And while the entire program level would be increased, the greatest burden would fall on the Federal Government, which would be asked to pay up to 90 percent.

The present welfare system provides too little aid for too few poor families. It includes only needy persons who are aged, handicapped, parents of minor children, or long-term State or local residents.

Under existing standards only one-third of our poor families are eligible for assistance, and they are paid half the minimum needed for subsistence—and in many cases they receive less than one-fourth.

The Commission advocates immediate uniform assistance to raise family income to at least the poverty level as determined by the Social Security Administration. As a long-range target, it urges eliminating all eligibility restrictions other than need, and it asks that a guaranteed income be given as a right rather than as charity.

THE OPTIONS

Overall, Commission requests represent imperative needs. Government response to these needs must be huge to be effective. Even though no inclusive cost figure has been offered for the Kerner Commission recommendations, that cost may well rival the $30 billion-plus per year now being spent in Vietnam.

Faced with the immediacy of the Commission's program, how and whether to implement it must be decided at once. Three possible options appear open:

1. Continue the war and further postpone commitment to solving these domestic problems, thus taking the chance that the Nation will crumble from within;
2. End the war abruptly, via a quick and unilateral American pull-out, and shift resources to meet the Commission's recommendations;
3. Try for both guns and butter by—

    (a) diverting funds into Commission programs and away from low-priority areas, or from programs which help only a select few, such as space, public works, supersonic transport, agriculture;

    (b) directing the fiscal dividend from economic growth to meet the Commission requests; and

    (c) enacting tax-loophole-closing legislation and a temporary surtax to provide additional needed revenues until the fiscal dividend is large enough to fund Commission requests.

Of the three options, the first is clearly unacceptable. The second seems highly unlikely. Thus, the third option may be the only practical path for the Nation to follow. The domestic programs outlined by the Commission cannot be postponed. The Commission predicts the division of the Nation may be irreparable within two decades and that mere continuation of current programs is not only insufficient, but "is the course with the most ominous consequences for our society."

As the Commission report says:

> Just as Lincoln, a century ago, put preservation of the Union above all else, so should we put creation of a true union—a single society and a single American identity—as our major goal.

Already the unity of this country is threatened by the prospect of irreversible racial division. American priorities must be changed.

It is impossible to talk of widely varying policy "choices." To too many Americans today there is no choice between squalor and decency, between riot and safety, between disenfranchisement and freedom.

SUPPLEMENTARY VIEWS OF REPRESENTATIVE MOORHEAD

The committee report (p. 5) notes with apparent economic equanimity:

> * * * the possibility of a *substantial* escalation of the Vietnam war * * * (Emphasis supplied.)

I think the committee should point out to the Congress and to the President the economic risks attendant upon a substantial escalation of the Vietnam war.

If the President decides to send 200,000 or more additional American troops to Vietnam, he risks a possible collapse of the international monetary system which for two decades has lubricated the most spectacular prosperity the industrial world has ever known.

The system is already under its greatest strain, caused by the persistent balance-of-payments deficits of Britain and the United States and the recent devaluation of the pound. The gold and foreign exchange markets are extremely jittery.

The foreign exchange cost of the Vietnam war accounts for almost half of our balance-of-payments deficit.

An additional step-up in the American ground war effort in Vietnam could very easily be the straw that breaks the camel's back. The reason would be a certain enlargement of the foreign exchange cost of the war, the U.S. balance-of-payments deficit and the resulting outflow of U.S. gold.

There is no escaping this risk. No controls at home, no amount of higher taxes would avoid the balance-of-payments effects of a larger war effort.

In the fourth quarter our balance of payments on the liquidity basis jumped to the historically high seasonally adjusted annual rate of $7.3 billion.

Men of the greatest good will for the United States, men of sobriety and moderation, are convinced that the world monetary system cannot stand even another year or two of major American payments deficits.

Their confidence may be shattered if the United States takes the economically unwise decision of substantially escalating the war in Vietnam. A decision to halt escalation may restore confidence.

One more big American deficit, and a major gold rush is highly likely. And when we stop paying out gold, chaos begins. All international currency values will be in doubt and there will be a breakdown of the international monetary system.

No one can say exactly what a breakdown of the system would mean, internationally or domestically.

But the great majority of responsible Government officials here and abroad believe that, at the least, a disruption of the present system of links among currencies, backed by the link between the dollar and gold, would mean a sharp drop in world trade. At the worst, it could bring a worldwide depression, with inevitable repercussions in the United States.

The President and Congress should certainly weigh the economic risks before deciding upon further escalation of the war.

Of course, economic risks should not control foreign policy decisions.

But when we consider that past escalations have not brought success, we are entitled to consider the economic risks in deciding upon future escalations.

If 500,000 American troops cannot bring us victory in Vietnam, what makes us think that 700,000 would?

Rather than merely increase the number of our troops so as to do more of what we have been doing for the past few years, we should reassess our objectives.

We can either maintain our present objectives, which apparently require increased military involvement, or we can change our objectives and reduce or at least contain our military involvement.

This is a basic and fundamental policy decision about war and peace in which the American people through their elected representatives should participate. Not since the Gulf of Tonkin resolution in August 1964 has Congress been given a chance to participate in similar fundamental decisions about Vietnam.

Under our Constitution, I believe that Congress should participate in these decisions.

Our strategy of positioning American forces in the uninhabited border areas of Vietnam and leaving the defense of the cities and towns to the South Vietnamese has not worked.

Even with more troops I am not sure it will work.

However, if we decide that this is a war for people, and not for geography—if we pull back from the border areas, our present troops can join with the South Vietnamese in defending the people.

We should position our troops deep enough within South Vietnam so that when the enemy attacks, he would not have border sanctuaries at his rear but could be surrounded by our highly mobile troops.

This strategy, some military planners believe, would cut the recent U.S. casualty rate in half yet permit more progress in pacification, an objective that has far more to do with success in Vietnam than casualties inflicted on Communist troops.

At any rate, this strategy should be considered by the President and the Congress before there is any further escalation of the war in Vietnam.

Without such a reassessment, I would oppose a tax increase to permit further escalation in Vietnam.

However, even without escalation there may still be a need for a tax increase.

Our budget deficit will be huge.

Our balance-of-payments deficit frightens our friends abroad.

Our domestic needs—particularly in our urban communities—are desperate.

For such reasons a surtax, particularly if it can be combined with the closing of some tax loopholes, can be justified.

If it develops that the surtax begins to depress rather than merely restrain the economy, the Federal Reserve can quickly move to use monetary power to reverse the trend.

Furthermore, if this were the result, the Congress, which learned in 1964 that in such circumstances a tax cut was not only good economics but also good politics, would be only too happy to repeal the surtax.

MINORITY VIEWS

on the

1968 ECONOMIC REPORT OF THE PRESIDENT

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SUMMARY OF RECOMMENDATIONS

I. Economic Policy for 1968

A. Domestic policy recommendations.—(1) Low-priority Federal expenditures should be sharply reduced;[1] (2) Commission on Federal Expenditure Policy should be established; (3) after significant expenditure reductions and consideration of their impact, support passage of a tax surcharge; (4) monetary policy must move cautiously toward noninflationary growth of money and credit, and avoid the sharp swings in policy that have characterized the past 2 years; (5) the 4¼-percent interest ceiling on long-term Government bonds should be removed.

B. U.S. balance of payments and the international monetary system.—(1) Propose basic domestic actions as alternatives to the administration's balance-of-payments proposals to increase the trade surplus by[2] export incentives and possibly a border charge, impose direct private investment and bank lending controls, and curb American travel abroad: (2) world confidence in the dollar must be strengthened by (a) restoration of cost-price stability in the American economy; (b) considering orderly liquidation of some Government real and financial assets abroad; (c) considering offering foreign official dollar holders a temporary gold guarantee to emphasize our commitment to maintain the current dollar price of gold; (d) measures to avoid the substantial balance-of-payments drain of major labor disputes; (e) promotion of foreign tourism to the United States; (3) action should be taken to improve the stability of the international monetary system, specifically (a) activation of the new special drawing rights under the IMF as soon as the agreement is ratified; (b) a proposal that the IMF Directors thoroughly review the international role of gold and consider methods to deal with private gold hoarding;[3] (c) greater determination to improve the coordination of economic policies among the advanced industrial countries.

II. Foreign Trade Policy

(1) Urge European initiatives to assist the orderly adjustment of international payments, specifically by mitigating the effects of border taxes; (2) recommend legislation to temporarily provide the President with minimal authority to negotiate reciprocal lowering of both tariff and nontariff barriers, improve trade and tariff "adjustment assistance," and implement the American selling price package negotiated during the Kennedy Round; (3) support the formulation of a code of fair practices in international trade to deal with discriminatory and unfair trade practices; (4) urge a more consistent U.S. foreign economic policy.

III. Wage-Price Stability at High Employment

(1) Emphasize the paramount importance of responsible fiscal and monetary policies and reject the application of the wage-price

[1] See Senator Javits' footnote on p. 67.
[2] See Senator Javits' footnote on p. 75.
[3] See Senator Javits' footnote on p. 78.

guideposts in the current situation; (2) recommend measures to increase labor mobility to reduce labor shortages and gluts, such as removing tax and pension impediments; (3) support efforts to improve the competitive nature of the economy, including responsible antitrust action and lowering the barriers to imports; (4) urge the elimination of Government programs and policies that contribute to price and wage instability; (5) recommend Government programs to promote increased productivity and efficiency in the private sector; (6) support the following to improve Government statistical programs: (*a*) quarterly as well as 5-year estimates of Federal budget receipts and expenditures; (*b*) a statistical series on job vacancies; (*c*) a statistical series on the Nation's wealth; (*d*) improved measurement and forecasting of productive capacity; (*e*) a program to determine the effects of welfare programs on migration, employment, work incentives and family structure.

IV. Meeting America's Urban Crisis

A. Recommend the improvement of employment, training and retraining efforts with: (1) the Human Investment Act to stimulate job training in the private sector; (2) the Employment Incentive Act to encourage the employment and training of the unemployed with low levels of skills and experience; (3) the establishment of a national job opportunity survey, as recommended by the Republican coordinating committee; (4) business efforts to provide more opportunities to the educationally disadvantaged by restructuring jobs and altering hiring requirements; (5) improved coordination of Federal training and retraining programs; (6) further progress toward tearing down discriminatory barriers to employment; (7) improved public transportation to increase the accessibility of jobs to central city residents.

B. Urge the following measures to increase the fiscal capacity of our State and local governments to meet the needs of their citizens: (1) restrain the current trend toward fiscal centralization at the Federal level;[4] (2) the mobilization and efficient use of State and local revenue sources through strengthening the property tax, Federal payments in lieu of local taxes on Federal property and basing eminent domain awards on replacement value.

C. Support the following educational proposals: (1) more equitable financing of central city schools; (2) serious consideration of free public education through the junior college level; (3) extended preschool education; (4) substantial improvement of vocational education programs.

D. Urge efforts to bring private enterprise to bear on solving urban problems, such as: (1) the proposed Economic Opportunity Corporation to provide technical assistance and seed money to private involvement in urban problems; (2) the proposed Domestic Development Bank to stimulate broad economic development in slums and other depressed areas; (3) the amendment of those State constitutions that forbid the commingling of public and private funds for public purposes; (4) the encouragement of business groups already involved in this area; (5) the creation of a National Commission on Urban Living.

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[4] See Senator Javits' footnote on page 92.

E. Recommend the following programs to improve the Nation's housing: (1) Federal action to provide, within constitutional limitations, fair housing throughout the United States; (2) State and local action to encourage zoning policies to overcome social, economic, or racial segregation; (3) increased research to speed advanced construction techniques; (4) incentives for private enterprise development of low-income housing; (5) requirement that property must meet local code enforcement standards before it can qualify for depreciation deductions from Federal income taxes; (6) extending the privilege of homeownership to the lower income segments of the population; (7) consideration of the impact of public construction on existing housing and metropolitan development and improved relocation services for both displaced families and businesses.

F. Support the economic development of rural areas.

V. Strengthening American Agriculture

(1) Recommend that the network of Government price-support programs be reoriented toward a strong market economy for agriculture; (2) urge the inclusion of sound reserve levels and protection from Government price-depressing action if any legislation is adopted to implement the concept of national commodity reserves; (3) urge agricultural research be reoriented toward new and increased uses for agricultural products; (4) support tax incentives for economic development of rural areas suffering from poverty and population decline; (5) urge noninflationary fiscal and monetary policies to halt the rise in farm production costs and prevent loss of competitive prices for world markets and promote the bargaining power of farmers;[5] (6) recommend extension of the Food for Freedom Act; (7) support a firm position on agricultural products in future trade negotiations and vigorous efforts to cope with nontariff barriers to trade; (8) recommend revision of the Federal income tax law to prevent unfair competition to the commercial farmer by loss write-offs from agricultural operations against other types of income by those not primarily engaged in agriculture.

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[5] See Senator Miller's footnote on p. 101.

INTRODUCTION

This Nation faces great challenges and unparalleled opportunities both today and in the future.

There are those who say that our economic and political system is incapable of meeting the challenges or grasping the opportunities before us. We reject—and we believe the American people reject—these counsels of defeat and despair.

This is a time of hardship for our country, but it is also a time of testing. Such a period in a nation's history can bring out the best in people if they are inspired by strong and confident leadership.

We believe that the American people are ready and eager for that kind of leadership so that they can get on with the great unfinished business of the Nation:

- revitalizing our cities and rural areas and reversing the process of decay and deterioration;
- breaking the vicious cycle of poverty, inadequate education, low income, and a new generation of poverty;
- providing job opportunities for all those able and willing to work;
- abolishing discrimination in housing, education, employment, and medical care;
- ridding the environment of everything that pollutes the air and water and mars the American scene;
- enlisting the energy and creativity of private enterprise and our State and local governments to participate in the solution of these and other great national problems.

Vietnam Drain on Resources

An early end to the Vietnam war is an essential precondition for achieving many of these goals in the near future. We can and must continue to make progress, but there is no escaping the heavy drain on our resources imposed by the Vietnam war. As long as the war goes on, we cannot do everything we would like to do at once nor can we do our best without sacrifice and special effort on the part of every American.

The United States cannot shirk its international responsibilities or fail to maintain a strong defense. But at the same time we must not delude ourselves into thinking that a high level of military spending alone will buy genuine security. Our domestic problems pose as great a threat to our free economy and our democratic society as any enemy from without.

This country has the capability to meet its domestic needs as well as its international obligations on a well-planned and orderly basis. We cannot hope to solve those problems through crash programs, or without constant reference to the essential strengths and successes of our political and economic system. Above all, the national will, which is so indispensable to these achievements, can only be inspired

by new leadership dedicated to a progressive and responsible philosophy of government.

The reluctance of the American people to pay higher taxes does not stem from indifference to our problems. But the public is not willing to underwrite vast new Federal expenditures on top of an already swollen, redundant, and often ineffective structure of existing Federal programs that to a large extent reflects the preferences of politically powerful vested interests. The American people demand more than lip service to the urgent need to establish a new order of priorities in domestic spending. They also demand a better accounting for the funds already appropriated to meet our more urgent problems, funds which, in most cases, would be sufficient if properly programed and administered.

We must remove impediments to our private institutions and our State and local governments so that their talents and creative energies can be better mobilized to play a key role in meeting our public problems. The Federal Government is not the only or even the best agent of social change in our society.

The administration has failed to appreciate the depth of feeling which exists on these questions. Its words embrace priorities, private initiative, and State and local responsibility, but its deeds retain its commitment to the stale solutions of the 1930's.

The Need for Priorities

The President's talk about establishing priorities and making sacrifices is nothing but that—just talk. The 1969 budget, which has already been made obsolete by the rapid pace of events, is a case in point. Contrary to the administration's pretentions, the budget is neither tight nor frugal. It does not reflect a realistic sense of our national priorities or the concept of efficient programing and administration that is at the basis of expenditure discipline.

Our problem is that of choice, of setting priorities, of doing without something in order that we can concentrate resources where they are most needed. We can never really afford the deadweight of redundant, nonessential and obsolete Federal programs.

This Nation and its economy are in trouble today because of the administration's failure to understand this central issue. The President has tried to reassure us that his policies are moving the Nation toward "new and better shores." An anxious and concerned public knows better. The American people are aware that

- increases in the cost of living are accelerating as the purchasing power of the dollar continues to fall;
- the administration has lost the power to control the Federal budget;
- long-term interest rates are at cruelly high levels;
- the balance of payments is in deep and chronic deficit with our trade surplus shrinking under the stresses of inflation;
- the stability of the world monetary system itself is threatened;
- our cities are seething with discontent and worry over the possibility of civil strife;
- our rural areas are struggling under the worsening cost-price squeeze on agriculture;

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• the administration's so-called "full employment," which is seriously unbalanced among different groups of the population, has been bought by the heavy manpower requirements associated with the Vietnam war and by swollen Federal payrolls; and

• the possibility of other military involvements overseas looms large.

Can we take pride in this record? Are these the fruits of wise and prudent leadership? Haven't the American people the right to expect better from an administration long in control of both Houses of Congress and that promised to create a Great Society?

ECONOMIC POLICY FOR THE COMING YEAR

The legacy of cost-price stability inherited from the Eisenhower administration has been lost as a result of 8 years of excessive fiscal and monetary expansion. There can be no reasonable doubt that the economy now needs a strong dose of fiscal and monetary restraint. Further delay runs the serious risk of an accelerating inflationary spiral at home, a renewed attack on the dollar from abroad, a sharp increase in imports and a cut in exports, and an undermining of all poverty and welfare programs.

A program of fiscal and monetary restraint may temporarily involve a lower rate of economic growth and a lower rate of increase of employment than would otherwise exist. But, if we are willing to pay these costs today we will insure higher and more stable growth in the future and avoid the deep recession and high unemployment that are certain to follow continuing inflation.

The following are the specific reasons why we believe that the budget deficit must be sharply reduced and the growth of money and credit slowed:

1. Reverse the upward spiral of costs and prices.

Wage costs are rising by almost 6 percent annually, far in excess of the gain in productivity. As a result, unit labor costs in the private economy last year rose 4½ percent.

There is no easy or direct way to slow down the increase in wage costs. Labor can hardly be blamed for seeking to preserve its disposable income in the face of price increases running at a 4-percent-annual rate. During the past 2 years the real spendable earnings of the average factory worker actually declined slightly, hardly an indication of "unparalleled prosperity."

At the same time, it is quite true that the long-run interests of both labor and business would be served best by exercising voluntary restraint now. We hope that restraint will be forthcoming and, equally to the point, that labor and business will lend their support to restraining the growth of Federal spending as well.

The argument about whether aggregate demand is or is not likely to become excessive is largely irrelevant when stated in traditional terms. The fact is that demand is sufficiently strong to permit business to pass on large cost increases in the form of price hikes. In our view that spells excess demand.

A program of budgetary and monetary restraint would reduce this demand, halt inflation and thus make excess wage demands and price increases harder to validate. It would have the additionally important effect of demonstrating that the Federal Government itself was prepared to exercise the restraint which it preaches to labor and business, local and State governments and governments abroad.

2. Strengthen international confidence in the dollar.

European support for the President's balance-of-payments controls is lukewarm at best. What America's creditors overseas want above all

else is assurance that we can run our financial affairs in a responsible manner. Unless that assurance is forthcoming it is not only possible, but highly likely, that the dollar again will come under sharp attack. In the meantime, Europeans are disposed to cooperate by holding excess dollars in anticipation of new U.S. leadership that would exercise the required fiscal and monetary discipline.

One or more heavy attacks on our gold stock could easily bring the entire international monetary system tumbling down. The cost in terms of jobs, economic growth, and social hardship are too frightening to contemplate.

We do not feel it is beyond the wit and courage of this Nation to return to fiscal and monetary responsibility here at home. This is an absolute precondition for strengthening world confidence in the dollar and for preserving and improving upon the present international monetary system.

As we discuss later in this paper, the President's resort to controls is utterly self-defeating. Our objective should be to preserve and extend freedom of trade, travel, and investment. That is the whole meaning and rationale behind the world monetary system. Can we justify a policy of trying to preserve the system by destroying it?

3. Avert a financial crisis at home.

Another credit crunch may be in the offing unless the Treasury's heavy demand for funds is sharply reduced. The monetary authorities must be freed from the constraints of an irresponsible and inefficient budget policy in order to provide a growth of money and credit consistent with price stability.

With interest rates already at exceptionally high levels, a tightening of money and credit to fight inflation threatens to touch off another financial crisis similar to 1966. Housing, small business, the farmer, and State and local governments would again be the principal victims.

At the same time, the Federal Reserve will help bring on another international monetary crisis if it tries to avoid higher interest rates by continuing to pump up money and credit at inflationary rates.

The only way out of the dilemma is to relax pressure on the money and capital markets by sharply reducing the Federal budget deficit, thus permitting the Federal Reserve to move gradually toward a policy of less ease.

4. Finance the Vietnam war and provide greater flexibility to deal with other possible world crises without adding to inflationary pressures.

The administration has yet to come clean with the American people about the economic effects of the Vietnam war. It continues to repeat that war expenditures account for "only" 3 percent of GNP. The truth is that the impact of the war on our economy has been deep and pervasive.

A Labor Department study has shown that in fiscal 1967 Vietnam expenditures directly generated a million private jobs. In addition, between fiscal 1965 and January 1968 the Armed Forces absorbed 800,000 members of the civilian labor force.

Private studies conducted at the University of Michigan indicate that the direct and indirect impact of Vietnam expenditures has been even greater. These studies show that the Vietnam buildup between

the first quarter of 1965 and the last quarter of 1966 was responsible for a total rise of $32 billion in annual GNP and for roughly 3.2 million in additional jobs. According to the study, without Vietnam spending, output in the final quarter of 1966 would have been almost 4 percent below that reported, while unemployment would have risen to a recession level of 7.7 percent of the labor force.

The Johnson administration is fond of repeating that we are enjoying peacetime prosperity. This is cynical boasting. The fact is that we are in a wartime economy, and the administration would make a much more convincing case for the tax surcharge if it frankly admitted it. The new threat in Korea, the continued trouble in Cuba, the seething tensions in the Middle East, and the other trouble spots available to Communists for exploitation should alert us to exercise financial responsibility in order to provide the fiscal flexibility that would be urgently required in the event the Nation became engaged in another overseas conflict.

5. Avoid increasing poverty and reducing employment opportunities for the disadvantaged.

The chief victims of inflation and recession are the poor and the disasdvantaged. They are least able to protect themselves against price increases. They are the last to be hired in an upswing and the first to be fired when the economy turns down.

The greatest disservice this Nation could do to its disadvantaged citizens is to permit the inflationary wage-price spiral to continue. Continued gains have been made in training and finding jobs for these individuals. Much remains to be done. Nothing would reverse our progress faster or create more social unrest than another boom and bust cycle.

The best way to serve the needs of America's poor is to provide conditions of healthy growth, avoiding both the Scylla of inflation and the Charybdis of recession. Under these conditions, both the private sector and the Government would be in the most favorable position to develop those programs and policies most likely to provide lasting and satisfying employment for the poor and disadvantaged.

6. Restore expenditure discipline to the Federal budget so that the public gets its money's worth from Government programs.

In a complex and growing society, public spending obviously will increase over time. The real questions are how fast spending is increasing and what the public funds are being spent for.

Government spending, Federal, State, and local, must be related to governmental purposes, assisting and supplementing the private enterprise system in meeting the needs of the people for goods and services. This means spending for a purpose—a purpose that can and should be disciplined by cost-benefit ratios.

One source of confusion that needs to be cleared up is the difference between the impact of the aggregate level of Federal spending and particular types of Federal expenditures. It should be clear that when the productive resources of our economy are fully employed, Government spending for current consumption takes resources that otherwise might be used to increase our capacity to produce in the private sector. It should be equally evident that some types of Federal expenditures do add to our productive capacity and the Nation's stock of wealth, both physical and human.

Some Government expenditures may contribute a great deal to real economic growth. The gains in agricultural productivity which have occurred to a large extent were based on the agricultural research that was financed by Government. Today Government expenditures for manpower training and retraining are having a similar beneficial effect on our industrial performance. We hasten to add, however, that private spending through the business sector was about $16 billion last year for training and retraining, an amount far in excess of all governmental spending, local, State, and Federal, for these purposes.

Those economists and policymakers who have emphasized the aggregate impact of Federal spending on economic activity have tended to erode the fiscal discipline upon which a sound expenditure policy must rest. The aggregate economists have said, in effect, that we must have spending for spending's sake, in order to stir up economic activity when aggregate demand is insufficient. This philosophy undermines a sound and wealth-creating expenditure policy.

If the purpose of Federal spending is merely to equate demand to the economy's capacity, then what does it matter what you spend the money for, so long as it is spent? In our view, expenditure policy must relate to what the money is spent for. If Federal outlays are for investment purposes, they must increase wealth and earnings. If they are for current expenditures, they should not exceed present revenues, except in periods of identifiable emergencies, and the length of those periods must be related to the basic wealth already in being.

DOMESTIC POLICY RECOMMENDATIONS

1. Low-priority Federal expenditures must be sharply reduced.

Estimates for 1969 budget expenditures are already out-of-date. It is now clear that military spending will rise substantially more than the $3.3 billion increase estimated in the budget document.

This makes it all the more important that low-priority spending—both civilian and military—be substantially reduced. Every dollar of expenditure reduction has a strong anti-inflationary impact and without some of the dangerous side effects which a tax increase could bring about.

It seems to us that faced with a serious fiscal emergency a prudent objective would be to hold fiscal 1969 spending to the 1968 level, except for essential military outlays and interest payments on the national debt.

We commend our colleagues, Congressman Bow, Congressman Goodell and Senators Williams and Javits, and others, for the contributions that they have made to the fiscal policy debate by offering specific programs and proposals to cope with the situation now facing the country.

The administration tells the Congress that taxes should be raised immediately and then efforts made to cut spending. This puts the cart before the horse. How and where spending is reduced has an economic impact of its own. A tax increase should come only after the economic impact of a specific package of expenditure reductions has been fully evaluated.[6]

The administration is still proudly proclaiming how it cut spending in the current fiscal year. The fact is that even after the "cuts" administrative budget spending this year will be nearly $3 billion higher than the first estimate issued last January. This is in spite of the fact that the bipartisan majority of the Joint Economic Committee last year recommended a $5 billion cut, not a $3 billion increase.

By no stretch of the imagination can the administration claim that its new budget is tight or frugal. At existing tax rates and even based upon unrealistically optimistic economic assumptions, the 1969 budget will show a massive minimum deficit of $20 billion for a second

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[6] Senator Javits believes that the current deadlock between Congress and the President with regard to cuts in spending and higher taxes is an extremely serious one and must be resolved soon. If the President gives high priority to the defense of the dollar internationally, he will find it necessary to accept some reduction in aggregate spending below the amounts shown in his recent budget message. If Congress is equally convinced of the need to support the dollar, it will find it necessary to accept an increase in taxes. The plain fact of the matter is that if the President and all Members of the Congress each insist on a package which will fully meet individual preferences there will be no effective action on the fiscal front this year. Since Senator Javits believes that such action is imperative, he is willing to support a program which he dislikes in part because of the stern reality and necessity of taking action. He hopes that the need for action will receive bipartisan support. The defense of the dollar is too critical to be decided on partisan grounds.

year in a row. New obligational authority would increase by nearly $18 billion compared to an increase of $7.4 billion in the current year. Total budget authority would increase by over $15 billion compared to less than $4 billion in the current year. Net obligations incurred would increase by $15.7 billion compared to $10.8 billion in the current year. Employment in the civilian agencies would increase by over 40,000 in fiscal 1969.

If the Congress gives the President his tax increase without having first nailed down reductions in nonessential spending, expenditures in the coming years will continue to soar out of control. Any good that a tax increase might do would be completely vitiated.

The only way this administration can be induced to take the hard actions necessary for the health of our economy is by withholding a tax increase until it and the Democratic-controlled Congress cooperate with the minority to effectively reduce nonessential spending and reorder domestic priorities.

Asserting discipline over spending will not be easy, but it will be impossible if the President continues to shift the burden of responsibility entirely onto the Congress. The Congress does pass on appropriations requests, but to a large extent the President alone sets the level of spending. As a last resort, he can always veto an appropriations bill he doesn't like.

The President also begs the question by throwing up his hands and asserting that only $39.5 billion of spending is "relatively controllable," while over $151 billion is "relatively uncontrollable" or national defense. If the President really wants more control over spending, he needs only to ask the Congress for a change in the laws covering programs now said to be beyond the reach of rational control.

Too often authorizations to spend are promoted that cannot be realistically translated into appropriations if for no other reason than that the potential recipients simply cannot put that much money to use during that particular fiscal year. Another trend is to the open-ended authorization, which flies in the face of the committee's request that budget items be estimated over a 5-year period. In the one case, unrealistic expectations are encouraged, along with demogoguery when Congress does not pass the full authorizations. In the other case, the potential impact on future spending is concealed. One place to start expenditure control is in the initial authorization process itself.

2. The President should immediately propose and the Congress enact legislation to establish a Commission on Federal Expenditure Policy.

Reform of the Federal budget involves more than cuts in any one year. Emergency budget reductions, such as we have recommended, would not necessarily provide an optimum allocation of public expenditures. Therefore, it is vital to look beyond our current budgetary problems to the future shape of Federal spending.

In both 1963 and 1964, the minority of this committee recommended the establishment of a Commission on Federal Expenditure Policy for precisely these purposes. In both years, the administration rejected our suggestion. Since the climate for this proposal is now more favorable, we repeat our recommendation.

The Commission should be composed of private citizens from business, labor, education, the professions, and Members of Congress

equally from both parties. The Commission, assisted by a professional staff, should conduct studies and periodically make public its recommendation in the following areas:

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

(b) Appraisal of Federal activities in order to identify those programs which tend to retard economic growth and for which expenditures should be reduced or eliminated.

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

(d) Examination of responsibilities and functions which are now assumed by the Federal Government, but which could be better performed and with superior effectiveness by the private economy.

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

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

(g) Determination of policies with regard to the level of user charges and fees to be made for special services furnished to members of the public by the Government.

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

3. Even after expenditure reduction has been made and its impact determined, it appears likely that a temporary tax surcharge will be needed.

The budget deficit probably would still be too large even after substantial reductions in spending, particularly if military outlays escalate, as we anticipate they will.

Under these circumstances, a temporary tax increase will be necessary to finance the Vietnam commitment made by this administration. If this commitment is extended even more, a higher tax increase may well be called for.

In spite of the immediate revenue needs arising from the Vietnam war, we continue to place a high priority on future tax reduction and reform. Federal income tax rates, even after the 1964 cuts, are still beyond the point of diminishing returns and cause judgments to be reached for tax reasons rather than economic reasons. In other words, high tax rates still impede the full development of the present Federal tax base (economic activity) and also stunt the growth of the ultimate base upon which this base of economic activity itself relies, namely, wealth. The tax take is, therefore, less than it would be if the rates were lower and applied to larger base.

4. Monetary policy should move cautiously toward a noninflationary growth of money and credit and thereafter avoid the sharp swings in policy that have characterized the past 2 years.

A tighter fiscal policy would permit a return to a growth of money and credit more consistent with the real growth of the economy. It would be a mistake for the monetary authorities to interpret a tight budget policy as permitting the continuation of an excessively easy monetary policy. The economy clearly requires both monetary and fiscal restraint.

A less easy monetary policy need not mean higher interest rates. In fact, a tighter fiscal and monetary policy would dampen inflationary expectations and reduce the anticipatory borrowing which has contributed so heavily to upward pressures on rates.

We were heartened by the support which witnesses before the committee this year gave to the position on monetary policy adopted by both the majority and minority in our annual report last March. The experience of the past year strengthens our conviction that monetary policy can best promote economic stability by avoiding sharp and sudden shifts.

While we would reject any rigidly mechanistic monetary rule, we feel that in general the growth of money and credit should be consistent with the rate of increase in real economic activity. We would not rule out some flexibility to deal with changing conditions. Within reasonable limits, monetary policy should move toward greater ease when slack is anticipated and toward some tightening in the face of nflationary pressures.

5. The 4¼ percent interest ceiling on long-term Government bonds should be removed.

Adherence to the 4¼ percent interest ceiling on Government bonds is utterly irrational and self-defeating in a period of high interest rates and inflationary pressures. Just as monetary policy has been hamstrung by fiscal policy, the hands of the debt managers have been tied by retention of this financial anachronism. Furthermore, substantial savings on interest paid on the Federal debt could be made if the Treasury Department had this flexibility and was not forced, as it is, to be exclusively in the short term money market for refinancing of the Federal debt.

We strongly urge that the President send up legislation requesting immediate repeal of the ceiling to give the Treasury greater flexibility in arranging non-inflationary debt financing.

THE U.S. BALANCE OF PAYMENTS AND THE INTERNATIONAL MONETARY SYSTEM

The Problem Confronting Us

The crisis in the international monetary system which has been building up for years finally came to a head in 1967.

The devaluation of the British pound in November was quickly followed by a sharp reduction in the U.S. gold stock and by the announcement that our balance of payments had seriously deteriorated over the year.

The U.S. balance-of-payments deficit last year rose from $1.4 billion to $3.6, with a deficit in the fourth quarter alone running at an annual rate of over $7 billion. The gold loss in 1967 was nearly $1.2 billion, leaving less than $12 billion in gold as against $34 billion in liquid liabilities to foreigners.

The result of our worsening payments position has been an erosion of world confidence in the dollar. Foreign dollar holders are now anxiously waiting to determine whether the United States will at long last exercise financial responsibility at home. In the meantime, any one of a number of possible economic or political developments could trigger a run on gold that might well destroy the international monetary system as we know it today. The shock would set back the growth and prosperity of the free world for years to come.

Under these circumstances, rebuilding world confidence in the dollar must be regarded as the first objective of economic policy in 1968. Above all, we must provide an affirmative answer to the questions that increasingly are being asked abroad about our ability—and our willingness—to take those actions needed to restore balanced and healthy growth to our domestic economy.

The Administration's Balance-of-Payments Program

The Johnson administration's response to the dollar crisis is a program of shortsighted and self-defeating controls. The administration has swallowed the utterly mistaken notion that the dollar can be strengthened by limiting its usefulness.

Europeans know only too well that it is but one short step from controls on American-owned dollars to controls on foreign-held dollars. In short, why hold dollars when exchange controls appear ominously possible? The answer is self-evident. The administration's program will lead to larger gold outflows, reduced confidence in the dollar and a weakening of the entire free world economy.

Other effects of the President's proposals to curb direct investment, impose curbs on tourists, reduce bank lending and offer new export incentives are likely to include

—a reduction of economic growth in the developed countries with the result that exports from the United States and from the hard-pressed developing countries will suffer.

—a reduction in U.S. investment income and discrimination in favor of firms already heavily invested abroad as against new competition investment.
—retaliation by other countries which will reduce sources of U.S. balance-of-payments inflows.
—political difficulties with friendly nations arising from inequitable features inherent in the administration of any such program.
—a weakening of international economic and monetary cooperation, the development of hostile trade blocs and a revival of nationalistic and protectionist sentiment throughout the world.
—a weakening of our own resolve to come to grips with fundamentals in the comforting belief that controls will do the job.

The United States once inspired the war-weary nations of Europe to abandon exchange controls, to remove quotas and reduce tariffs on flows of goods, and to permit freer movements of people and capital. The administration has now forfeited our right to claim this leadership.

The administration is following economic imprudence at home at the expense of the soundness and growth of the international economy. Internationally, as at home, the administration is applying a double standard: one for this country, and another for other countries. Where once we set high standards and a worthy example for other nations to follow, we now ask others to follow these high standards while we, ourselves, seriously compromise them.

Europeans are asked to increase the amount of their travel in the United States, while they are expected to support a program to curtail American travel in Europe. Europeans are told we must impede further our own investment of capital in Europe, while they are being asked to permit the aggressive American firms in Europe to absorb European capital resources. At the same time that Europeans are asked to purchase more American securities, the United States undertakes to prevent them from marketing their securities here.

How long can we realistically expect to delay the adverse political and economic reactions that Europeans are bound to express to their own governments? How long can we expect these governments to delay following our own bad example by imposing retaliatory restrictions?

The following are specific comments and suggestions relating to certain of the President's new proposals:

A. *Measures to increase the trade surplus.*—The administration proposes to increase U.S. exports by means of export incentives, which are essentially subsidies. Perhaps the newest of these is the proposal for joint export associations. These are described as a means of providing funds to firms associated for the purpose of cooperatively improving their export performance.

In plain language, the President is proposing to create export cartels which he would subsidize in order to make them artificially competitive abroad. This policy contradicts the thrust of other administration policies aimed at inducing our foreign trading partners to remove their own nontariff barriers, including their subsidies, their cartels, and their export incentive programs, and it contradicts the thrust of previous U.S. efforts to remove such barriers.

The administration also seeks changes in the General Agreement of Tariffs and Trade. But the measures now proposed by the adminis-

tration are not intended to improve the fair competition rules already incorporated in the GATT. Instead, the administration is suggesting the amendment of the GATT article 12 to permit the United States to impose an additional border charge, or import surcharge. This GATT article specifically provides that quotas can be used in those exceptional circumstances where nations need to take urgent action to correct their balance of payments.

The quota, rather than the tariff, was specified by GATT for a special reason. Under pressure from the United States, quotas have been placed under constant scrutiny in GATT, and there are continuing efforts to remove them. GATT article 12 should not be changed to make it easier for the United States to impose, and of course to allow other nations to similarly impose, a new import surcharge that would be difficult at best to remove and would unavoidably become the plaything of political forces in an election year.

B. *Controls on direct private investment and bank lending.*—American industry has employed its mastery of the techniques of mass marketing, distribution, and servicing to successfully invest and compete abroad. These direct investments have brought a continuous return flow back to the United States of profits earned from these investments, and have enabled the United States to earn substantial incomes from management fees and royalties.

In combination, these return flows have been one of the two major sources of strength in the balance of payments. To ask this sector, already burdened by 3 years of "voluntary" controls on bank lending and private investment, to accept further restriction is asking it to accept a burden that can only result in a deterioration of the positive competitive position it now holds.

We have witnessed the gradual construction of a "Berlin wall" to keep U.S. capital from flowing to a more favorable investment climate. As a new loophole is discovered, a new restrictive measure—a new sentry, a new guardhouse, a new barbed fence—has been added. We have now nearly reached the point in this "escalation" of controls where the sentry—the U.S. Government—will raise his weapon against the next private "offender" of its orders.

In making stricter new demands of American industry the following adverse effects will likely result:

—Foreign businesses will be able to compete more effectively against U.S. firms in foreign markets, thus gradually eroding the competitive effectiveness of our own companies.

—Foreign capital markets will be strained by the new demands of American borrowers and liquid European funds now invested in the United States may be repatriated.

—American exports, an estimated one quarter of which are purchased by U.S. overseas affiliates, will decline.

The great tragedy is that through these programs the administration is cutting back on the fine example American direct private foreign investment has been setting throughout the world, a demonstration of the advantages of the free enterprise system, and the innovative dynamism and unique managerial capabilities of American private business.

C. *Curbs on foreign travel.*—The administration apparently regards all overseas travel as mere pleasure-seeking despite the fact that much

is related to education, cultural activities, essential Government activities and business purposes related to the expansion of exports. It would curb the freedom of our citizens without first having made a real effort to increase foreign tourism to the United States. The administration delayed the appointment of its travel task force for over 11 months and finally acted only a month before it pushed the panic button on January 1.

Working Party One of the President's Industry-Government Special Task Force on Travel was appointed on January 1 to propose means of reducing the so-called travel gap by $500 million. The statistics and analysis contained in its report show the extremely weak factual basis used in calculating the travel gap and in proposing Government programs that would materially interfere with U.S. foreign travel. In its 11 pages of text, in appendixes 24 and 25, and in the statistical tables presented, will be found pointed criticisms of the proposed travel restrictive measures.

Several important aspects of the report demonstrate:

First, President Johnson's $500 million objective will be difficult indeed to realize because there is only "an estimated balance of $414 million—of deficit—nonessential or pleasure travel from which the proposed savings must be wrung."

Second, three private calculations of future travel by Americans show that travel as a percent of U.S. disposable personal income has remained constant at least since 1960. This means that the economic force behind travel will continue to expand, the report indicates. At the same time, foreign tourists will be spending more in the United States, and in fact there will be a reduction of our present travel gaps with Canada and Mexico, so that "1967's travel deficit of $2.085 billion will be reduced to $1.693 billion in 1970 and will only be $1.923 billion in 1975."

Third, the report's statement on the factual basis for the proposed Government decisions is startling.

> * * * it was the consensus of members working on (statistical) material that statistics in the travel field, especially from the U.S. Government, leave a great deal to be desired. Major decisions of national policy are being made on the basis of statistics on the national travel gap, etc., that expert observers believe have a high degree of error.
>
> The sample taken by the Office of Business Economics, Department of Commerce, for calculating the inbound and outbound volume of travel expenditures from which the so-called travel deficit is derived are regarded by your working party as inadequate, neither well balanced nor large enough, not taken frequently enough, suffering from undue time lag, and using antiquated sampling and tabulating methods.

Fourth, the travel data presented officially omit associated expenditures in the United States that may result directly from present foreign travel levels:

> Last year, all foreign airlines bought $921 million worth of U.S. aviation equipment. The travel deficit in the excess of air fares paid by U.S. tourists to foreign-flag carriers over the fares paid to U.S.-flag carriers for foreign travel was $580

million last year. Thus the actual balance of these items was $341 million in favor of the United States.

A high degree of interdependence exists among the various components of the balance of payments. The ultimate favorable balance-of-payments impact of a reduction in tourist expenditures will be much less than the reduction in tourist account alone.

Professor H. Peter Gray of Wayne State University has estimated that the $1.6 billion tourist gap in 1964 exaggerated the final foreign exchange loss by anywhere between $466 million and $731 million. In 1963, be estimated the tourist gap of $1.6 billion led to an exchange loss of about $800 million. It would thus appear that in the highly unlikely event that the administration's program succeeds in reducing the tourist gap by $500 million, the favorable balance-of-payments effect would amount to only $200 to $300 million—a small gain, indeed, for the extremely high cost the Nation would pay for the imposition of the tourist controls.

D. *Reduction in Government expenditures abroad.*—The administration's pledge to reduce U.S. Government spending abroad is a welcomed and essential step toward restoring equilibrium in our balance of payments. The private sector has consistently provided the dollar inflows necessary to offset deficits in the Federal Government's accounts. From 1946 to 1966 the private sector showed a net balance-of-payments surplus of about $84 billion, while the net deficit of the Government sector was about $115 billion. The Government's deficits are now growing, and the controls on private transactions will ultimately reduce the favorable inflows from those sources.

It still remains to be seen how sharply the administration will reduce Government outlays. The pledge to make such reductions has routinely been included in every balance-of-payments message for years and we have repeatedly been assured in the past that overseas expenditures had already been cut to the bone. Thus, the administration's announced intention to reduce Government outlays abroad is yet to be tested.

Strengthening World Confidence In The Dollar

In addition to reducing Government expenditures abroad, world confidence in the dollar would be enhanced by the following actions:[7]

1. Restoration of cost and price stability in the American economy.

The sharp reduction in our merchandise trade surplus late last year partly reflects mounting cost and price pressures in the American economy. A program of fiscal and monetary tightening at home, such as we discussed earlier in these views, is the essential ingredient for a solution to the balance-of-payments problem. The same measures required to strengthen our balance of payments are needed for domestic stability as well.

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[7] Senator Javits believes that in addition to the suggestions that follow it is necessary (if not already done) that the 25 percent gold reserve requirement for Federal Reserve notes be repealed. This is necessary and appropriate to meet the needs of our growing economy for paper money. Freeing of our gold for international use is, with tax and budget policy to reduce inflationary pressures in our economy, needed to strengthen international confidence in the dollar.

2. A long, hard look should be taken at U.S. Government assets abroad, both real and financial, in order to determine which no longer serve important Government needs and could be liquidated in orderly fashion.

Our financial assets alone totaled $24 billion in 1966, excluding our IMF gold tranche position, official holdings of convertible currencies and World War I debts not currently being serviced. Our real property assets abroad as of June 30, 1966 were valued at nearly $5 billion (mostly at cost). Early and imaginative action to implement this recommendation might well make a substantial—though short-term—contribution to easing of our balance-of-payments problem.

3. Consideration should be given to offering foreign official dollar holders a temporary gold guarantee as proof of our continuing commitment to maintain the current dollar price of gold.

A limited guarantee of the present gold value of the dollar would reduce the concern of central bankers about the decline in our ratio of gold to liquid liabilities and thus ease pressures on our gold stock. Such a guarantee would insure foreign official dollar holders against a capital loss on a portion of their present dollar holdings in the event the price of gold was increased and thus enable them to continue holding dollars. It would provide the time that would be required for a program to restore cost and price stability to take effect. Once our balance of payments is in equilibrium and the excess flows of dollars abroad eliminated, the guarantee would no longer be needed.

Except in those countries which buy gold for political purposes, there is every reason to believe that such a guarantee would be accepted by central bankers as a valid *quid pro quo* for their cooperation in holding dollars while the United States brings its payments into equilibrium.

4. Efforts should be made to avoid the costly balance-of-payments drain caused by important labor disputes.

It is now estimated that the copper strike is resulting in a monthly balance-of-payments cost of about $80 million—nearly a billion dollars a year. The Committee heard testimony that steel imports are rising sharply in anticipation of a possible strike this year and that by summer the extra import bill might total $500 million.

The administration has asked for sacrifices on the part of foreign investors. It has proposed to curb the freedom of travel of students businessmen, educators and tourists. It would seem that equity, as well as the national interest, requires the administration to at least try to induce both labor and business to settle disputes early and, if possible, without recourse to a costly strike.

AFL–CIO President Meany has suggested that consideration should be given to the use of voluntary arbitration in strikes by public employees. We believe the same reasoning could be applied to certain key disputes which threaten to help bring down the dollar. We believe that the President should exercise his leadership and urge labor and business to agree to voluntary arbitration of such disputes.

5. Foreign tourism to the United States should be promoted by greater emphasis on improving facilities, on better travel research and statistics, on increased cooperation between Federal, State, and private travel efforts, and on more effective coordination of tourism-related activities of the Federal Government.

We take note of legislation introduced by Senator Javits which is designed to strengthen the U.S. Travel Service in these areas and we take note of the recent report of the Industry-Government Special Task Force on Travel, particularly its recommendation that our travel development program should be based on an extremely close working relationship between Government and private business and those recommendations which are directed toward easing the difficulties of foreign tourists before and after they reach the United States.

Some of the chief complaints of travelers to the United States concern Government regulations, accommodations, transportation, and the language problem. While the U.S. Travel Service has done useful work in these areas, more effort is clearly needed.

Toward a More Stable International Monetary System

It has become increasingly evident over the past year that the present international monetary system—based on gold and key reserve currencies—has been seriously weakened because:

—Confidence in the key currencies is waning, largely because of chronic balance-of-payments deficits.

—European surplus countries have failed to take appropriate action under the "rules" of the game to reduce or eliminate their surpluses.

—Gold production is falling at the same time as the private use of gold is increasing—with the result that monetary gold is declining.

One key currency—the British pound—is already in serious trouble. Unless the British Government can successfully modernize the economy and bring about a better balance between costs and productivity, another devaluation may well be necessary.

What about the dollar? The United States could very well follow the British pattern unless our balance-of-payments deficit is reduced sharply and confidence in our economic policies restored.

But even if the U.S. balance-of-payments deficit were eliminated, the system would not be without problems. An overhang of at least $15 billion in official dollar holdings and of $34 billion in total foreign liquid dollar claims would still exist. Further, there would be no new source of international liquidity if dollar outflows completely stopped and gold in official stocks continued to dwindle. Even if the United States were to run a balance-of-payments deficit of $1 to $1½ billion, an amount which would probably be absorbed by private traders, there would be no increase in official reserves and, thus, no increase in world liquidity.

The dilemma which faces the international monetary system is simple. Dollars will only be accepted and held by foreign central bankers if they have confidence that the dollar is as "good as gold." The decline in the U.S. gold stock in recent years and the sharp rise in liquid dollar liabilities has called into question our ability and willingness to honor our commitment to sell gold for dollars at $35 an

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ounce. Foreign official institutions are thus reluctant to hold any more dollars. However, without more dollars flowing into official reserves there is no ready source of new international liquidity to finance the growth of international trade and payments.

It therefore becomes essential in our view that:

1. The new special drawing rights under the IMF be activated as soon as possible after ratification of the agreement.

With gold in official monetary reserves declining and with confidence in the key reserve currencies beginning to wane, an additional source of world liquidity will be needed to accommodate expanding economic growth and, equally important, to head off protectionist and restrictionist measures that could result if countries find themselves short of official reserves.

2. The President should direct the Secretary of the Treasury to instruct the U.S. Director of the International Monetary Fund to propose to the IMF executive directors a thorough review of the future international role of gold and steps that should be taken to insure that gold contributes to the proper functioning of the international monetary system.

The question of the future role of gold in the international monetary system should be resolved on the basis of multilateral discussions within the IMF. Every avenue should be fully explored to reach a multilateral agreement on gold's future international role.

It is particularly important to review the role of the London gold pool. Efforts to stabilize the private gold market through the operations of the pool have resulted in a heavy loss of official reserves to private speculators. The major financial powers will have to ask themselves in the very near future whether they should mutually agree to stop supporting the private market and limit the use of existing official gold reserves to international settlement purposes at the present price of $35 an ounce. While official reserves would not increase under this plan, neither would they decrease as they do under existing arrangements. Hopefully, new liquidity would be provided by the early creation of special drawing rights.[8]

3. We must press forward with greater determination to improve the coordination of economic policies among the advanced industrial countries.

Improved coordination is essential if a system of fixed exchange rates free of restrictions and controls is to survive. The machinery already exists within the Organization for Economic Cooperation and Development. Reconciling domestic objectives and the need for external balance requires that nations set their economic policies according to guidelines jointly agreed upon and with full provision for full review and confrontation. Greater effects should be made to implement the report of working party three of the OECD on strengthening the adjustment system. Our growing economic interdependence

[8] Senator Javits concurs in the preceding observations. He wishes to emphasize, however, that the present situation requires that we withdraw from the London gold pool now and that we terminate the automatic convertibility of the dollar for gold for the time being, so that the U.S. gold stock can be made available only for central bank use at $35 an ounce on a negotiated basis, at least until the International Monetary Fund's SDR's are activated.

dictates that nations cannot effectively pursue their national economic objectives except through concerted action.

These steps are vitally necessary to strengthen the present system and head off a possible collapse that could occur if the crisis of confidence deepens. If enlightened self-interest leads to continuing cooperation among responsible nations, we should still have several years in which to work out new arrangements for altering and strengthening the present international monetary system. But voluntary cooperation and forebearance cannot be expected to last forever. Action is needed now to strengthen confidence in the dollar and, at the same time, to build an improved international monetary system that will serve the needs of the world economy without the vulnerabilities inherent in the gold exchange standard.

PRESSING ISSUES IN FOREIGN TRADE POLICY

This is the first of the post-Kennedy Round years, a period in which the Nation will be required to formulate new approaches to our international trading relationships.

This "era" in foreign trade policy and thinking that will go far beyond concentration on tariff cutting, would ordinarily be a time of some uncertainty. But this uncertainty is now multiplied to the point of danger by several other events of importance.

First among these are the programs that have been offered by the administration as remedies for our continuing balance-of-payments deficit. Second is the belief among many industry groups that the rules of the present trading world disadvantage them and that the mechanisms provided by Congress for their relief are inadequate or perhaps even useless. Third is the need for considering better methods of providing significant trade assistance to the developing countries. New methods must be found to induce private capital in industrialized nations to invest in productive enterprises in developing countries. The approach of the multinational private investment company, which Senator Javits pioneered in the case of the ADELA Investment Co., could be repeated in Asia, in Africa, and ultimately in the Middle East.

Border "tax" or import "surcharge"?

The first of the disruptive domestic forces, the administration's own balance-of-payments program, has been discussed above at length. There need be special mention here, therefore, only of aspects of particular relevance to trade.

Much administration energy during the weeks since the President's January 1 balance-of-payments message has been spent trying to develop a position on the problem of border charges on imports. Essentially there are two alternative types of border charge (above and beyond tariffs) now being considered. The first is the traditional border tax, which is a reflection at the border of the indirect tax burdens borne by domestic industry. This tax is charged on imports, and is rebated (or simply not charged) on exports. The second is an import surcharge, an additional ad valorem duty charged on imports of dutiable items (all items where the United States does not have a zero binding under the General Agreement on Tariffs and Trade). This would first be secured by a finding of need in the IMF, and a waiver under article 12 of the GATT. The United States would also secure the assurance of at least the Common Market countries that they would not retaliate against the U.S. action.

Neither border charge is desirable, except as a possible offset to discriminatory border taxes and surcharges on our exports. It is doubtful that either could be high enough to have a meaningful impact on our balance-of-payments deficit without hurting the economic interests of our world trading partners to the point of retaliation against us.

The disadvantages of either course of action are quite clear, and are recognized even by administration officials. But the administration seems caught in its own rhetoric and in commitments made in the course of its own hastily conceived balance-of-payments program. It is pursued by the hobgoblin of consistency which holds that if the activities of the U.S. foreign investor and the U.S. traveler are to be restricted, then the activities of the foreign trader must also be restricted.

In attempting to determine what to do about the border charge, administration options are narrowed even further by the feeling among many Members of Congress that a border charge of some kind is desirable. Among the reasons for this feeling is the opinion that a modest border charge of some sort would be a means of satisfying those domestic industries which believe they need additional protection from foreign competition.

The most promising solution to the U.S. balance-of-payments difficulties is a more restrictive domestic fiscal and monetary policy. Our external trade balance is now showing the effects of domestic inflation. The trade surplus is shrinking as imports continue to grow, even when the nonrecurring factors, such as steel strike hedging and the copper strike, are eliminated. A border charge would have little impact on the overall balance-of-payments deficit and more importantly would increase the cost of our imported industrial inputs in an already inflationary situation when low-cost imports are needed. More fundamental steps must be taken.

The Desirability of European Initiatives

In this context it becomes clear that European nations can take steps to assist the balance-of-payments adjustment process and at the same time obviate the need for any hasty U.S. action on a border tax or import surcharge.

Such a step was initially proposed by German Finance Minister Schiller early this year, and was restated as a proposition to the European Community's Finance Ministers on March 4 in Brussels. The proposal was that the European Community prestage its Kennedy Round tariff cuts. Doing so would give the United States a tariff advantage and offset the possible European advantage under their recently altered border tax system. It could have a favorable effect on the balance of trade. Its adoption would be a welcome act of statesmanship at a time when United States-European relations are strained and when the momentum toward a more open world trading system is in jeopardy.

U.S. Policy on the Border Tax Issue

The fact that U.S. action on either a border tax or an import surcharge for balance-of-payments reasons is undesirable is not an excuse for inaction on the serious issue of European border taxes.

Much of the current discussion about a border tax stems from the initial belief, particularly of the Treasury, that the present border tax system disadvantages the United States. The extent of this disadvantage is not clear. In fact, because it has been in effect during most of the postwar period, international trade has probably adjusted to the border taxation systems of European countries to the extent that the United States is not commercially disadvantaged. But this

does not hold true for increases in border taxation from existing levels, such as the German increase from 4 percent to 10 percent at the beginning of this year. Such upward changes will likely have an effect on U.S. trade, and properly require governmental action to correct inequities.

The essential theoretical assumptions about taxation that are implicit in the general agreement are shown by scholarship of the past 20 years to be incorrect. Direct taxes, which are not rebatable on exports, are assumed by GATT to be paid entirely from corporate profits without being passed on to buyers in terms of higher prices. Indirect taxes, which are repayable, are assumed by GATT to be entirely shifted forward and paid by the consumer in higher prices. Neither assumption seems correct, and the United States must take the steps necessary to adjust the GATT to reflect the actual amount of the shifting of taxes of both kinds.

This is a long-term problem. It will not be solved in the context of an emergency balance-of-payments situation. It will likely require years of work and possibly a round of negotiations somewhat similar to that of the tariff negotiation. Nonetheless it is an important problem. In the interim, the administration should attempt to negotiate standstill agreements with the Europeans in order to slow down the external harmonization of the EEC border tax when that will result in an increase of the duty.

One step Europeans could take to mitigate the effects of the border tax would be to change the basis of its assessment. Presently the tax is assessed on the cost of the import, plus freight and insurance, plus duty. Depending on the amount of the duty, this method can result in very high border taxes. The protective effect of the border tax could be diminished were the tax to be assessed on the cost of the import before duty is paid.

A New Trade Bill

Presently there is no Presidential authority to negotiate tariffs. The lapse of the authority of the Trade Expansion Act on June 30, 1967, has meant, in effect, that there is no mandate for creative U.S. action in the trade field. The administration has begun a long-term study that it hopes will result in a trade policy that would then be implemented by legislation. For the interim period, we anticipate consideration of legislation in three areas: minimal authority for the President to negotiate tariffs, improvement in the so-called trade and tariff adjustment assistance measures of the 1962 act; and implementation of the American selling price (ASP) package negotiated during the Kennedy Round.

It is debatable whether the scope of this legislation can be so restricted when there are many other matters that should be addressed. A trade bill should contain new authority for negotiations on nontariff barriers, on agricultural commodities, on the trade problems of the developing countries, on East-West trade, and on the organization of the Government to conduct its foreign economic policy.

But a trade bill could also be expanded by those who wish to give special attention to certain industries, such as is provided in pending quota bills. Certainly the problems of such industries should be given the fullest deliberations by Congress in its work on any trade bill, but

the Congress should avoid taking measures for one industry that are not extended to all industries similarly situated and of similar national importance. The essential theme of nondiscriminatory multilateralism in U.S. trade policy should be maintained, both as regards the external trading world and our internal trade policy administration. We should also endeavor at all times to eliminate restrictive practices and inequities wherever they may exist either at home or among our trading partners.

The American selling price issue will be a controversial portion of the trade bill. Essentially, the issue is whether or not the U.S. Congress will implement the so-called second package of the American selling price agreement negotiated in the Kennedy Round chemical sector negotiations. If the second package is implemented, U.S. duties on benzenoid chemicals will be lowered to a range of 20 to 30 percent; the EEC in turn will lower their chemical duties by an additional 26 percent; the United Kingdom will make reductions up to 62 percent: and both countries, plus Switzerland, will liberalize certain nontariff barriers.

This ASP system had validity in the context of its time. Today, decades later, the U.S. chemical industry has grown much beyond benzenoid chemical production and there is evidence that benzenoid production in this country has been impeded from modernization and capital investment by the high level of border charge it enjoys under the 1922 statute.

This is an important aspect of the ASP question that Congress will necessarily explore when considering the ASP system. Other aspects will be the nature of the actual Kennedy Round deal. There is no clear conclusion that the two-package deal was a reciprocal one. Some analysts have concluded that the chemical industry would be disadvantaged were the second package not to be implemented.

Fair Competition in International Trade

From the above discussion, it is clear that future trade policy will be concerned with matters other than tariffs. The issue of border taxes is a ready example of such an other-than-tariff issue. Others are problems of Government purchasing regulations as they affect competitive bidding procedures, quotas, different customs valuation systems, and subsidies for exports, which in some fashion distort or intrude on the fair functioning of competitive world markets. All of the nontariff barriers must be considered along with tariffs in attempting to achieve a genuinely fair and competitive international trading system.

To deal with these issues, we suggest that U.S. efforts to deal with the other-than-tariff issues be centered on the concept of a code of fair practices in international trade. We have already achieved a major step toward this objective in the International Antidumping Code, which was negotiated and entered into by the world's major trading nations as a result of successful negotiations in the Kennedy Round. We are pleased to point out the strong support given by Republicans on this committee to this major achievement in formulating uniform international business practices. Similar initiatives should be pursued whenever possible. Certainly the area of Government buying practices is a key one. Another would be uniform procedures for the treatment of subsidies to exports.

The Need for a More Consistent Foreign Economic Policy

It has become increasingly obvious in the recent period of reaction to our continuing balance-of-payments deficits that formulation of foreign economic policy is dangerously fragmented throughout too many agencies. There are at least three steps that could be taken to correct this problem. One is that an administration trade bill could be amended to give the Office of President's Special Representative for Trade Negotiations a larger role in foreign economic policy formulation. Second, the Congress should take the necessary steps to coordinate the activities of its many committees that have jurisdiction over aspects of foreign economic policy. Third, the Council of Economic Advisers should give much greater emphasis in its annual report to presenting a comprehensive analysis of all of the foreign economic interests of the United States.

POLICIES FOR WAGE-PRICE STABILITY AT HIGH EMPLOYMENT

We have been encouraged by the scholarly and objective analysis of the wage-price guideposts that has taken place in recent years. The Nation has come a long way in understanding just what the guideposts can and cannot be expected to do since the administration began to attempt to force the economy into the guidepost mold in 1962. The administration failed, because the Government itself was promoting inflation. As a result, the guideposts today lie shattered. The public lacks confidence either in their relevance or effectiveness.

We have always believed that the guidepost concept could be a useful educational device to promote an intelligent public dialog on wage-price policies. The fact that the administration applied the guideposts arbitrarily, often in areas where they were not designed to apply and during periods when they were clearly inadequate and irrelevant, largely stripped the concept of any useful role that it could perform. The administration has done the Nation a disservice by relying on the guideposts to restrain inflationary forces that it was itself engendering and encouraging through its fiscal and monetary policies.

It has been often stated, and often ignored, that the guideposts were conceived to induce wages and prices to adjust themselves as they would in a free and competitive market not subject to business cycles. But a free and competitive market experiencing general excess demand will react with wage and price increases just as an imperfect market will.

The economy has been subject to excess demand pressures since late 1965, a period of large and widespread wage and price increases. General fiscal and monetary restraint to remove the excess demand was required. The policies that were followed failed to restrain the economy. They were disruptive and damaging, and contributed to significant misallocations and maladjustments.

It may be argued that we do not face general excess demand today, although it seems to us that a 4-percent annual increase in prices with the lowest unemployment rate in 15 years is ample evidence to the contrary. However, many private economists agree that the guideposts are also inappropriate in times of widespread price and wage increases. In such periods there are many more price and wage increases than can even be considered, and many of the increases will occur in industries that substantially emulate a competitive market and where guidepost application would only distort the correct allocation of resources.

Most of those now advocating a return to the guideposts seem to be grasping for an alternative to forceful fiscal and monetary restraint to reduce inflationary pressures. Those who would resurrect the guideposts at this time, and add an allowance for past price increases, are merely looking for an easy way out of a difficult problem.

We note with interest that the administration is establishing a Cabinet Committee on Price Stability to "keep the objective of overall price stability clearly in focus." Although we had hoped this was being done all along, we are happy to see this administration emulate an idea first put into practice by President Eisenhower in the form of a Cabinet Committee on Price Stability for Economic Growth. However, we hope the Committee does not become a substitute for determined pursuit of anti-inflationary fiscal and monetary policy.

We wish to repeat that the wage-price guideposts can play a useful educational role in an economy that is not pressing against its supply capacity. However, they cannot substitute for fiscal and monetary restraint when there is excessive demand and general price increases.

The theoretical construction of the guideposts is not a perfect guard against price and wage drift and misallocation of resources even in an economy with considerable productive slack. The 5-year trend productivity mechanism is subject to wide shifts from year to year which can accentuate instability in the economy. Sharp increases in farm productivity are not passed on to consumers in relative price declines, as the guideposts suggest, largely because of Government farm price support programs. Neither is specific allowance made for changes in capital productivity and the elasticity of substitution of capital for labor. Part of the increase in real product per man-hour in the private economy is due to shifts of workers from lower productivity to higher productivity industries, and thus this increase in productivity is not available for increasing wage rates. These are just a few of the deficiencies of the guideposts that must be corrected before the concept can fully serve the goal of price stability.

In addition to responsible fiscal and monetary policies, there are specific actions that should be taken to help promote wage-price stability at high employment.

1. Increased labor mobility would insure the reduction of labor shortages and labor gluts.

We support measures which would remove various impediments to the movement of labor from one industry or geographical area to another as well as promote upward occupational mobility. These should include:

—The portability of pension rights so that a worker need not feel he must stay with his job, union, or industry in order to retain retirement benefits;

—The removal of tax impediments to the movement of workers from one job to another, along the lines of legislation introduced by Congressman Curtis;

—Encouragement to individuals to improve their skills by eliminating tax obstacles to education and training. This could be most fully achieved by allowing full deductibility of educational expenses on individual income taxes. Encouraging upward occupational mobility would not only benefit the individual involved, but also those below him on the skill ladder who could move up into the position left vacant.

2. Some of the most effective measures to insure that price and wage pressures are kept to a minimum at high employment are those that improve the competitive nature of the economy.

Price and wage competition serve to suppress inflationary tendencies. One effective means of increasing competitiveness is through rigorous antitrust enforcement. Another way toward a more competitive economy is through lowering the barriers to imports from abroad through mutually beneficial trade negotiations. This action would widen the scope of our market and expose American goods and services to the rigor of competition of foreign markets.

3. There are many Government policies and programs that weaken competition, distort resource allocation, reduce incentives to minimize costs and contribute generally to price and wage instability.

The Cabinet Committee on Price Stability should give early consideration to the undesirable effects of price support programs, preferential tax treatment for certain industries, Federal procurement practices, increases in the minimum wage, Federal employee wage and salary policies and other Government policies. A determined effort to reduce the rigidities and instability the Government has injected into the economy would yield a high return in increased price and wage stability at high employment.

4. Whenever possible, Government programs should seek to raise productivity and increase efficiency in the private sector.

Government policy should be more concerned with improving supply response than with the negative function of blocking price and wage increases. Some price and wage pressures in an economy are the result of poor organization and management of production, and recommendations of better techniques could lead to substantial improvement in long-run stability.

5. Effective public and private economic decision-making require current, accurate, and complete information about the economy. There is an urgent need for improvements in our statistical program to help achieve this objective.

We recommend that the administration undertake or accelerate efforts to—

(a) Provide detailed quarterly estimates of Federal budget receipts and expenditures and long-run budget projections covering at least 5 years and based on the implications of present policies and programs as well as informed estimates of the cost of programs to be proposed.

(b) Develop a statistical series on job vacancies. The administration has told us time and again that it was working on such a series but lacked only the appropriations to implement it. Now the Secretary of Labor, who acknowledges the value of these statistics, has admitted that the administration has given up its attempts. This data is critically needed to pinpoint unfilled job openings by occupation and geographic area. They would be invaluable in developing training programs and counselling services for the unemployed. We reiterate our support for this program and ask that the administration delay no further in carrying forward its work on this series.

(c) Develop a statistical series measuring the wealth in the economy, as recommended by the Subcommittee on Economic Statistics in 1966. Such a series would give a true picture of economic growth as well as of resources, industrial capacity and other elements of the productive process.

(d) Improve the measurement and forecasting of productive capacity for major industries and the economy as a whole and develop better and more comprehensive series on productivity by industry. Both of these measures are indispensable if we are to formulate rational and relevant economic policies.

(e) Develop a comprehensive program to ascertain the effects of welfare payments on migration, employment, work incentives, and family structure.

MEETING AMERICA'S URBAN CRISIS

It has become increasingly clear that nothing less than the values and institutions of our democratic society are at stake in the crisis of America's cities.

The problem of the cities involves much more than improving the quality of life or making our urban centers safe and decent places in which to live and work. The key element is the vast gulf that exists between the majority of affluent Americans and the Nation's poor and disadvantaged.

Closing the gulf must take the highest priority among our domestic goals. All of our citizens must become meaningful participants in the mainstream of American society, enjoying equal rights, opportunities, and responsibilities.

The problem facing us in the cities today is not entirely new. Our history has been one of migration from rural areas to urban centers. In the past our society has successfully assimilated the new arrivals. Today, however, the problems faced by the urban migrants are more difficult than ever before. Not only do the new arrivals come unprepared to cope with the complexities of life in a modern industrial city, but in the case of the Negro migrant, assimilation is made more difficult by racial tensions.

The problem of the cities is closely bound up with the problem of the rural areas. The incidence of poverty is highest among the rural farm population, often double that of our largest metropolitan areas. By almost any measure of social and economic well-being our rural farm areas rank at the bottom of the scale. Any solution to the urban problem must encompass activities to increase the opportunities for rewarding employment in America's small towns and rural areas.

Within recent years a bewildering variety of public and private programs have been developed to deal with the urban crisis. Only recently have we begun to direct attention to the need for stemming the migration from rural areas. In spite of the number and variety of programs, real progress, when measured against the need, seems painfully slow.

The real question today is how much time we have to show results for our efforts before the crisis in our cities irreparably rips the fabric of our society. Events of the past 2 years make clear that the time is short.

The debate over the Federal budget is frequently put in terms of meeting our international commitments as against attacking our critical domestic problems. We do not believe we can slight our problems at home, however widespread and costly our involvements abroad. Our foreign responsibilities are likely to continue for many years. They will continue to involve heavy budgetary costs. It would be illusory to think we could buy security by meeting our international commitments while slighting domestic problems. Progress on the domestic front must go forward in spite of Washington's preoccupation with problems of foreign policy.

Essentially this means decentralizing the financing, the initiative and the administration of those programs and policies designed to solve the problems of our rural and urban areas and to bring our Negro citizens into full partnership in American life. Traditional approaches will not satisfy our changing needs. Washington will have a role to play, but in partnership with the activities of State and local governments and private profit and nonprofit institutions.

Any effective attack on the problems of the cities must also involve the people to be helped in the decisions on the programs allegedly designed to "help" them. This must embrace the type of participation, as in property ownership, that gives people a stake in the society in which they live. Greater experimentation with "little city halls," neighborhood corporations, ward, rather than at-large, representation on city councils, and effective two-party competition in our larger urban centers could help promote this feeling of involvement.

We see the role of the Federal Government as that of a catalyst which stimulates and mobilizes private and State and local government action. It will involve Federal expenditures and, in some cases, Federal tax or other incentives. But the financial and personnel requirements are far beyond the abilities of the Federal Government alone to supply.

Efforts to reduce nonessential Federal spending often are directed at those programs which are new, while those programs that have existed for many years are assumed to be "given." The trouble is that the new programs are designed to meet the new problems. The old programs, which are said to be beyond the reach of the budget director's knife, not only fail to respond to new problems but often aggravate them.

Any realistic reordering of priorities must involve a reduction in expenditures for old and outmoded programs and a greater and, hopefully more effective, method of bringing our resources to bear on the most urgent problems facing our society.

The scope of these views precludes the development of a comprehensive program for urban development. However, we are encouraged that the Urban Affairs Subcommittee is conducting an extensive study in this area, and will provide an opportunity for amplification of our views at a later time. For now, we make the following observations and recommendations as suggestive of the range of actions which we believe are necessary to effectively meet the Nation's urban crisis.

1. Employment, Training, and Retraining

(A) We endorse the Human Investment Act which has been introduced by numerous Republicans both in the House and Senate under the leadership of Congressman Curtis and Senator Prouty. We are pleased to note that this concept was endorsed by the National Advisory Commission on Civil Disorders in its recent report.

This legislation would spur job training by the private sector by providing a tax credit to employers amounting to 10 percent of certain expenses of job training, including apprenticeship training, on-the-job training programs under the Manpower Development and Training Act, cooperative work-study programs, tuition refund programs, and expenses of organized group and classroom instruction.

The act is premised on the fact that the most effective job trainer in the Nation has always been the free enterprise economy. Business

and labor, working together, have consistently been able to conceive and develop sound training programs superior in quality and minus the inefficiency often inherent in Government-operated programs.

The bill would remove an impediment to an employer who wants to expand his training program and initiate new programs for his employees. As those presently employed move up to better jobs through more training, those now unemployed because of insufficient skills can be hired to take their places. The Human Investment Act also offers new hope to workers whose jobs are threatened by automation or by shifting defense contracts.

(B) Serious consideration should be given to the specific employment problems of individuals with a low level of education and training that result from rapid increases in the minimum wage.

One approach to meeting this specific problem is embodied in the Employment Incentive Act proposed by Senator Percy, Senator Jordan, and Congressman Curtis. The bill offers an incentive for employers to hire and train those unemployed with low levels of skill and experience.

The incentive would be in the form of a Federal refund to the employer approximating the difference between the productive value of the worker and the minimum wage. The refund would be contingent on the employer's offering a program of formal or on-the-job training and agreeing to afford participating employees a full opportunity at or above the minimum wage after expiration of the refund period.

The Employment Act of 1946 states that it is the policy of the Government that "there be afforded useful employment opportunities for those able, willing, and seeking to work." This bill would enable the Government to reduce the effective costs of low-skill workers to the level of their economic contribution during the training period. With the skills and experience that a participating worker would acquire, he would then be prepared to stand on his own feet as a self-supporting and contributing member of the community.

(C) We support the recommendation of the Republican Coordinating Committee to establish a national job opportunity survey.

The survey would involve:

(*a*) A nationwide collection of data on job market conditions, unfilled jobs, developing job needs, labor supply, regional and local patterns and the skills needed to meet the demands.

(*b*) A nationwide communications system making this data available to vocational educators, counselors, placement personnel, the Armed Services, labor unions, business enterprises.

Some of the most effective tools for attacking structural and frictional unemployment and developing sound training programs are not being utilized by this administration. Training must be in the new and developing skills, which requires an up-to-date "Dictionary of Occupational Titles," preferably in looseleaf form. Training must must also be for an actual job, which requires a statistical series on job vacancies. The administration has been seriously derelict in both of these critical areas.

(D) Business should make greater effort to relax hiring standards, simplifying hiring practices and restructure jobs in such a way that more opportunities will be available to the educationally disadvantaged.

(E) An urgent need continues for better coordination of training and retraining efforts now carried on under the vocational education program, by the military services, the Manpower Development and Training Act, apprenticeship programs, and poverty programs. This objective is vital to achieve the greatest efficiency and effectiveness possible from Government efforts in the field of training and retraining.

(F) Further progress is needed to break down discriminatory barriers to employment. Race, age, and sex too often keep an unemployed worker from a job opportunity, as is evidenced by comparative unemployment rates for different groups. The unemployment rate of nonwhites is twice that of whites; that for teenagers is consistently more than three times that for the population as a whole; the rate among women is usually 50 percent greater than that for men. Both business and labor must make further progress toward opening up job, training and membership opportunities to the unemployed, no matter what their race, age, or sex. The Government should considerably increase its efforts to reduce job discrimination.

(G) While the creation of more jobs in the urban area should be an objective of public policy, efforts are also required to provide rapid and convenient public transportation to make jobs in the whole metropolitan area more readily accessible to central city residents. Amendments offered by Senator Javits to the Economic Opportunity Act have authorized transportation assistance to bridge the gap between the slums and industrial parks. Our objective must not be to lock the disadvantaged into central city jobs, but to open up job opportunities wherever they exist.

2. Fiscal Capacity of State and Local Governments

(A) The strengthening of State and local control over their own spending is essential in our Federal system of government. A level of government without effective control over its expenditures has essentially lost its identity and justification as a separate political entity. Those levels of government closest to the people are most responsive to their wishes and best equipped to most efficiently administer programs for the health, education, and welfare of their citizens.

In order to strengthen these governments to meet their increasingly heavy responsibilities, the trend toward fiscal centralization at the Federal level must be restrained.[9]

(B) State and local governments must more effectively mobilize their existing revenue sources.

(a) The property tax needs modernization if we are to enjoy its maximum advantages. The property tax is dependent upon sound and equitable assessment policies, which, in turn, depend upon sound zoning laws and up-to-date building codes equitably enforced. It requires an understanding that idle land—raw land—should be taxed at a somewhat higher rate than improvement on the land, so that there will be an encouragement to put land to its most productive use. This principal could be extended further by rewarding those who improve their property and penalizing those who do not.

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[9] Senator Javits believes that one of the most effective ways to strengthen State and local governments is through "revenue sharing." On January 18, 1967, he and six other Senators (Howard Baker, R–Tenn., Frank Carlson, R–Kans., John Sherman Cooper, R–Ky., Peter Dominick, R–Colo., Hugh Scott, R–Pa., Milton R. Young, R–N.D.) introduced a plan which would return to the States Federal Revenues equal to 1% of the annual aggregate taxable income, or $3 billion, in the first year. He urges that the revenue sharing idea be given careful study by appropriate congressional committees.

(b) Not only should urban land be taxed at a somewhat higher value than improvements, but urban land should also be assessed and taxed with major consideration given to the location of the land—its site value. These tax procedures can readily and effectively be coordinated with zoning laws, local policy, and the work of the city planner.

(c) Payments should be made to State and local governments of sums in lieu of real property taxes on Federal property located within a local jurisdiction. This tax reform is only basic equity inasmuch as the Federal agency derives the same benefits as other citizens from schools, streets, sewers, fire and police protection, et cetra, and it would, in an immediate and obvious sense, provide additional revenue for the State and local governments. This tax change would also serve to impose a greater degree of discipline on the Federal Government in its acquisition and retention of land for Federal purposes because of its conformance with up-to-date cost accounting.

(d) Eminent domain awards should carry with them the concept of replacement value, rather than the outmoded and less than fair idea of fair market value. Not only would this be more equitable, but it would cut down on the propensity of Government units to concentrate on clearance projects in urban renewal, for example, rather than less expensive and more humane rehabilitation and code enforcement efforts.

(e) Among the most promising fiscal techniques in terms of revenue potential and also tax equalization are the local payroll tax and the local income tax, which are deductible from the Federal tax bill.

Local income and payroll taxes are important because they allow a shift in fiscal emphasis from the Federal Government to the local governments. By lessening Federal payroll and income taxes in favor of local payroll and income taxes, revenue is sped directly from those people paying the taxes to those spending the tax revenue. This shortening of the distance traveled by the revenue dollar will result in a cutting of administrative costs. Greater local spending of increased local revenues means more of our spending will be subjected to the "discipline of closeness"—the discipline which emerges when people spending the dollars must also directly raise the tax revenue.

3. Education

(A) It is urgent that central city schools receive more generous financing in recognition of the higher investment involved in educating disadvantaged children. One of the objectives of a program to update education in the central cities should be an improvement of the quality of teaching in those schools. There is no justification for the situation that exists in many States under which State and financial aid tends to favor suburban over central city schools. The same criticism can be made of the financing of many of our rural schools.

(B) In view of the higher skill requirements constantly demanded by our economy, it is time for State and local governments to give serious consideration to free public education through the junior college level.

(C) Preschool education should be extended to all disadvantaged children and made a year-round program.

(D) There is a need for drastic improvement for vocational education programs, including modernization of curriculum, strengthening

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of the teaching staff and improvement in equipment. Above all, vocational education should be tied in more closely with needs of business and industry so as to make it more responsive to labor market needs.

4. Private-Government Partnership

(A) Under the leadership of Senator Javits, two programs have been proposed that would significantly contribute to bringing the capacity of private enterprise to bear in solving our urban problems.

(a) An Economic Opportunity Corporation, a federally chartered enterprise which would provide technical assistance and seed money to encourage increased private sector involvement in activities designed to ameliorate urban and ghetto problems. The Corporation, which would have three Presidentially appointed Directors on its 15-man Board, would be a nonprofit organization and would be financed jointly by the Federal Government and matching funds from the private sector.

The Corporation would be chartered to perform a variety of activities including (1) acting as a center for information, research, and technical assistance on opportunities for private firms to undertake antipoverty activities, with or without Government assistance, (2) conducting research and demonstration projects designed to encourage business to take on contracts to perform public services, and (3) through profit-making subsidiaries, seek to develop new business opportunities in poverty areas in which existing companies and community groups could collaborate. The National Advisory Commission on Civil Disorder has now endorsed the establishment of such a federally chartered corporation.

(b) A Domestic Development Bank designed to stimulate broad economic development in or near the Nation's slums and depressed rural areas. The proposal would seek to overcome a major impediment to urban and rural development arising from the lack of long-term, low interest mortgage money for business in high risk areas. The Federal Government would subscribe for the full $2 billion in bank stock, but would pay for only $400 million initially, the rest being subject to call as necessary to protect the bank's bondholders. The objective of the program is to provide financing to private business and commercial projects on favorable terms, expanding job opportunities in poverty areas and creating opportunities for local entrepreneurship.

(B) Those State constitutions which forbid commingling of public and private funds for public purposes should be amended to facilitate private participation in meeting public problems.

(C) Every encouragement should be given to the activities already being undertaken by business groups in this area, including such programs as Forward America sponsored by the U.S. Chamber of Commerce.

(D) We support the establishment of the National Commission on Urban Living. Such a Commission could serve as a high-level bipartisan coordinating body working in cooperation with Government officials on the local, State, and national levels as well as with representatives of nongovernmental agencies involved in attacking America's urban problems.

5. Housing:

(A) We believe that appropriate action should be taken by all levels of Government to guarantee every American an equal opportunity

for safe and decent housing in a suitable environment. We agree with the Policy Committee of the Republican Governors Association that all citizens should have the right to live "where their hearts desire and their means permit."

(B) Too often local planning and zoning requirements deny low-income citizens equal opportunities with regard to housing. We believe that greater State and local action is required to encourage zoning policies which overcome social, economic, or racial segregation.

(C) More effort is required to apply advanced technology and scientific methods to the field of housing in order to develop new methods and building techniques, improved materials, and to promote a more rapid growth of productivity in the construction industry. Not only would such an effort pay off in lower cost housing but in better and more modern housing of high quality design as well.

(D) Private enterprise must be given improved incentives to meet the enormous need for low-income housing at prices the consumer can afford to pay. Low-income housing must be improved within the context of total metropolitan growth and development, including not only the central cities, but the blighted and substandard conditions that exist in many suburbs and rural fringe areas as well.

(E) The Internal Revenue Code should be amended to require that property owners who apply for depreciation deductions on their Federal income tax must certify that the property is being maintained within local code enforcement standards, as has been proposed in legislation introduced by the chairman of this committee. We further believe that State financial assistance should be stepped up for development and enforcement of adequate housing and building codes.

(F) Homeownership has long been an important objective of Government policy. The ownership of one's own home gives the individual a stake in the community and a sense of dignity and worth equal to that of self-fulfilling employment. We believe that the opportunity for homeownership should be extended to low-income citizens as well. We, therefore, support the concept of homeownership developed by Senator Percy and Congressman Widnall in their pioneering legislation in this field.

Public construction, particularly for highways, should take into account more fully the impact on existing housing and the pattern of overall metropolitan development. Since such construction inevitably involves some disruption of existing living patterns, we believe that relocation services must be improved both for displaced families and businesses.

6. Rural Development To Relieve Pressure on Cities

A program to provide satisfying and self-fulfilling employment opportunities in rural areas and small towns should include—

(a) Economic incentives for the establishment of industries in those areas;

(b) Wherever possible, placing government establishments, both Federal and State, outside the large urban center;

(c) Awarding Government contracts in rural areas, wherever feasible;

(d) Stepping up conservation and recreation activities as a new source of employment for the rural unemployed;

(e) Providing rural workers employment and counseling services at least equal to those provided in our cities.

STRENGTHENING AMERICAN AGRICULTURE

President Johnson, in his Economic Report for 1968, devoted only one sentence to agriculture, with the cryptic remark that "farm proprietors' net income dipped" during 1967. The "dip" amounted to nearly $2 billion in realized net income. Not mentioned was that farm debt increased by more than $4 billion. Farm parity ratios were the lowest since the depression days of the 1930's—another unpleasant fact unreported in the President's Report. Such superficial treatment of our Nation's agricultural problems cannot go without comment, especially in light of the admission of the President in his Farm Message to the Congress on February 27, 1968, that "the American farmer, who helped to build America's prosperity, still does not fully—or fairly—share in it."

The $2 billion "dip" in realized net income during 1967 amounted to $605 per farm. The over $4 billion increase in farm debt amounted to an increase of $1,337 per farm. Meanwhile, the number of farms declined by 92,100 and our farm population declined by 595,000. The administration's programs to help bring industrial development to rural areas suffering population decline continued to prove wholly inadequate. Nearly half of our Nation's poor continued to live in rural areas.

Farm Debt Approaching Disastrous Level

In our minority views in the 1967 Joint Economic Report, we observed that what was especially alarming was the increase which had occurred in farm debt. That debt is now approaching a disastrous level, especially in light of the fact that interest rates are at the highest levels since the Civil War. Table B–82 on page 305 of the President's report shows that combined real estate and other debt of farmers increased $4.2 billion during 1967 (from $45.7 to $49.9 billion). This was the same total increase as in 1966. In his 1968 farm message, the President proclaimed that net income per farm in 1967 was up 55 percent over a decade ago, but overlooked the fact that net debt per farm was up 110 percent.

Some farmers would be willing to withstand additional indebtedness if incurred under a program of investment calculated to improve future net income from expanded or more efficient farm operations. However, no such improvement is indicated in the past 7 years under this administration. Table B–77 shows that the cumulative increase in realized net farm income for the past 7 years amounted to $13.5 billion. During the same period, net farm debt increased $23.7 billion.

While farm equity has been rising at an even more rapid rate than farm debt, most of this increased equity represents inflated farmland values. Farmers have had to borrow more to finance the rapid rise in farm assets. In 1940 farmers' debts were 19 percent of their assets. In 1950 they were down to 9 percent. Now, however, the percentage is back up to 17, and all indications are that it is going even higher.

Although inflated farmland values may be a source of comfort to owners of farmland, the fact remains that they must pay off this indebtedness and pay annual interest on this indebtedness. Without adequate net income to do so, a farmowner has no choice but to liquidate some of his equity or go out of business. Farm tenants are even worse off, since they have no comparable investment for inflation to push up as their indebtedness increases.

In his statement before the Joint Economic Committee on February 14, the Secretary of Agriculture noted that farm proprietors' equities (assets minus liabilities) had risen to $231.3 billion. Using a 6½ percent rate of return on this investment would have produced net farm income of $15 billion for 1967. Actual net realized farm income for 1967 was only $14.5 billion. This means that the farmers of the Nation, as an economic group, received nothing for their labor and managerial skill.

In its report, "Parity Returns Positions of Farms," published in July 1967, the Economic Research Service of USDA calculated a parity return on a farmer's labor (not including managerial skill) at $2.35 per hour.

We recognize that of the 3,141,000 farms operating during 1967, a small percentage had realized net income which would have been comparable to that realized in other sectors of the economy using comparable investment, labor, and managerial skill. The test of administration farm policy, however, must be measured by the farm economy as a whole.

Worsening Cost-Price Squeeze

In his farm message to the Congress on February 27, 1968, President Johnson admitted that the farmer is trapped in a vicious price-cost squeeze. This cost-price squeeze on farmers' net income is a combination of administration-induced low market prices and ever-increasing costs of production. The administration's inflationary policies literally "trapped" farmers with much of the billion dollar increase in production costs for 1967.

Using 1958 as a base year with an index of 100, prices paid by farmers in 1967 had risen to a weighted index of 117; whereas prices received by farmers had risen to a weighted index of only 104. From the 1958 index of 100, interest was up to 259, taxes were up to 178, labor costs were up to 146, and farm machinery was up to 130.

Prices received by farmers for some agricultural commodities are higher today than they were several years ago, but they are actually much lower in real dollar purchasing power after inflation is taken out. For example, a fat cattle price of $27.62 per hundredweight in September 1967 was higher than the price of $24.80 per hundredweight in September 1960. But in terms of 1960 dollars, the $27.62 in 1967 was only $24.09.

Some prices are actually lower. For example, No. 2 yellow corn at Chicago was only $1.12 per bushel in February 1968, but was $1.16 per bushel in February 1961. The price during the depression in November 1938 was down to $0.47 per bushel. But the $1.12 per bushel in February 1968, after shrinking out inflation, was worth only $0.46 in 1938 dollars.

The parity ratio, which averaged 85 during the 8 years of the Eisenhower administration, averaged only 74 for 1967 as a whole

and was down to 73 by the end of the year. All indications are that little change will be forthcoming; if anything, the situation will probably worsen during 1968. The administration and its Democratic-controlled Congress have no one to blame but themselves for the situation.

Administration's Apparent Cheap Food Policy Continues Harmful to Farmers

In our minority views in the 1967 Joint Economic Report, we stated that it was becoming increasingly obvious to farmers that the administration has been following a policy of farm commodity price depressing actions. It has sought to partially offset the lower prices received by farmers by Federal Government payments to farmers. In turn, the Federal Government taxes consumers, who may think food prices are relatively cheap, in order to make these payments. In 1967 Federal Government payments to farmers were a near-record $3.1 billion. While this was a decrease of nearly $200 million from the record payments of 1966, it still amounted to 21 percent of total 1967 realized net farm income of $14.5 billion. Obviously the administration's policies are moving farmers toward more dependence on the Federal Government, and the price tag to the taxpaying consumer demonstrates that his food bill is higher than it really seems.

Nineteen hundred and sixty-seven provides a classic example of the application of the administration's policy. In the fall of 1966, the Secretary of Agriculture sharply increased acreage allotments using powers granted him by the administration's wheat and feed grain programs. The result was substantial overproduction. Because of the close relationship between wheat and feed grain production and the production of other consumables, such as poultry, meat, and eggs, the net result was that production of virtually all commodities went up from 5 to 10 percent, and prices sharply and promptly went down.

Once again we are constrained to point out that while we recognize that the vicissitudes of weather and other conditions may, in some segments of the agricultural industry, require tax-supported programs which will provide farmers with a minimum level of price supports, the programs should be so managed as to provide a floor, rather than a ceiling, for the prices farmers can hope to receive for their produce. Unless this is done, agriculture is bound to continue to receive less than its fair share of the national net income—especially during a period of inflation, and the long-range effect of our Nation's food production will be serious.

The Export-Import Picture

The one bright spot in terms of agriculture in 1966—exports—dimmed in 1967. Agricultural exports for 1967 were down nearly $500 million from 1966 ($6.9 billion for 1966; $6.4 billion for 1967); whereas imports were down only $36 million ($4.491 billion to $4.455 billion). And, our favorable balance of agricultural exports over imports fell under $2 billion ($1.9 billion) for the first time in 4 years. The $1.9 billion was a major factor in our overall favorable trade balance, which fell by $400 million from $4.3 billion in 1966 to $3.9 billion in 1967. However, when one realizes that noncommercial exports of agricultural commodities (Food for Peace—Public Law 480) amounted to $1.6 billion, the $1.9 billion favorable balance quite obviously shrinks to a marginal level in its impact on the Nation's balance-of-payments deficit.

Although we recognize that foreign trade is not a one-way street, we are concerned when agricultural imports take over an unfair share of the increase in our domestic market, especially when these commodities are being produced efficiently by U.S. farmers. Meat and dairy imports are good examples. Imports of meat and meat products have risen from 735.4 million pounds in 1960 to nearly 1.4 billion pounds in 1967. Dairy imports, which were 604 million pounds (milk equivalent) in 1960 and which soared to 2.7 billion pounds in 1966, increased to a record high level of 2.9 billion pounds in 1967. They were running at an annual rate of 4 billion pounds when the President, at the insistence of several Members of Congress and representatives of the dairy industry, placed into effect an import quota policy on dairy products.

TABLE I.—AGRICULTURAL IMPORTS

[In millions of dollars]

	Calendar year			
	1964	1965	1966	1967
Supplementary:				
Animals, live	56	117	118	80
Dairy products	62	73	118	115
Meat and meat products	483	525	619	663
Sugar, cane	458	441	502	587
Tobacco, unmanufactured	89	130	127	129
Wool, apparel	115	157	157	102
Other	675	627	986	1,023
Total	1,938	2,070	2,627	2,699
Complementary:				
Coffee	1,027	1,064	1,069	964
Cocoa beans	131	139	122	147
Rubber, crude natural	201	182	177	170
Wool, carpet	90	71	72	38
Other	357	384	424	437
Total	1,806	1,840	1,864	1,756
Grand total	3,742	3,910	4,491	4,455

TABLE II.—AGRICULTURAL EXPORTS

[In millions of dollars]

	Calendar year			
	1964	1965	1966	1967
Cotton, excluding linters	682	486	432	464
Dairy products	224	196	126	121
Feed grains, excluding products	855	1,135	1,334	1,054
Fruits and preparations	279	313	315	310
Soybeans	567	650	767	772
Tobacco, unmanufactured	413	383	482	499
Vegetables and preparations	158	155	176	164
Wheat and flour	1,532	1,183	1,534	1,206
Other	1,638	1,728	1,715	1,796
Total	6,348	6,229	6,881	6,386

TABLE III.—SHARE OF U.S. AGRICULTURAL PRODUCTION EXPORTED, FISCAL YEARS ENDING JUNE 30

Commodity	Percent			
	1964	1965	1966	1967
Wheat, including flour equivalent	75	55	65	56
Rice (milled basis)	64	56	60	67
Nonfat dry milk	62	44	37	23
Dried edible beans	49	17	17	18
Tallow	44	40	37	40
Soybeans [1]	41	48	41	37
Hops	41	43	42	40
Rye grain	34	6	11	16
Cotton	32	30	21	48
Dried prunes	30	27	37	35
Lard	28	18	9	9
Dried whole milk	28	17	22	17
Tobacco (farm sales weight)	26	25	29	38
Cottonseed	23	32	19	5
Raisins	21	25	23	24
Dried edible peas	20	60	66	81
Grain sorghums	17	24	36	39
Barley, grain	17	14	19	11
Flaxseed	11	27	15	31
Corn, grain	11	15	16	12
Cattle hides	45	56	58	59
Lemons and limes	9	17	21	19
Variety meats	9	10	10	10

[1] Includes bean equivalent of soybean oil for export.

Agriculture after the Kennedy Round of Negotiations

In 1965, members of the minority on the committee warned of "the most critical uncertainties" facing American agriculture in the outcome of the GATT negotiations for the reduction of tariff barriers. "If American farm exports are not to suffer a sharp decline," we said, "it is essential that the United States receive significant concessions on agriculture from the EEC." No really significant concessions were forthcoming, although there was some progress in gaining European participation in the food-aid plan and an international grains arrangement of somewhat dubious value was negotiated.

But the end of the Kennedy Round of negotiations last June left us with no guaranteed access to the Common Market countries for our grains; nor was there any lowering of their variable import duties on our grains (actually there have been some subsequent increases to as much as $1.48 per bushel on wheat and $0.97 per bushel on corn), duties which are being used to help support their domestic price of $2.69 for wheat and $2.23 for corn. They have announced a goal of self-sufficiency in grain production; and whether we think their policy is a wise one or not, it could bring a serious setback to our agricultural exports to Western Europe. Of added concern are reports that the EEC is considering action to impose nontariff barriers on soybean meal which would undercut the agreement to bind soybeans and soybean meal imports at zero duty.

Based on 1966 trade, of a total of $1.5 billion of all our agricultural exports to the Common Market, including grains, trade barriers were lowered on items comprising only $200 million, some 13 percent. At the same time, out of a total of $3.7 billion of all our industrial exports to the Common Market, a lowering of trade barriers was negotiated on items comprising $2.4 billion or 65 percent.

Since 1960, our wheat exports to Western Europe have fallen off one and a half million tons a year. USDA's forecast for 1970 shows a decline in grain imports for Western Europe (which recognizes the

self-sufficiency target of the EEC), but an increase for Japan. At the same time, if we are to minimize our share of this decline and maximize our share of this increase, we must be price competitive with other surplus producing countries at all times. This means putting a stop to inflation.[10]

Not to be overlooked in this regard are treaty commitments of the United States. Now pending in the Senate for proposed ratification is the International Grains Arrangement negotiated in 1967 during the Kennedy Round. The Wheat Trade Convention of this Arrangement establishes a minimum and maximum price range for wheat moving in international trade, with a 40-cent-per-bushel price spread. These prices are approximately 23 cents above the price range provided under the old International Wheat Agreement, and the minimum level would likely be above world market prices at the time the convention went into effect. There is also considerable controversy over the meaning of "minimum level" and the possibility of exceptions thereto. An increase in the minimum price level above world market prices could be expected to encourage increased production on the part of some exporting countries currently not producing as efficiently as the United States, with an adverse impact on our wheat exports.

The other side of the trade picture—imports—is equally important. While it is generally agreed that a genuine reciprocal lowering of trade barriers will stimulate an increase in foreign trade to the benefit of all concerned, adherence to these principles must not be permitted to blind us to inequities of foreign competition. There is much more to liberalizing world trade than the reciprocal lowering of tariffs, with which the Kennedy Round was principally concerned.

An example in point is the situation created by the Common Market when in the fall of 1967 it set a uniform export subsidy for canned hams coming to the United States. The anomaly is that the Common Market has been charging duties on feed grain imports from the United States and turning around and using that money to subsidize the exports of these hams into the United States. As the Joint Economic Committee pointed out in its recent report, entitled "The Future of U.S. Foreign Trade Policy":

> Not infrequently * * * nontariff barriers deny to the individual countries and the world the gains and efficiencies of free trade more effectively and more insidiously than the visible tariff obstructions themselves * * * The European Common Market practice of rebating their own indirect taxes on their exports and levying these same taxes on imports * * * constitutes a conspicuous form of discrimination against U.S. exports. Moreover, similar border adjustments by the United States would be an ineffective weapon, neither mitigating nor offsetting the discriminatory process, because the tax structure of the United States places a relatively small emphasis on indirect taxes. This issue is one that the United States will have to resolve * * * Unfortu-

[10] Senator Miller suggests that if inflation is not stopped, we may be forced to subsidize our agricultural exports in order to make them competitive in world markets and at the same time insure a fair return to our producers.

nately, Congress and the executive branch presently do not have dependable statistical information on the significance and weights to be assigned to various nontariff obstructions which experts of the various countries have devised.

TABLE IV.—U.S. IMPORTS, CALENDAR YEARS 1964, 1965, 1966, AND 1967

[Dollars in millions]

Year and area	Total imports	Agricultural imports	Agricultural imports as percent of total imports
1964	$18,600	$4,082	22
1965	21,282	4,088	19
1966	25,408	4,492	18
1967 [1]	26,732	4,454	17
1961-63 average			24
1964-67 average			19
From EEC:			
1964	2,831	258	9
1965	3,316	270	8
1966	4,098	306	7
1967	4,441	333	7
1961-63 average			10
1964-67 average			8
From United Kingdom:			
1964	1,132	23	2
1965	1,403	24	2
1966	1,761	30	2
1967	1,710	29	2
1961-63 average			2
1964-67 average			2
From Japan:			
1964	1,763	40	2
1965	2,401	37	2
1966	2,948	37	1
1967	2,994	32	1
1961-63 average			3
1964-67 average			1
From Canada:			
1964	4,227	176	4
1965	4,813	234	5
1966	6,106	240	4
1967	7,099	201	3
1961-63 average			5
1964-67 average			4

[1] Preliminary.

TABLE V.—U.S. EXPORTS, CALENDAR YEARS 1964, 1965, 1966, AND 1967

[Dollars in millions]

Year and area	Total exports	Agricultural exports	Agricultural exports as percent of total exports
964	$26,086	$6,347	24
1965	27,003	6,229	23
1966	29,912	6,885	23
1967 [1]	[2] 31,147	6,375	20
1961–63 average			26
1964–67 average			23
To EEC:			
1964	4,481	1,416	32
1965	4,904	1,476	30
1966	5,264	1,561	30
1967	5,582	1,454	26
1961–63 average			32
1964–67 average			29
To United Kingdom:			
1964	1,445	440	30
1965	1,537	398	26
1966	1,645	471	29
1967	1,929	424	22
1961–63 average			38
1964–67 average			26
To Japan:			
1964	1,894	720	38
1965	2,042	876	43
1966	2,312	942	41
1967	2,665	866	32
1961–63 average			35
1964–67 average			38
To Canada:			
1964	4,653	[3] 615	13
1965	5,486	[4] 620	11
1966	6,487	[5] 626	10
1967	7,059	550	8
1961–63 average			14
1964–67 average			10

[1] Preliminary.
[2] Including Department of Defense shipments.
[3] Includes $160,000,000 in transit shipments.
[4] Includes $176,000,000 in transit shipments.
[5] Includes $140,000,000 in transit shipments.

Bargaining Power for Farmers

Bargaining power for farmers to obtain fair and reasonable prices for agricultural commodities is receiving considerable attention, and it is likely that some legislative steps will be needed to help toward this end. However, bargaining power for farmers can only be meaningful when it takes into account the realities of political and economic life.

The Federal Government is so powerful that what it does or does not do can make or break bargaining power of farmers. Nowhere is this more true than in the areas of foreign trade policy and fiscal policy.

Bargaining power which achieves prices deemed fair and reasonable in our economy could, at the same time, result in noncompetitive prices for export. Unless the prices so arrived at were made inapplicable to commodities for export, or unless the taxpayers were willing to subsidize these exports, the United States could lose its large commodity export surplus—if not its commodity export trade altogether. Similarly, unrestricted commodity imports, subsidized by the exporting country, could undercut fair and reasonable prices established for domestic producers.

Fair and reasonable prices established by farmer bargaining power could be vitiated by unsound Federal fiscal policy. A price that is fair and reasonable for a farmer who does not have to borrow money to operate might not be fair and reasonable for the farmer who has to operate on borrowed capital bearing 7 percent to 8 percent interest rates pushed up by inflation and deficit spending by the Federal Government. Increased cost of production spurred on by inflation and high interest rates could seriously impair a fair and reasonable price negotiated before the increases could be foreseen or computed.

Somewhat related is the amount of money appropriated by the Federal Government for farm programs, and the problem of the extent to which Federal payments to farmers would be taken into account in setting a fair and reasonable price for commodities. Would there be a different price for farmers who are in a program and receive payments than for farmers who are not in a program and do not receive payments?

We do not mean to disparage the idea of bargaining power for farmers. We merely wish to make it clear that in devising mechanisms to help attain this power there must not only be taken into account the fiscal and foreign trade policies of our Federal Government, but, these policies must be made harmonious with the goal of fair and reasonable prices for the producers of our food and fiber. And we would point out that had this administration's policies been harmonious with such a goal, it would not be necessary to consider the subject of bargaining power for farmers.

Agricultural Research

In our minority views in the 1967 Joint Economic Report, we pointed out that the United States has not yet made full use of our research resources in finding industrial uses for agriculture commodities. We repeat this criticism. The overwhelming portion of the new USDA budget for agricultural research relates to what might be called production research activities, and only a small part is devoted to utilization. We believe the emphasis should be better balanced.

Policy Recommendations

1. We again renew our oft-repeated recommendation that the whole network of Government price-support programs be reoriented toward a strong market economy for agriculture; that the administration's doctrine of supply management should be abolished, since, as it has been administered, it has promoted an apparent cheap food policy to the detriment of the agricultural sector of our economy. That the administration does not intend to change this policy is clearly seen by a careful reading of its National Food Bank proposal, which would grant the Federal Government discretionary powers which could be used to continue to depress commodity prices.

2. The concept of national commodity reserves has merit. But in any legislation to implement the concept we should adhere to a basic policy of establishing sound reserve levels for all price-support commodities, with disposal of any Government stocks included in the reserve not to be permitted in a manner which disrupts normal markets.

3. Reorient the research activities of the Department of Agriculture to give greater emphasis to the development of new and increased uses for agricultural products.

4. Take action to encourage greater industrial and economic development in rural areas suffering a decline in population, and reorient the war on poverty to allocate a fairer portion of funds to rural areas where half the Nation's poor reside.

5. We repeat our call for the administration to follow fiscal policies which will stop inflation and high interest rates and, in turn, the continued rise in costs of farm production.

6. In establishing mechanisms to help farmers attain more bargaining power, the fiscal and foreign trade policies of the Federal Government must be made harmonious with the goal of "fair and reasonable" prices for agricultural commodities.

7. We recommend continuation of the Food for Peace Act with the stipulation that its emphasis on self-help on the part of recipient nations be continued.

8. We must insist that in any future trade negotiations, representatives of the United States maintain a much firmer position regarding agricultural items than that which characterized the Kennedy Round.

9. Any future trade negotiations should more vigorously cope with nontariff trade barriers, both to agricultural and nonagricultural trade.

10. There is a need for updating the income tax laws to protect the commercial farmer against the unfair competition which results when those whose principal occupation is not farming purchase farms and write off the losses on their tax bills.

ECONOMIC POLICY IN THE MID-1960's

A substantial portion of the report of the Council of Economic Advisers is devoted to recounting the economic achievements of the past 7 years. The lesson that we draw from that recital of history is that policies that were appropriate to the early years of the decade were carried on with a vengeance long after a shift to restraint was required. Since the problem of maintaining price stability at high employment is likely to be with us for some time, we believe it would be useful to review the fiscal policy record since 1965.

The Council admits that the Federal budget became "very expansionary" from mid-1965 to the end of 1967, despite its professed efforts toward restraint. It adds nothing for the administration and the Democratic Congress to maintain that its intentions were good even if its performance was poor, for the road to economic disaster is often paved with good intentions.

For the administration to insist that we would be in a worse economic situation now if it had not acted as it did is to admit the tools were available to bring the economy back to stability but not the will to use them fully. The administration's ineffectual efforts to restrain an overheated economy fostered by its own inflationary programs is the great failure of economic policy in the 1960's. What makes matters worse is that the administration was highly critical of the Federal Reserve when it began to tighten monetary policy late in 1965.

In the Revenue Act of 1964, Congress declared that increased Federal revenues resulting from economic growth stimulated by the tax cut should first be used to eliminate budget deficits and then to reduce the public debt. Congress also gave explicit recognition to the importance of restraint on Government spending and urged the administration to declare its accord with this objective. The administration subsequently announced that it would keep faith with the Congress by cutting expenditures.

Consequently, spending, seasonally adjusted on the National Income Accounts (NIA) basis, remained level for the entire calendar year 1964, and surpluses were registered during the first 6 months to 1965. In May of 1965, the administration proposed to cut Federal excise taxes by $4 billion, and the proposal was quickly enacted into law. The second half of 1965 showed relatively small budget deficits. However, it was during this period that Federal spending began to increase at a 14-percent annual rate, a rate that has been maintained ever since. While defense expenditures increased almost 8 percent in the second half of 1965, Federal nondefense spending rose over 7 percent as well. The administration also pledged to hold all expenditures to a minimum and to eliminate all unnecessary and obsolete programs.

In January 1966, the administration recommended a number of tax changes to help pay for the increased costs associated with Vietnam. It was obvious that most of the measures the administration proposed to meet higher defense spending would only temporarily raise

tax receipts, since they affected the timing of receipts and not ultimate liabilities. The administration maintained that this was preferable because increased tax rates were not clearly required at the time. The implication was that the increased levels of spending and budget deficits were only temporary. The administration predicted these revenue measures would balance the 1967 cash budget, reduce the 1967 administrative deficit to the lowest level in 7 years, and maintain economic growth without inflation. As it turned out, it was wrong on all three counts: The cash budget showed a $1.5 billion deficit, the administrative deficit was the largest in 8 years, and the consumer price index rose 2.7 percent over fiscal 1967.

Despite continued promises throughout 1966 to hold spending down and request additional revenues if defense costs required them, the Federal budget got completely out of hand. Defense spending rose over 25 percent from fourth quarter 1965 to fourth quarter 1966, with a nearly 9-percent increase from the second to the third quarter alone. Nondefense spending, which was presumably feeling the edge of the budget cutter's knife, rose 14 percent. Despite these sharp, rapid rises in Government spending, no new revenue raising proposals were forthcoming from the administration.

Instead, the blame for inflationary pressures was placed on the capital goods sector, and suspension of the investment tax credit and certain accelerated depreciation allowances was proposed to reduce the demand for plant and equipment, and ease conditions in the money markets. The administration also promised to cut spending by $3 billion, or about 2 percent of the total NIA budget. What was clearly needed was substantial restraint in fiscal policy through significant spending cuts or increased revenue. Instead, almost the entire burden for restraint was placed on monetary policy, with only token spending cuts and a tax measure which could contribute very little to reducing the deficit or restraining economic activity.

Again, despite the promises to cut the budget, spending rose over 10 percent from the third quarter through the first quarter of 1967 nondefense spending itself rising over 9 percent during this period. During the first quarter of 1967, economic activity was stagnant in spite of the expansionary Federal budget. As a result, the investment credit—suspended only 4 months earlier—had to be restored in the following spring.

In January 1967, shortly before asking for restoration of the investment credit, the administration decided that a distinct retreat from its expansionary fiscal policies was the only remedy to rising prices and interest rates. It proposed a tax surcharge and spending cuts to move toward budget restraint. Since then, the promises to cut spending have continued and spending increases have continued as well, rising almost 15 percent from fourth quarter 1966 through the fourth quarter 1967, nondefense spending contributing an 11-percent increase.

The fiscal policy record since mid-1965 is not at all encouraging. The Johnson administration and the Democratic Congress were more than willing to follow the easy ways of stimulating the economy, but found it quite difficult to pursue the politically less appealing road toward restraint despite clear signs of mounting inflationary pressures. As a result, we are faced with a fiscal crisis that is all the more difficult to control because of the delay in imposing remedial measures.

The question whether a government can fine-tune a nation's economy with the precise use of fiscal policy has not been finally settled. But this administration has demonstrated that clumsy use of fiscal policy can help precipitate economic crisis. Before it can hope to contribute to economic stability, it must first control its own budget. On the basis of its record, we doubt that this administration has the capacity for self-discipline in managing its own affairs that is essential to the maintenance of high employment without inflation.

Representatives:	Senators:
THOMAS B. CURTIS	JACOB K. JAVITS
WILLIAM B. WIDNALL	JACK MILLER
DONALD RUMSFELD	LEN B. JORDAN
W. E. BROCK III	CHARLES H. PERCY

COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

The Joint Economic Committee is directed by the law creating it (Public Law 304, 79th Cong.) to report to the Congress on the main recommendations of the President's Economic Report and to make a "continuing study" of the economy.

The work of the full committee and the subcommittees for the period February 1967 through January 1968 is summarized below:

FULL COMMITTEE

January 1967 Economic Report of the President

In February the full committee held 12 days of hearings on the 1967 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, the Secretary of Labor, the Under Secretary of the Department of Health, Education, and Welfare, the Acting Secretary of Commerce, the Commissioner of the Bureau of Labor Statistics, the Chairman of the Board of Governors of the Federal Reserve System, academic experts, and representatives of banking, business, industry, and labor. The printed record of the hearings, in five parts, contains in the final volume invited comments from organizations representing bankers, business, labor, agriculture, and economic research groups.

The 1967 Joint Economic Report

The annual economic report of the committee was filed with the Congress on March 17, the March 1 deadline having been extended by P.L. 90–1, Jan. 20, 1967. This report also contains a Statement of Committee Agreement, minority, and other views. (S. Rept. 73, 90th Cong., first sess.)

An economic profile of Mainland China

After the committee, in February 1967, issued its two-volume study of the Communist Chinese economy, a 3-day series of hearings was held in April as a second phase in this study. Two of the contributors to the compendium appeared as witnesses, along with Edwin O. Reischauer, former U.S. Ambassador to Japan, and other academic experts. The printed record of the hearing includes appendixes dealing with various aspects of mainland Chinese development in political, social, and economic areas.

The committee's report, released in June 1967, concludes that a considerable amount of information is available about Communist China. From that information it is possible to judge that the mainland economy has performed very unevenly with "remarkable" gains in some sectors and rather lackluster development in others. The committee took into account the existing trade embargo with mainland

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China and noted that the embargo must only be justified on political policy factors since the embargo fails to have any economic basis.

Economic effect of Vietnam spending

Significant pressures throughout the economy are generated by the Vietnam war, but there has been continuing uncertainty about the exact impact in many sectors. The committee held 4 days of hearings in late April, studying immediate effects of the war on the economy as well as the economics of possible ceasefire and deescalation. Witnesses included Senator John Stennis, chairman of the Senate Armed Services Subcommittee on Preparedness, the Assistant Secretary of Defense, the Director of the Bureau of the Budget, the Assistant Director of the Arms Control and Disarmament Agency, and representatives from the Federal Reserve System, the Department of Defense, industry, labor, and various universities. The hearings focused on problems of coordinating military procurement, the size of Vietnam spending, and on issues of deescalation.

Volume I of the hearings includes statements and supporting materials; volume II presents a compendium of background information.

On July 7, the committee published its report, "Economic Effect of Vietnam Spending," which summarizes, along with supplementary views, conclusions reached from the earlier hearings.

Economic outlook and its policy implications

In June, the committee, in view of the debate over Government tax and spending policies, held a 3-day set of hearings on the mid-year economic outlook.

Appearing before the committee in the hearings were the chairman of the Council of Economic Advisers, a representative from the Department of Commerce, and academic and business leaders.

August review of the 1968 budget

> Because of the great importance of the Federal budget in the functioning of our economy, the Bureau of the Budget should be required to file with the Congress quarterly budget reports indicating major changes in earlier projections.

This recommendation from the committee's 1967 annual report was initially implemented by an arrangement between the Budget Bureau and the committee by which revised budget figures will now be sent to Congress early each fiscal year.

The first presentation of the revised budget came in a 1-day hearing held on August 24, when Budget Director Charles L. Schultze and members of his staff testified before the committee. The hearing record contains both the testimony and the revised budget review.

The wage-price issue: The need for guideposts

Committee involvement with wage-price-income guideposts was emphasized in its 1967 recommendation that the administration establish a special wage-price office within the executive branch. However, during the year application of guidelines grew weaker.

Faced with increasing inflationary pressures and the lack of a detailed Government guidepost goal for 1968, the committee conducted a 1-day hearing on January 31, 1968, which looked into the past history and effectiveness of guidelines and their application to current economic problems. Appearing before the committee were four academic specialists in the field of wage-price theory.

SUBCOMMITTEE ON ECONOMY IN GOVERNMENT

Since approximately 20 percent of national income now passes through the Federal sector, Government expenditure policies exert significant influence on the total economy. In view of this fact, committee members decided it was essential to maintain a continuous review of Government expenditure policies to insure minimum waste and misallocation of resources. To meet this goal the committee moved to expand the jurisdiction of its existing Subcommittee on Federal Procurement and Regulation, while at the same time changing that subcommittee's title to the Subcommittee on Economy in Government. The subcommittee concerns itself broadly with improving Government management and specifically reviews such areas as procurement policies, inventory management, program evaluations, budgetary techniques, and budget presentation.

Procurement and property management

The subcommittee continued studies undertaken by the Subcommittee on Federal Procurement and Regulation dealing with procurement and property management. Two volumes of background material were published, the first in April and an updated version in November. Both volumes include information about Government obligations, real property holdings, property management activities, contract specifications, utilization of military stocks, disposition of surplus materials, and related reports on military and civilian property procedures.

Two series of subcommittee hearings looked into procurement and property management questions raised from earlier activity of the Subcommittee on Federal Procurement and Regulation and also from the background material. A 4-day hearing in May heard as witnesses the Comptroller General, the General Services Administrator, and representatives from the Defense Department, the Budget Bureau, the Congress, and industry. Supplementary materials dealing with the Buy American Act, Government in business, Federal real property management, surplus material sales, agency financing programs, typewriter procurement, and the executive program to improve management of automatic data processing equipment were printed in an accompanying volume to the printed hearing record.

Many of the witnesses reappeared in the second set of hearings which were held November 27 to 30 and also on December 8. These hearings covered the following issues:

Progress by the Department of Defense in implementing the Truth in Negotiations Act;

Actions being taken to get adequate controls over $15 billion of Government-owned property in the hands of defense contractors;

Steps taken or planned to maintain adequate controls over the Department of Defense supply systems' inventory of $41 billion;

Progress by the Administration in establishing one policy for all Federal agencies in applying price differentials under the Buy American Act;

Steps being taken to utilize millions of dollars worth of short-shelf-life items by Federal or State agencies before they become useless;

Procurement actions taken by the General Services Administration to permit small manufacturers to participate in the Govern-

ment's $3 billion annual cost of purchase or lease of computers and peripheral equipment;

Status of program to increase advertised procurement in lieu of preponderant use of negotiation;

Development of an integrated national supply system program to improve management of Federal real property procurement of commerical-industrial-type products and services.

Appendix 4(a) of the hearing record includes in its entirety the report to the Congress by the Comptroller General of the United States on need for improvements in controls over Government-owned property in contractors' plants, B-140389, dated November 24, 1967. This detailed report on 21 commercial contractors and two universities contains many criticisms of wasteful practices together with recommendations for improvements.

Appendix 4(b) of the hearing record contains responses from contractors to the GAO report.

Included in the hearings also is the report of the Comptroller General on improved inventory controls needed for the Departments of the Army, Navy, and Air Force, and the Defense Supply Agency, Department of Defense.

The planning-programing-budgeting system

Over the past few years new techniques have been introduced which assist government in achieving optimal resource allocation and efficiency. The planning-programing-budgeting (PPB) system is one of the more extensive developments in this field. In a 4-day hearing conducted in September, the subcommittee received testimony from Federal, State, and local government officials, and representatives from universities and research organizations. One session concentrated on the question of current government discounting methods employed in cost-benefit analysis.

The subcommittee report stemming from these hearings, "The Planning-Programing-Budgeting System: Progress and Potentials," recommends that all Government levels continue to utilize these decisionmaking aids and suggests that Congress should make additional use of PPB methods for its own benefit.

Review of report of the President's Commission on budget concepts

A strong endorsement for creation of a presidential commission set up to review and revise government budget concepts was made in the committee's 1967 annual report. After the Commission released its findings in mid-October, the subcommittee held hearings on October 31 and November 2 in which it heard from Mr. David M. Kennedy, Chairman of the Commission, members of the Commission staff, and other leading budget experts.

Interest rate guidelines for Federal decisionmaking

On January 29, 1968, the subcommittee continued its study of Federal expenditure policy in a hearing dealing with a survey by the General Accounting Office of the types of discounting practices applied in government investment decisions. Witnesses were the Comptroller General and members of his staff.

Members of the Subcommittee on Economy in Government are Senator William Proxmire (chairman), Senators John Sparkman,

Stuart Symington, Len B. Jordan, and Charles H. Percy; and Representatives Wright Patman, Martha W. Griffiths, William S. Moorhead, Thomas B. Curtis, and Donald Rumsfeld.

SUBCOMMITTEE ON ECONOMIC PROGRESS

Federal programs for the development of human resources

The Joint Economic Committee's involvement with problems of low-income families and human resources dates back to the founding of the committee itself. The most recent thrust, through the subcommittee's investigation of Federal programs for the development of human resources, was initiated in 1965. Three volumes describing Federal involvement in the human resource field were published during the second session of the 89th Congress. As a followup to that study, the subcommittee issued in June a series of questions and an outline for a compendium of papers providing economic analysis of Government programs.

This two-volume compendium studying Government human resource activities is soon to be published; topics covered in the first volume are program appraisal, national goals, program management and coordination, manpower and education; volume 2 includes income maintenance and family support, health care and improvement, and housing and the quality of man's environment.

Economic education

Senate Resolution 316 of the 89th Congress, second session, requested the Joint Economic Committee to undertake a detailed study of the adequacy and objectivity of practices of economic education at all levels, including adult education. Earlier subcommittee hearings in 1966 dealt with the relationship of technology to education, and on April 14, 17, and 21, 1967, the subcommittee began its inquiry of economic education.

During the 3 days of hearings the subcommittee received testimony from Members of Congress, the U.S. Commissioner of Education, and representatives from the Council of Economic Advisers, the National Science Foundation, and various education associations, school systems, universities, finance, labor, and farm organizations. Target of the hearings was to determine the extent of and need for education in economics, and to determine reasons for this need.

Financing municipal facilities

In its earlier two-volume study published during the 89th Congress, State and Local Public Facility Needs and Financing, the subcommittee reported on difficulties faced by municipal institutions in marketing bonds. One estimate predicted that over the coming decade State and local agencies would have to invest over $300 billion in public facilities.

On December 5, 6, and 7, 1967, the subcommittee looked further into the problems of municipal finance. Witnesses heard represented both small and large municipalities and officials such as mayors, a city finance director, and a city manager. Other witnesses from Congress and leading municipal organizations also testified.

Further subcommittee inquiry in this area is scheduled for 1968.

Members of the Subcommittee on Economic Progress are Representative Wright Patman (chairman), Representatives Martha W. Griffiths, William S. Moorhead, Thomas B. Curtis, and W. E.

Brock 3d; and Senators William Proxmire, J. W. Fulbright, Herman E. Talmadge, Len B. Jordan, and Charles H. Percy.

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

The future of U.S. foreign trade policy

One of the most sweeping series of trade negotiations, the so-called Kennedy Round, concluded its 5-year bargaining negotiations on June 30, 1967. Trade regulations for many commodities were changed; however, an equally significant impact came from the nature of the Kennedy Round itself.

With termination of the Kennedy Round, the subcommittee felt it an appropriate time not only to review technical changes resulting from the negotiations, but also the proper time to appraise future U.S. trade policy.

Six days of hearings dealing with various aspects of trade policy were held in mid-July. The subcommittee received testimony from the President's Special Representative for Trade Negotiations, officials from the Departments of Agriculture, Commerce, and State, congressional delegates to the Kennedy Round, and representatives of universities, banking, international study organizations, research institutions, and industry.

The printed record of the hearings is published in two volumes: the first contains the actual hearings and the second contains a series of statements from industry, farm, and trade organizations submitted to the subcommittee in response to a general invitation from the subcommittee chairman.

On September 29 the subcommittee released its report, "The Future of U.S. Foreign Trade Policy," which, along with supplementary views of certain members, summarizes the subcommittee's conclusions based on the hearings held in July.

Issues and objectives of U.S. foreign trade policy

In conjunction with the subcommittee hearings on future trade policy, a number of leading international economists from universities, professional associations, and the business world were asked to present their views on certain important aspects of U.S. foreign trade policy and how it might be directed in light of the Kennedy Round negotiations.

The compendium incorporating the 12 papers, published on September 22, 1967, is divided into four sections: The basis of negotiation; institutional aspects; trade and the adjustment process; and specific issues.

Members of the Subcommittee on Foreign Economic Policy are Representative Hale Boggs (chairman), Representatives Henry S. Reuss, William S. Moorhead, William B. Widnall, Donald Rumsfeld, and W. E. Brock 3d; and Senators John Sparkman, J. W. Fulbright, Herman E. Talmadge, Stuart Symington, Abraham Ribicoff, Jacob K. Javits, and Jack Miller.

SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS

New plan for International Monetary reserves

After a 2-year study period the Ministers of Finance and the Governors of the Central Banks of the Group of Ten countries agreed

in August 1967 on plans for establishing a new international monetary reserve facility. Later, at the IMF annual meetings in Rio de Janeiro, the IMF Board of Governors adopted a resolution which set the framework for implementing the "special drawing right" reserve.

The subcommittee, pursuant to its continuing study of the international settlements mechanism, paid special attention to these developments. A September 14 hearing heard testimony from the Secretary of the Treasury and the U.S. Executive Director of the IMF. The September hearing dealt mainly with the new reserve concept; on November 22, the subcommittee looked more specifically at the Rio Agreement when three leading international economists appeared as witnesses.

Guidelines for improving the international monetary system—Round Two

Much of the theory adopted for the new "special drawing right" reserve proposals substantiates subcommittee recommendations in its August 1965 report, "Guidelines for Improving the International Monetary System." In that report, creation of new international reserves was labeled an imperative condition.

With that imperative met, the subcommittee offered in December 1967 its second series of recommendations, "Guidelines for Improving the International Monetary System—Round Two." The report stresses the need to ratify the amendments that will be made in the Articles of Agreement of the IMF and to activate the plan for special drawing rights as soon as possible thereafter. The importance of the new plan both for this country and the rest of the world is that it will make possible the expansion of monetary reserves at a proper rate.

Members of the Subcommittee on International Exchange and Payments are Representative Henry S. Reuss (chairman), Representatives Richard Bolling, Hale Boggs, William S. Moorhead, William B. Widnall and W. E. Brock 3d; and Senators William Proxmire, Stuart Symington, Jacob K. Javits, and Charles H. Percy.

SUBCOMMITTEE ON ECONOMIC STATISTICS

The coordination and integration of Government statistical programs

Demands for Government statistics have been expanding rapidly. The 1967 Joint Economic Committee's Annual Report, in recognizing the increasing pressures for better statistical programs, directed that the subcommittee "look into the possibilities of a truly integrated system providing genuinely comparable statistics consistent with and meshed into an overall system of economic statistics including the Federal, State, and local governments."

To comply with this directive the subcommittee held 4 days of hearings in May and June. Witnesses included representatives from Congress, the Budget Bureau, the Council of Economic Advisers, and other statistical experts from universities, research groups, and other eminent statisticians.

The subcommittee's report, published on August 9, recommends establishing a national statistical servicing center as well as outlining several areas where immediate improvements could be undertaken.

Members of the Subcommittee on Economic Statistics are Senator Herman E. Talmadge (chairman), Senators J. W.

Fulbright and Jack Miller; and Representatives Richard Bolling, Martha W. Griffiths, Thomas B. Curtis, and Donald Rumsfeld.

SUBCOMMITTEE ON FISCAL POLICY

Revenue sharing and its alternatives: What future for fiscal federalism?

Numerous suggestions have been offered concerning fiscal relationships between differing governmental levels. In 1967 the Subcommittee on Fiscal Policy initiated a comprehensive analysis on the issue of revenue sharing and it alternatives by publishing an extensive three-volume compendium and holding two sets of hearings.

Nearly 100 papers are included in the compendium which was released in July. Volume I, titled "Lessons of Experience," deals with Federal aid to State and local governments, State revenue sharing and aid to local governments, and intergovernmental fiscal experience in other countries; volume II, "Range of Alternatives for Fiscal Federalism," is divided into five parts—the range of alternatives; revenue sharing with States and local governments; improving conditional grants-in-aid; tax credits and coordination; and, tax reduction; the final volume, "Federal, State, and Local Fiscal Projections," includes sections on State and local needs, demands and resources; on Federal surpluses, and concludes with an annotated bibliography.

Four days of hearings, July 31–August 3, presented a theoretical background to the revenue-sharing questions. Each day centered on a given area—lessons of experience, fiscal projections and their policy implications, revenue sharing or tax credit options, and other possible options—and witnesses represented congressional, university, and research organization viewpoints.

A second series of hearings in November looked in more detail at individual State and local problems. The 15 witnesses included Members of Congress, the Chairman of the Advisory Commission on Intergovernmental Relations, and municipal officials and organizations.

Old age income assurance

Following its November 1966 outline of issues and alternatives for old age income assurance, the subcommittee is publishing a six-volume compendium on problems and policy issues in the public and private pension systems. Three volumes, numbers III, IV, and V, were made available in December 1967, and publication of the remaining volumes, numbers I, II, and VI, is expected shortly. Part I presents general policy guidelines; Part II looks into the aged population and retirement income programs; public programs are investigated in Part III; the topic of Part IV is employment aspects of pension plans; Part V deals with financial aspects of pension plans; and Part VI summarizes all of the papers.

Members of the Subcommittee on Fiscal Policy are Representative Martha W. Griffiths (chairman), Representatives Hale Boggs, William S. Moorhead, William B. Widnall, and Donald Rumsfeld; and Senators William Proxmire, Herman E. Talmadge, Stuart Symington, Jacob K. Javits, Jack Miller, and Charles H. Percy.

SUBCOMMITTEE ON URBAN AFFAIRS

Directory of urban research study centers

The newest Subcommittee of the Joint Economic Committee made its first presentation in mid-August when it released a directory listing activities and staffs of over 95 organizations and study groups which work in urban affairs. Two types of organizations were included: university-sponsored study centers, and nonprofit research institutes. The subcommittee hopes to update the directory periodically.

Urban America: Goals and problems

As its initial major long-range study, the subcommittee opened an analysis of urban problems with publication of a compendium and 5 days of related hearings. Aim of the long-term effort is stimulation of congressional and public concern with the future of America's urban environment; the approach employed emphasizes research into both current and potential urban issues.

The subcommittee's August compendium is divided into four sections which study urban values, goals and priorities, functional problems, and rules of the game in the public and private sectors.

Hearings in connection with the compendium were held in late September and early October. Witnesses who appeared before the subcommittee were contributors to the compendium; for the most part the witnesses were from urban research study centers, universities, or from different levels of urban administration.

Members of the Subcommittee on Urban Affairs are Representative Richard Bolling (chairman), Representatives Henry S. Reuss, Martha W. Griffiths, William S. Moorhead, William B. Widnall, and W. E. Brock 3d; and Senators Abraham Ribicoff, William Proxmire, Jacob K. Javits, and Charles H. Percy.

OTHER COMMITTEE STUDIES COMPLETED SINCE MARCH 1967

In carrying out its duty to make a "continuing study" of the economy, the Joint Economic Committee from time to time releases for public information pertinent materials prepared for the committee under the direction of the staff.

Economic policies and practices

In April the committee issued its 10th paper in its study of international economic policies as practiced by leading industrial nations. The 10th study paper, "Foreign Government Restraints on U.S. Bank Operations Abroad," was prepared with the assistance of the staff of the American Bankers Association and representatives of the banking industry.

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 1967:

American Bankers Association—Symposium on Money, Interest Rates, and Economic Activity.

American Economic Association—Annual meeting.
American Enterprise Institute—Symposium on Fiscal Policy and Business Capital Formation.
American Enterprise Institute—Symposium on Full Employment, Guideposts, and Economic Stability.
Business Council.
Chamber of Commerce—Council on Trends and Perspectives.
Chamber of Commerce—Task Force on Economic Growth and Opportunity.
Federal Statistics Users' Conference.
McGraw-Hill Conference on Business Outlook.
National Association of Business Economists.
National Association of Urban Affairs.
National Bureau of Economic Research—Conference on Research in Income and Wealth.
National Council of Jewish Women.
National Housing Center.
National Institute of Public Affairs—Industry-Government Seminars.
National Planning Association—Annual meeting.
The Brookings Institution—Conference on Effect of Investment Tax Credit and Accelerated Depreciation on Level of Investment.
The Brookings Institution—Seminar for Church Executives.
The Brookings Institution—Seminar of Government Economists on Regulatory Problems.
The Cooperative Forum.
The George Washington University—Urban Conference.

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

American Marketing Association—Annual meeting.
American Marketing Association—Meeting on Measures of the Nation's Well-being.
American Mining Congress—Seminar on Economic Outlook for 1967.
American Statistical Association.
Brookings Institution—Round Table on Fiscal and Monetary Policy.
Business Equipment Manufacturers Association's International Operations Council on Tariffs, Import Quotas, and Foreign Trade Policies—Congressional Attitudes.
Civil Service Commission—Executive Seminar.
Civil Service Commission—Institute in the Legislative Function.
Civil Service Commission—Interagency Training Program.
Civil Service Commission—Legislative Operations Roundtable for Executives.
Civil Service Commission—Seminar on the National Economy and the Federal Executive.
Catholic Economic Association.
Federal Bar Association—Annual meeting.
Financial Economists, New York.
Hunter College students.
Insurance Investment Officers of New York.

National Industrial Conference Board—Economic Forum.
National Institute of Public Affairs—Ninth Urban Affairs Conference.
National Maritime Union—Regional meeting.
U.S. Department of Agriculture—Economic Luncheon Group.
U.S. Department of Agriculture—National Agricultural Outlook Conference.
Western Pensions Conference—Vancouver, British Columbia.
1967 NATA Revenue Estimating Conference.
25th North American Conference on Labor Statistics (Canada).

The executive director also conducted a seminar on Economic Planning and the Law for the fall semester at the National Law Center of George Washington University.

Conferences were held with government officials or groups of foreign visitors seeking information on the activities of the Joint Economic Committee, representing the following nations:

Austria
Belgium
Canada
Germany
Japan
France
Great Britain
The Netherlands
Union of South Africa

Student interns

The committee participated in the student intern program by having college students working in the committee offices during the past year.

CHANGES IN COMMITTEE STAFF

In March 1967 Richard F. Kaufman joined the staff as economist-lawyer to work in the field of urban affairs and problems. Daniel J. Edwards, fiscal economist, resigned to take a position as chief economist with the House Banking and Currency Committee.

DISTRIBUTION OF COMMITTEE PUBLICATIONS

During the past year the Joint Economic Committee and its subcommittees issued 52 publications, and approximately 300,000 copies of current and previous committee publications were distributed during the year to fill individual requests.

In addition, the Superintendent of Documents sold approximately 75,000 current and past copies of committee publications. This figure does not include the approximately 9,000 subscriptions to the committee's monthly publication, Economic Indicators, sold by the Superintendent of Documents.

JOINT ECONOMIC COMMITTEE PROGRAM FOR 1968

FULL COMMITTEE

Hearings on the President's Economic Report.

Hearings to continue throughout the year on major policy objectives under the Employment Act and monetary, international (including gold), and fiscal policies to achieve these objectives.

Economy of mainland China.

SUBCOMMITTEES

ECONOMY IN GOVERNMENT

SENATORS	REPRESENTATIVES
William Proxmire, *Chairman*	Wright Patman
John Sparkman	Martha W. Griffiths
Stuart Symington	William S. Moorhead
Len B. Jordan	Thomas B. Curtis
Charles H. Percy	Donald Rumsfeld

The planning-programing-budgeting system: Preparation of compendium.

Federal procurement practices—Continuation of the subcommittee's work on defense procurement problems.

ECONOMIC PROGRESS

REPRESENTATIVES	SENATORS
Wright Patman, *Chairman*	William Proxmire
Martha W. Griffiths	J. W. Fulbright
William S. Moorhead	Herman E. Talmadge
Thomas B. Curtis	Len B. Jordan
W. E. Brock 3d	Charles H. Percy

Financing municipal facilities—A continuation of hearings on bond ratings, tax exemption, availability of funds, and related matters.

Economic education—Hearings on the teaching of economics, pursuant to Senate Resolution 316.

Human resources study—Completion of compendium of expert opinion.

FOREIGN ECONOMIC POLICY

REPRESENTATIVES	SENATORS
Hale Boggs, *Chairman*	John Sparkman
Henry S. Reuss	J. W. Fulbright
William S. Moorhead	Herman E. Talmadge
William B. Widnall	Stuart Symington
Donald Rumsfeld	Abraham Ribicoff
W. E. Brock 3d	Jacob K. Javits
	Jack Miller

Continuing review of current issues in international trade.

Completion of latest review of Soviet economy.

International Exchange and Payments

REPRESENTATIVES	SENATORS
Henry S. Reuss, *Chairman*	William Proxmire
Richard Bolling	Stuart Symington
Hale Boggs	Jacob K. Javits
William S. Moorhead	Charles H. Percy
William B. Widnall	
W. E. Brock 3d	

Staff study of the Eurodollar.
Staff study of balance-of-payments effects of military programs.

Inter-American Economic Relationships

SENATORS	REPRESENTATIVES
John Sparkman, *Chairman*	Richard Bolling
J. W. Fulbright	Hale Boggs
Abraham Ribicoff	Henry S. Reuss
Jacob K. Javits	Thomas B. Curtis
Len B. Jordan	Donald Rumsfeld

Program to be determined later.

Fiscal Policy

REPRESENTATIVES	SENATORS
Martha W. Griffiths, *Chairman*	William Proxmire
Hale Boggs	Herman E. Talmadge
William S. Moorhead	Stuart Symington
William B. Widnall	Jacob K. Javits
Donald Rumsfeld	Jack Miller
	Charles H. Percy

Completion of the comprehensive pension staff study.
Analysis of negative income tax, guaranteed annual income, and other proposals for income maintenance.
Completion of subcommittee report on revenue sharing.

Urban Affairs

REPRESENTATIVES	SENATORS
Richard Bolling, *Chairman*	Abraham Ribicoff
Henry S. Reuss	William Proxmire
Martha W. Griffiths	Jacob K. Javits
William S. Moorhead	Charles H. Percy
William B. Widnall	
W. E. Brock 3d	

Continuation of studies on basic economic problems of urban areas.

Economic Statistics

SENATORS

Herman E. Talmadge, *Chairman*
J. W. Fulbright
Jack Miller

REPRESENTATIVES

Richard Bolling
Martha W. Griffiths
Thomas B. Curtis
Donald Rumsfeld

Program to be determined.