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THE 1971 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-SECOND CONGRESS

FIRST SESSION

PART 3

INVITED COMMENTS

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The letter appearing below was sent to the following organizations: American Bankers Association, American Farm Bureau Federation, American Federation of Labor and Congress of Industrial Organizations (AFL–CIO), American Life Convention, Chamber of Commerce of the United States, Committee for Economic Development, Communications Workers of America, Conference on Economic Progress, Conservation Foundation, Consumer Federation of America, Consumers Union of the U.S., Inc., Cooperative League of the U.S.A., Credit Union National Association, Inc., Federal Statistics Users' Conference, Financial Executives Institute, Friends of the Earth, Independent Bankers Association, Investment Bankers Association, Investment Company Institute, Life Insurance Association of America, Machinery and Allied Products Institute, National Association of Manufacturers, National Association of Mutual Savings Banks, National Association of Security Dealers, National Farmers Union, National Federation of Independent Business, National Federation of Independent Unions, National Grange, National League of Insured Savings Association, National Planning Association, Sierra Club, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), United Mine Workers of America, United States Savings and Loan League, and the Urban Coalition. These organizations were invited to submit their views or comments on the text and recommendations contained in the 1971 Economic Report of the President. Twenty-one organizations submitted statements and their views were considered by the Joint Economic Committee in the preparation of its report on the President's Economic Report.

FEBRUARY—, 1971.

DEAR MR. ————: Under the Employment Act of 1946 the Joint Economic Committee has the responsibility of filing each year a report containing its findings and conclusions with respect to the recommendations made by the President in his Economic Report. Because of the limited number of days available for hearings, the committee is requesting a number of leaders of business and finance, labor, agriculture, and consumer organizations to submit statements for the record on the economic issues facing the Nation. These statements will be made a part of our hearings on the Economic Report in a printed volume containing such invited statements.

We therefore invite your comments on the economic issues which concern the Nation and your own organization. Under separate cover we are sending you a copy of the 1971 Economic Report of the President, filed February 1.

We would like to distribute copies of your statement to the members of the committee and the staff, and would therefore appreciate your sending 30 copies, by Wednesday, March 10, 1971, to Mr. H. D. Gewehr, administrative clerk, room G–133, New Senate Office Building, Washington, D.C. 20510.

Very truly yours,

WILLIAM PROXMIRE, *Chairman.*

AMERICAN FARM BUREAU FEDERATION

We appreciate the opportunity to comment on the 1971 Economic Report of the President.

Our comments will largely be confined to a few points that are of particular concern to farm and ranch families at this time.

At the outset we would like to note that the 1971 Economic Report is largely devoted to a discussion of matters that are directly related to the functioning of our economy. In this respect the current Economic Report appears to us to be a decided improvement over some prior reports which basically have been designed to present—in an economic framework—a catalog of Presidential recommendations on a wide range of subjects.

In our opinion the economic policies of the Federal Government deserve particular attention this year because we are at a critical stage in our efforts to eliminate the disruptive influences of inflation.

In determining the economic policies that are to be followed in the coming year the Congress and the administration are, in effect, deciding whether we are going to strengthen our economy in the years ahead by stabilizing the value of the dollar, or weaken it by inviting another unsustainable inflationary binge.

Our views on this subject are set forth in the following extracts from Farm Bureau policies for 1971:

> Inflation is a serious threat to economic stability. Excessive Federal Government spending is the basic cause of our current problem of inflation. Deficit spending by the Federal Government and policies which expand the supply of money and credit faster than production clearly lead to inflation. Both Congress and the executive branch of Government must face up to this fact and bring expenditures into balance with income at tax rates which are not oppressive.
>
> We are concerned that Government leaders are overreacting to the mild downturn in our economy during the past year. We oppose excessive Government spending and monetary policies which would lead to further inflation.
>
> Efforts of the Federal Reserve Board to restrain inflationary increases in private credit should not be offset by increases in direct Government lending.
>
> *   *   *   *   *   *   *
>
> We favor continuation of the independent Federal Reserve Board as an essential tool to bring about a balanced economy.
>
> Agriculture should have representation on the Board.
>
> *   *   *   *   *   *   *
>
> Because stability of the purchasing power of the dollar, as well as the maintenance of high employment, is essential to the economic well-being of the Nation, we recommend amendment of the Employment Act of 1946, to provide equal emphasis on the maintenance of the value of the dollar.
>
> *   *   *   *   *   *   *
>
> We continue to oppose direct price and wage controls.
>
> We also oppose indirect controls, such as efforts to influence private decisions by guidelines, retaliatory actions, or dumping of stockpiled commodities. Such measures deal with symptoms rather than causes of inflation.
>
> Existing law should be amended to permit the Treasury to pay competitive interest rates on long-term Government bonds.

In our opinion important parts of the Economic Report reflect an overreaction "to the mild downturn in our economy in the past year." On the other hand, it seems to us that many of those who criticize the administration for the alleged failure of its efforts to bring inflation under control fail to recognize the progress that has been made. As the President notes on page 5 of the Economic Report:

> The restraint of 1969 and the slowdown of 1970 have set in motion strenuous efforts at cost reduction. These actions, as the pace of the economy quickens, will bear fruit in better productivity and costs. Prices have begun to rise less rapidly. There are the first faint signs of a retardation in wage increases in some sectors. Much of the anti-inflationary effect of the 1970 slowdown still has to be felt. And if the expansion is properly controlled in 1971, the conditions for further slackening of the inflation rate will remain. The expectation of continued rapid inflation has been weakened by the firm policies of the past 2 years and we must strengthen this growing confidence in the future value of money.

At the present juncture, just when we are beginning to see a few signs that the inflation of recent years is moderating, it is vitally important that we avoid reviving inflationary expectations. In our opinion the Federal budget for fiscal 1972, is inconsistent with the President's expressed desire to "strengthen confidence in the future value of money." Under assumptions many economists regard as optimistic the budget for 1972 shows a prospective deficit of $11½ billion. The actual deficit could be much larger. There is a real danger that the deficit now in prospect for 1972—and the accompanying argument that such a deficit is justified because expenditures will not exceed full employment revenues—will revive inflationary expectations.

We recognize that the President's budget recommendations are motivated to an important degree by a desire to reduce unemployment. We do not, however, agree that an inflationary fiscal policy is a sound method of approaching this worthy objective. In our opinion it would be better to seek first to create a solid base for economic progress through policies that will stabilize the value of money, and then to attack unemployment more directly through such means as (1) effective programs to upgrade the skills of unemployed workers and (2) measures to improve opportunity for market forces to guide the development of our economy.

In this connection we are pleased to note that the need to allow more opportunity for market forces to operate is recognized in a number of places in the Economic Report. For example, on page 7, the President said:

> Free prices and wages are the heart of our economic system; we should not stop them from working even to cure an inflationary fever. I do not intend to impose wage and price controls which would substitute new, growing, and more vexatious problems for the problems of inflation. Neither do I intend to reply upon an elaborate facade that seems to be wage and price control but is not. Instead, I intend to use all the effective and legitimate powers of Government to unleash and strengthen those forces of the free market that hold prices down. This is a policy of action, but not a policy of action for action's sake.

We believe that the President should continue to adhere to this philosophy, and that it deserves the support of the Congress.

We also would like to call attention to the portions of pages 80 and 81 which read as follows:

> In some cases the insulation from market forces is due to acts of commission or omission by the Federal Government * * *.
>
> * * * * * * *
>
> The President's June 1970 speech also announced the establishment of the Regulations and Purchasing Review Board to correct Government policies which unnecessarily contribute to inflation. It has under consideration a number of problem areas on which recommendations will be forthcoming. Examples of these are the management of import restrictions, regulations which unduly increase the cost of bidding on small Government projects, design and procurement methods for Government buildings, and the administration of the Davis-Bacon Act, which requires that contractors on Federal construction projects pay "prevailing" wages (a provision which in practice may have exerted an inflationary effect on construction wage rates and costs).

There are, of course, many other Government policies—including policies which permit the distribution of food stamps and unemployment benefits to strikers—that deserve reexamination in the context of their adverse effects on economic stability. A prime result of Government policies which tend to insulate prices and wages from market forces is the creation of pressure for inflationary action to offset the adverse effects such policies otherwise would have on employment.

In summary, we believe that:

(1) Under current circumstances the major objective of economic policy should be a more stable price level;

(2) Inflationary policies must be avoided to create a sound basis for sustained economic growth, high employment, and a rising level of real income; and

(3) We should strengthen market forces instead of resorting to price and wage controls which deal with the symptoms rather than the causes of inflation.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

By George Meany, *President*

American workers and their unions are deeply disturbed by the continuing economic stagnation in the United States that has curtailed production and wiped out the jobs and the incomes of millions.

They are alarmed by the ceaseless rise in the cost of living, fueled by high profits and high interest rates, that is eroding the purchasing power and wrecking the hopes and plans of millions more.

They are distressed at the administration's solicitude for corporate America, expressed through tax concessions and prodigal depreciation allowances, and its disregard of the public welfare, expressed through cutbacks of Government programs that benefit all of the people.

They are dismayed at the President's veto of badly needed education, health, and manpower legislation.

They are impatient with the administration's inability to provide leadership, or to cope with the range of domestic problems that must be solved if America's progress toward social and economic justice for all its people is to resume.

They are looking to Congress to fill the void.

In the light of the Nation's experience over the last 26 months, the AFL–CIO submits that the Congress cannot look to the executive branch to offer a coherent, progressive legislative program designed to meet the needs of the present.

We believe the Congress must take the initiative in shaping such a program on behalf of all the people.

The AFL–CIO has repeatedly urged progressive action on the administration, but without effect. We have repeatedly warned against the unbalanced domestic policies the administration has chosen to pursue, but without effect.

The record of the last 2 years, in almost every area of domestic life, has been a record of adverse developments and deterioration of the social fabric.

Last month, the AFL–CIO Executive Council undertook a searching analysis of America's problems. We were sharply critical of what we found but we did much more than criticize. We offered viable, achievable solutions to the problems the Nation faces.

In the firm belief that these alternatives will be of value to the Congress, in the pursuit of a nation fully employed, at decent wages and conditions; with sound policies for realistically solving the problems of the underprivileged in society, we submit to the Congress our program of specific actions for the public good.

I. The Economic Picture in 1971

The administration's "game plan" to combat inflation through an economic slowdown has finally been abandoned in the midst of its tragic consequences—a prolonged recession and increasing unemployment, combined with an accelerated rise of living costs.

But the new "game plan," recently outlined in the administration's budget and economic reports, is a half-hearted exercise in success-through-optimism.

The unfortunate results of the discarded "game plan" are apparent in almost all parts of the economy:

There were 5.4 million unemployed in January—6 percent of the labor force—up 2 million from a year ago and 2.5 million from January 1969, when the "game plan" got underway.

Economic distress has spread from six major industrial areas, when the administration took office, to 40 in January. In addition, the Labor Department reports substantial unemployment in 622 smaller industrial communities.

Unemployment rates are up to 17.6 percent for teenagers, 11.2 percent for construction workers, 10.6 percent for the unskilled, 9.5 percent for Negroes and 8.6 percent for the semiskilled.

Over the past 2 years, unemployment rates more than doubled for professional and technical workers, skilled craftsmen, workers in factories, transportation and public utilities; doubled for construction workers; and increased considerably for all other major groups of wage and salary earners.

Millions of additional workers have seen their paychecks shrink, as production cutbacks brought reductions in working hours.

However, the yearly rise of the Consumer Price Index accelerated to 6 percent in 1970 from 5.4 percent in 1969, 4.2 percent in 1968 and 2.8 percent in 1967.

The buying power of the weekly aftertax earnings of the average nonsupervisory worker in private, nonfarm employment—about 48 million—declined in 1970 for the second consecutive year. It was less than in 1968 and even below 1965.

The modest easing of the Federal Reserve's monetary policy since February 1970, was sufficient to halt the decline of the stock market and the threat of spreading business bankruptcies. Interest rates have moved down from their record highs, as the demand for business loans has weakened. But neither the Federal Reserve nor the administration have moved to drive interest rates down.

The Government has not taken decisive actions to turn the economy around from recession and stagnation to a sustained upturn. A rising trend of unemployment continues to threaten workers and their families.

With industry now operating at only about 75 percent of its productive capacity, business outlays for new plants and machines are leveling off—which means a decline in the real volume of business investment, after accounting for increased prices. It is unlikely that this part of the economy will pick up substantially until sales rise enough to convince most industries that additions to their productive capacity can be operated profitably.

The expected surge of consumer spending has not materialized since most families have found their real incomes declining. Until employment, workers' buying power and consumer expectations turn up significantly, no major increases in consumer expenditures can be expected.

The only parts of the economy that are expanding rapidly are residential construction and the activities of State and local governments, which naturally respond to the availability of credit at lower interest rates. Residential construction, which was clobbered by the right economic squeeze of 1969 and early 1970 is now moving up—the strongest growth sector of the economy at present. Yet, even the 1.8 million housing starts expected by homebuilders in 1971—up from 1.4 million in 1970—are considerably below the number required by the national goal of 26 million new and rehabilitated units in 10 years, established by the Housing Act of 1968.

However, the combined advance of residential construction and the activities of State and local governments is far from enough to push the entire national economy forward, when all other economic sectors are stagnant or growing slowly. As a result, business inventories of goods on hand are rather high, in relation to sales; the number of wage and salary earners on nonfarm payrolls throughout the economy is no greater than in the summer of 1969; and the average number of weekly working hours is down more than 2 percent from 2 years ago.

In the face of these conditions, only an immediate and substantial Goverenment stimulus can boost sales and production sufficiently to provide the growing number of job opportunities needed for the unemployed and the growing labor force in this period of cutbacks in military production and in the size of the Armed Forces.

During the last year, however, the President vetoed congressional appropriations for the expansion of programs that would create jobs in providing needed public facilities and services. Toward the end of 1970, the President vetoed the manpower bill to aid the States and local governments in creating public service jobs for the unemployed.

In the face of all this, the administration offers a new game plan and a new target: An unemployment rate in the 4.5 percent zone and an inflation rate approaching the 3 percent range by mid-1972.

This target of less than full employment and relative price stability, 1½ years from now, is based on a forecast of a 9-percent increase in the gross national product in 1971 and a nearly 12-percent rise between the October-December quarter of 1970 and the same quarter in 1971—mostly representing an expansion in the real volume of economic activity. To date, the administration has not indicated how these targets and forecasts are to be achieved.

This new game plan is based on rhetoric and wishful thinking arithmetic, rather than on specific programs to create jobs, increase consumer buying power, and lift sales and production. Instead of the needed substantial stimulus, the administration has presented a policy of miniexpansion for 1971. Proposed increases in budget expenditures are hardly any greater than last year, and much of these increases are for vaguely defined revenue sharing rather than for specific, expansionary programs. Moreover, the expected budget deficit in 1971 results more from the low tax receipts of a sluggish economy and a depreciation tax bonanza to business than from decisive actions to lift the economy.

Expansionary economic measures to reduce unemployment rapidly would boost productivity and reduce cost-price pressures in the economy. Government efforts to drive down interest rates would encourage the needed expansion and ease inflationary pressures on costs and prices.

We recommend the following actions:

1. Full funding of Government programs to meet America's public investment needs in such areas as education, health care, low- and moderate-income housing and community facilities could add at least $6 billion to the economy's spending stream. In addition, a $2 billion program of Federal grants to States, local governments and Federal agencies is needed to step up short-term public works construction and repairs in areas of high unemployment.

Such action is essential to lift sales, production, and employment and could be a key to reconversion, by offsetting the declining defense proportion of national production with an increased emphasis on public investment. It would also boost Government revenues as employment and incomes rise, the soundest way to reduce the growing budget deficit that results from the recession and persistent economic sluggishness.

2. Immediate congressional legislation is needed to provide sufficient Federal funds to State and local governments and private nonprofit organizations to create at least 500,000 public service jobs this year for the unemployed.

3. America needs a more rapid expansion of money and credit, at lower interest rates, to stimulate economic expansion.

The Secretary of Housing and Urban Development should use his authority to drive down interest rates dramatically—to reduce the maximum rate on FHA-VA home mortgages immediately to 6.5 percent and to further reduce that rate to no more than 6 percent no later than the end of the year.

We urge the Federal Reserve to take leadership in reducing interest rates, rather than following the weakening trend in the money markets, by reducing the discount rate it charges commercial banks to 4 percent.

The Nation's major banks should immediately and dramatically cut their prime interest rate—the basic price of money—to 5 percent, a move that would result in reducing all interest rates.

We urge the Congress to direct the Federal Reserve to channel credit where it would most benefit the economy and to curb the flow of credit for such activities as conglomerate takeovers, land speculation, and foreign subsidiaries. The Congress should also empower and direct the Federal Reserve to provide available credit, at preferential lower interest rates, for urgently needed community facilities, health-care projects and low-income housing.

A congressional review of the entire Federal Reserve System and the Nation's monetary policy is long overdue—to bring America's central bank fully into the Federal Government structure, to provide improved coordination of the Nation's monetary policy and to make the Board of Governors and the managing boards of the district banks more representative of the major groups in the economy, including workers and consumers.

4. Enforcement of the administration's announced 20-percent speedup in depreciation writeoffs of the costs of machines and equipment—as well as ending the requirement that business actually replace machines at about the same rate they are written off—should be barred by congressional action. This tax bonanza to business, if enforced, will cost the Government $2.7 billion in the first full year, rising to over $4 billion a year in 5 years. Middle- and low-income taxpayers will be forced to pay for these tax losses and the Federal tax structure will be moved further away from the principle of ability to pay. Yet this windfall will result in little, if any, increased business outlays for machines, so long as considerable amounts of existing productive capacity are idle.

Since depreciation writeoffs are listed as a cost of doing business, the speedup will provide an inflationary rise of reported costs, on which prices are based. Moreover, termination of the requirement that business replace equipment at the approximate pace of the writeoffs will destroy any rational basis for depreciation in the tax code. We urge the Congress to put an end to this application of trickle-down economics.

5. Increases in the buying power of workers' wages and salaries are a basic prerequisite for economic growth in 1971—provide workers with a share in the benefits of economic progress and to establish the foundation for the needed expansion of consumer markets. Rapid economic growth in 1971 will not be possible without a substantial boost of consumer sales, which account for almost two-thirds of the national economy. And the needed rise of consumer expenditures cannot possibly be achieved unless increases in the real incomes of workers are attained.

6. We urge the Congress to adopt an immediate 15 percent across-the-board increase in social security and railroad retirement benefit payments—to improve the living conditions of the elderly and provide a lift to consumer sales.

7. The Employment Security Amendments of 1970 established a national extended unemployment compensation benefit program, effective January 1, 1972, to assist long-term jobless workers. The AFL–CIO urges the Congress to advance the effective date of this program so that it can be implemented immediately and to provide for full Federal funding of the extended benefit payments.

8. To curb the price-raising ability of the dominant corporations, Government action is needed to curtail the high rate of business mergers and conglomerate takeovers, which have been greatly increasing the concentration of economic power in a narrowing group of corporations and banks. In pursuit of this objective, a thorough congressional study of the structure of the American economy is needed.

9. The specific causes of soaring pressures on living costs, such as physicians' fees, hospital charges, housing costs and auto insur-

ance rates, should be examined for the development of practical, sensible measures to dampen these pressures.

We state again, as on numerous occasions since February 1966: If the President determines that the situation warrants extraordinary overall stabilization measures, the AFL–CIO will cooperate so long as such restraints are equitably placed on all costs and incomes—including all prices, profits, dividends, rents and executive compensation, as well as employees' wages and salaries. We are prepared to sacrifice as much as anyone else, as long as anyone else, so long as there is equality of sacrifice.

II. Wage Negotiations in 1971

Substantial increases in wages and salaries are needed in 1971 if workers are to maintain and improve their real incomes.

The national economy needs increased workers' buying power to boost consumer expenditures, which account for almost two-thirds of total national production—to lift the economy out of stagnation.

The administration has told the Congress that the achievement of the economic goals set in its budget call for a 9.4 percent increase in consumer spending. We say that the most realistic and effective way to meet that goal is by substantially increasing the real wages of workers.

Despite outcries in the news media about the size of collective bargaining settlements—and there have been some large ones—the overwhelming majority have been modest, in the face of the accelerated rise of living costs. Many workers are locked into 2- or 3-year agreements, that were negotiated in 1968 or 1969. The cumulative increase in the cost of living in the 3 years, 1967–1970, adds up to 16.2 percent and in the 2 years, 1968–1970, this rise was 11.5 percent.

Unfortunately, many long-term agreements, negotiated 2 or 3 years ago, underestimated the accelerated price rise and provided deferred wage increases that were less than the rise in the cost of living. Workers covered by such contracts have had declines in the buying power of their hourly wages.

The modest size of wage gains of most workers can be seen clearly in the Labor Department's report that, in 1970, the average hourly earnings of nonsupervisory workers in private nonfarm employment—including those who achieved wage increases in agreements negotiated during the year—rose only 5.9 percent, slightly less than the increase of living costs.

According to the Labor Department, the gross weekly earnings of the average nonsupervisory worker were $119.78 in 1970. That adds up to $6,228 a year. Yet, the Labor Department reports that it cost $10,664, before tax payments, to maintain a modest but adequate standard of living—with few luxuries—for an urban family of four at the price level of the spring of 1970. That comes to about $205 a week for a full-time worker, 52 weeks in the year. With the rise in living costs since the spring of 1970, the cost of maintaining such modest standard of living is now about $11,000.

Even the Labor Department's lower family budget—with some amenities and no luxuries—cost $6,960 for a family of four in urban areas at spring-1970 prices, approximately $134 a week for 52 weeks. At present prices, the cost is now approximately $7,200.

In contrast with these income requirements for an urban family of four, the Census Bureau reports that the midpoint earnings, before taxes, of even those male wage earners who were fortunate enough to work at least 50 full-time workweeks in 1969 were only about $8,400 or approximately $168 per week.

So most wage and salary earners are pressed in their attempt to reach and maintain sufficient earnings for merely a modest standard of living from their regular job. A large group of workers does not attain even the before tax $7,200, required for the Labor Department's "lower budget" for a four-person family in an urban area.

Moreover, the trend of rising living costs in 1970, and cuts in working hours for many workers, resulted in a 1 percent decline in the buying power of the average nonsupervisory worker's weekly take-home pay—to 1.4 percent below 1968 and 1.3 percent less than in 1965. The weakening trend, during 1970, brought an even greater drop in buying power by December.

These are essential facts confronting workers and unions in wage negotiations in 1971. Under these conditions, trade unions have no recourse other than to seek substantial gains in collective bargaining this year—to offset previous increases in living costs and to achieve some gains in buying power.

The record since 1960 clearly shows that the accelerated rise in living costs came long before the push for larger wage settlements. That push is a reaction to inflation, not its cause.

Between 1960 and 1965, increases in the wages and fringe benefits of factory workers were less than the rise of industrial productivity. Unit labor costs of manufactured goods declined 1.6 percent. However, wholesale prices of manufacured goods increased 1.7 percent. Profit margins on each item widened and, with the expansion of sales, total profits of industrial companies skyrocketed.

In that same period, unit labor costs in the private economy increased slightly. But consumer prices rose more than twice as fast, at the rate of 6.6 percent. With other unit costs relatively stable or declining, profit margins widened throughout the private economy, bringing soaring profits to business.

During the course of 1965, the rise of living costs began to step up. However, it was not until many months later—1966 and 1967—that the size of collective bargaining settlements also began to move up. Unit labor costs then started to increase, and business raised prices at an accelerated pace in an attempt to maintain or even widen profit margins.

From 1960 to 1965, when living costs rose 1 percent to 1.5 percent a year, the median collective bargaining settlement was under 4 percent, according to Labor Department reports. Wage and fringe benefit settlements of over 5 percent did not become widespread until 1967, long after the sharper rise in living costs had begun in 1965.

By 1968, after 3 years of more rapidly rising prices, the median settlement of major collective bargaining agreements, including both wages and fringe benefits, was 6 percent per year over the life of the agreement and 8.1 percent in the first year. In 1969, it was 7.4 percent per year during the life of the contract and 10.9 percent in the first year. In 1970—with the cost of living rising 6 percent, after increases of 5.4 percent in 1969 and 4.2 percent in 1968—the median settlement was 8.5 percent per year over the life of the agreement and 11.3 percent in its first year. The major factor in the stepped-up rise of collective bargaining settlements was the prior acceleration of increasing living costs.

Wage and salary earners did not cause the inflationary rise of prices, nor have they been its beneficiaries. They are among its chief victims.

The inflation of recent years started with a profit inflation and one-sector capital goods boom plus a 3-year rise of military spending, beginning in late 1965, that was not offset by an equitable tax increase to ease the actual pressures in the private economy. In the latter part of the decade, particularly 1969–70, credit inflation was added and the price rise accelerated, aggravated by skyrocketing interest rates and the suppression of productivity increases during the recession.

Corporate profits shot up sharply during the 1960's, much faster than wages and salaries.

In the first half of 1969, before the onset of the recession, the after-tax cash flow to corporations (after-tax profits plus depreciation allowances) was up approximately 91 percent from 1960.

But the after-tax personal income of all Americans was up only about 76 percent—about one-fifth less than the corporate cash flow. And that includes the effects of a large increase in employment, as well as the income gains of individuals.

The after-tax weekly earnings of the average nonsupervisory worker were up only about 34 percent—three-fifths less than the corporate cash flow. In terms of buying power, the gain was only about 10 percent.

The profit inflation of 1960–65 continued through much of the second half of the decade until the economic slump—with the rise of interest rates, lag in productivity, and weakness in sales and production—brought a decline in profits of nonfinancial corporations between mid-1969 and mid-1970.

However, in the latter 1960's and particularly in 1969–70, interest rates rose sharply, increasing costs and prices and producing sharply rising bank profits. So, while the cash flow of nonfinancial corporations rose more slowly in the later 1960's and declined somewhat between mid-1969 and mid-1970, bank profits soared.

Profits of banks shot up during the recession of 1969–70, particularly the profits of the big banks. In 1970, for example, the net operating profits of J. P. Morgan & Co. were up 21.9 percent; First National Bank of Dallas, up 19.2 percent; Chase Manhattan Bank, up 16.1 percent; Bankers Trust, up 15.2 percent; First Chicago Corp., up 14.3 percent; National City Bank of Cleveland, up 11.6 percent.

Over the entire period since 1960—and in almost every year of the decade—the income gains of other groups in the economy forged ahead much faster than the gains of wage and salary earners. The 1970 Handbook of Labor Statistics, published by the Labor Department, reports that in the 12 years, 1957–69, real output per man-hour in the private economy rose at a yearly rate of 3.3 percent. But real compensation per man-hour of employees (wages plus fringe benefits) increased at an average pace of only 2.6 percent. And AFL–CIO estimates indicate an even slower rise in real hourly compensation of nonsupervisory workers.

So the income gains of workers lagged considerably behind the gains of other groups of the society. This income shift has gone, in large part, to the benefit of business and bank profits. And another part has gone to the benefit of such self-employed groups as physicians, dentists, and lawyers.

Some Government and business officials have tried to focus the blame for inflation on workers' wage increases. Yet the record clearly shows that workers and their families have been among the major victims of inflation. And they have been the principal victims of the administration's misguided "game plan" to combat inflation by an economic slowdown.

These are some of the major economic issues that confront workers and trade unions in the thousands of labor-management contract negotiations in 1971.

Thus, workers and their unions can be expected to press for substantial improvements in collective bargaining agreements negotiated in 1971.

III. The Fair Labor Standards Act

Modernization of the Fair Labor Standards Act is urgently needed. The present minimum wage of $1.60 an hour, under the amendments adopted in 1966, was barely tolerable at that time. It is utterly inadequate in 1971, in the face of 5 years of an inflationary rise of living costs. Moreover, millions of the lowest paid workers remain unprotected by the act.

The major purpose of this statute, as outlined in its declaration of policy, is to correct and as rapidly as practicable to eliminate labor conditions "detrimental to the maintenance of the minimum standard of living, necessary for health, efficiency, and general well-being of workers."

To fulfill the act's intent, it has been amended four times in its 33-year history, both to extend its coverage and to raise the wage floor.

Modernization of the act in 1971 would represent a major step in the effort to eliminate poverty. Nearly two-thirds of the 24 million poor people, according to the Government's definition of poverty, are in families headed by a worker in the labor force—low-wage, part-time, or unemployed workers. About one-quarter of the poor—and over 30 percent of all the children growing up in poverty—are in families headed by a full-time, year-round worker whose wages are so low that his family is impoverished.

An increase in the Federal minimum wage to at least $2 an hour, immediately, is now required on the basis of the economic facts. At a $2-an-hour minimum wage, a full-time, year-round worker would earn approximately $4,000 a year. This is not much above the Government-defined poverty line of approximately $3,700 for a nonfarm family of four. But it would represent quite an improvement over the $3,200 such a worker earns at the present $1.60 Federal minimum rate.

The protection of the Fair Labor Standards Act should be extended to all workers. The act's coverage, which now protects 46 million workers, should be extended to the remaining 17 million nonsupervisory wage and salary employees who are still not covered by this Federal law.

Approximately 6 million workers currently protected by the minimum wage provisions of the Fair Labor Standards Act are denied its hour protection because of specific exemptions. We believe that farmworkers, hotel and restaurant workers, local transit employees, agricultural processing workers, and other similar groups need protection from excessive hours, as well as an adequate floor under their wages. This hodgepodge of exemptions should be eliminated.

We urge prompt congressional action to update the Fair Labor Standards Act—to raise the minimum wage to at least $2 an hour and to extend the act's coverage to the 17 million nonsupervisory wage and salary earners who are still excluded from the law's protection.

IV. Revenue Sharing

The sharing of Federal revenues with the States and localities is a well-established principle. Today, about one-fourth of the Federal revenues available for domestic use is shared with the States and localities.

Through the present system of Federal categorical grants-in-aids, $24 billion of Federal money flowed to State and local governments in 1970.

There is widespread agreement on the responsibility of the Federal Government to provide financial aid to the States and local governments, particularly in this time of rapid social and economic change. The Federal tax structure, with all of its deficiencies, is a more equitable and efficient producer of revenue than State and local tax systems that depend so largely on sales and property taxes. Moreover, many public needs involve nationwide social issues, such as education and welfare. Many others cross the boundary lines of States and local government units, such as requirements for highways, pollution controls, manpower training, and regional economic development.

Categorical grants-in-aid transfer Federal funds to a State or local government for specific purposes or "categories," geared to meet high-priority needs determined by Federal legislation. Such programs are established by the Congress, through the normal process of legislation and appropriation, with the opportunity for congressional review of how the programs are working. Moreover, the State or local government must use such Federal grants, usually combined with additional small percentages of State or local funds, to provide specified public facilities or services, under performance standards—such as civil rights and labor standards—that are established by Federal statute.

This system has served the Nation well. In the past decade, for example, as public-service needs converged increasingly on State and local governments, Federal grants-in-aid more than tripled—rising from $7 billion in 1960 to $24 billion 10 years later. Significantly, the major share flowed to the larger cities and the poverty-stricken rural regions of the country, for such programs as the education of disadvantaged children, training workers in new skills, building hospitals, and underpinning other State and local government functions and services. Between 1960 and 1970, Federal grants-in-aid to the hard-pressed urban areas shot up from about $3.5 billion, or approximately half of all grants-in-aid, to $16.7 billion, or over two-thirds.

Despite this sharp rise of Federal grants-in-aid—and despite increasing outlays by the States and local governments—mounting needs for public facilities and services have left many States, every large city and countless smaller government units in a financial bind.

These problems can be solved largely by an improvement in the system and a substantial increase in Federal grants. And, in many cases, the programs that could provide the funds are already in operation, under Federal law. However, the gap between congressional authorizations for Federal grant-in-aid programs and actual appropriations has grown from 20 percent in 1966 to 35 percent in 1970. The increase in this gap by 1970 amounted to about $6 billion.

But the administration has opposed full funding or even adequate funding of these programs. Indeed, the administration vetoed congressional appropriations, in 1970, in attempts to slow the advance of several Federal grant-in-aid funds. And, in the final weeks of the year, it vetoed the manpower bill, passed by the Congress, which would have established a program of Federal grants to the States and local governments to create public-service jobs for the unemployed.

On the heels of these actions, the administration has responded, in the past several weeks, to the pleas of the State and local governments for more Federal aid, by offering a change in the method of the delivery system.

The administration is now advocating a two-part program of so-called general and special revenue sharing:

> Under the "general revenue-sharing" proposal, the Federal Government would dispense about $5 billion a year to the States on a no-strings basis—with formulas that would require a pass-through to the local governments.
>
> Such funds, under this proposal, would be granted without any relation to program, purpose or adequate Federal performance standards. Congressional processes of establishing priorities and program-purposes for the use of Federal funds, as well as appropriations procedures and the oversight function, would be completely bypassed and the State and local governments would be free to do what they please with the money.
>
> The AFL–CIO urges complete rejection of this proposal. We are firmly convinced that such no-strings money will not add one Federal penny to the money available to the States and localities. It will merely be a substitute for the full funding of existing programs, which could quickly provide the State and local governments with at least $6 billion of additional Federal funds rather than $5 billion. Establishment of a no-strings grant program would also block or slow down the needed expansion of grant-in-aid programs and the development of new ones.
>
> With no requirement that the funds be spent for any specified purposes or programs, critical needs could be bypassed in the expenditure of these Federal moneys. There is no reason to believe that each of the 50 States and 81,000 cities, boroughs, townships, and school districts is in a better position to weigh and balance national-priority needs and use Federal funds to meet them more effectively and efficiently.

Moreover, without specified and enforceable Federal performance standards there is no assurance that Federal civil rights guarantees and fair labor practices will be applied to projects supported by no-strings Federal grants.

The administration's "special revenue sharing" proposal has been presented with few details. It is clear, however, that the administration envisions dismantling scores of present categorical grant-in-aid programs and replacing them with a system of broad "block" grants. Ten billion dollars for six vaguely defined functional areas would replace $10 billion of categorical grant-in-aid programs, specifically authorized by Federal legislation. And $1 billion of Federal funds would be added to the total, so that no State would receive less than it does under the present system.

Under this proposal, Federal requirements and performance standards for the use of Federal funds would be weakened, if not eliminated. What is more, this special revenue-sharing experiment would dismantle and replace existing, specific Federal programs to meet vital and critical domestic needs with six broad functional areas, under the heading of urban community development, rural community development, education, manpower training, law enforcement, and transportation.

Among the scores of categorical programs threatened with dismantling are the Appalachia program for the regional development of the 13-State area, as well as the various specific aids for education and manpower training. Existing programs of Federal grants for education include Federal support to educate handicapped children, to prevent dropouts, and special programs for children of migratory workers, American Indians and those in the ghettos of the Nation's large cities. Elimination of such special-purpose programs and the placement of their funds in six special revenue-sharing broad functional areas—such as education—will mean that many, if not most, of the efforts to meet these critical needs will be lost in the shuffle, as each of the 50 States and 81.000 local governments determines how to use the funds.

The AFL–CIO will comment in detail on these issues as the administration's special revenue-sharing proposals are presented to Congress and the public. However, we fail to see how this experiment will ease the financial burden of State and local governments. Moreover, we see great potential damage in dismantling the categorical programs and in weakening or eliminating the purposes, performance standards, and Federal requirements of these programs.

However, there is an urgent and immediate need for a substantial increase in the flow of Federal funds to the State and local governments.

The AFL–CIO recommends the following:

1. Full funding of existing Federal grant-in-aid programs is essential. If the gap between authorizations and appropriations had not widened over the past few years, Federal aid to the States and localities would now be $6 billion higher. In addition, a greater degree of certainty should be built into the system, so that State and local officials can plan expenditures and implement programs, with an assurance that the Federal money will be forthcoming.

2. Immediate adoption and implementation of a program of Federal grants to States and local governments to create public-service jobs is essential. This is realistic revenue sharing which would substantially reduce unemployment and allow the States and localities to meet community needs.

3. The Federal Government should take over the costs of public welfare. This would assure a flow of Federal funds to where the needs are greatest and would ease the financial burdens of the States and local governments.

4. A careful review of present Federal categorical grants is needed. Such a review should be done with the aim of consolidating overlapping grants, increasing their efficiency and making it easier for State and local officials to be aware of and obtain the Federal aids available to them. However, the purposes, performance standards, and requirements of the programs should not be destroyed in the process of consolidating and streamlining the grants.

In some programs, it may be appropriate to eliminate State and local financial matching.

5. The unfinished business of tax reform must be undertaken at all levels of government. The great reliance of the States and localities on unfair and unproductive tax structures has contributed substantially to their failure to meet their public needs. Much more emphasis must be placed on income taxes, based on ability to pay. The tax break, in many localities, given to industrial and commercial property at the expense of the homeowner and renter through inequitable assessments is scandalous and must be corrected. Much also remains to be done to achieve justice in the Federal tax structure, by eliminating the loopholes of special privileges for corporations and wealthy families and by rejecting any and all efforts that would move the tax structure further away from the principle of ability to pay.

6. A Federal tax credit for State income tax payments should be established, in place of the present method of deducting such taxes from taxable income. This would add a big element of equity to the tax structure, realistically share revenues and encourage the States to make more effective use of income taxes.

7. A study of consolidation of inefficient local government units should be pursued. Many of the 81,000 local spending and taxing units of government present an obstacle to raising and using public funds efficiently. This proliferation of local governments has led to difficulties in enforcing and collecting local taxes and to high tax-administration costs. Many localities are too small to raise the revenue needed for public facilities and services, and taxing jurisdictions determined by historic or geographic accidents—or overt attempts to zone out the poor—are usually unresponsive to modern economic and social needs. Many others represent boundary lines that are obsolete and do not reflect present economic realities.

8. New financing methods or institutions, such as a Federal Urban Bank, should be explored to provide States and localities easier access to long-term, low-interest loans for the construction

of public housing, urban transit systems, and other community facilities.

9. Finally, there is a long list of policies and proposals for the needed modernization of State and local governments. For some States, constitutional reform could be the most important step; for others, tax reform; still others might require a shift in responsibilities between the State and local governments. The consolidation of inefficient local government units, such as some local school districts, would be a forward step.

V. International Trade and Investment

New Government policies are needed to meet the American people's needs in the international economic world of the 1970's. The U.S. position in world trade has deteriorated. The export of American jobs and displacement of U.S. production are continuing. The time for action is long overdue.

International economic relationships have been changing substantially since the late 1940's and at a stepped-up pace in the past decade. These changes are the major factors in the deteriorating American position in world trade.

Modern nations, with managed national economies, subsidize exports, add barriers to imports, adjust currency values, and change their tax structures to benefit their national interests.

Sharply rising foreign investments of U.S. companies, as well as advances in transportation and communications, have sped the transfer of American technology, production, and employment to operations in other countries. Technology, once the key to America's trading strength, has been exported. Multinational firms and banks, often U.S.-based, now juggle global operations to benefit from the laws of each nation. But their global management decisionmaking and transactions are intracorporate, frequently reaching beyond the law of any single nation.

U.S. firms have invested billions of dollars in foreign subsidiaries every year for two decades; in 1970, the outlay for foreign subsidiary facilities was $12.5 billion. Such foreign investments, license and patent agreements, joint ventures and other foreign affiliations of American companies have been changing the patterns of the U.S. economy in world trade.

As a result of these developments, U.S. exports have been retarded. Imports have been spurred. Production has been displaced. Jobs and employment opportunities have been exported.

The officially reported U.S. trade balance was only $2.7 billion in 1970—including as much as $2 billion in Government-financed exports. The composition, as well as the balance of American trade has changed so that the United States is importing a sharply increasing volume of manufactured goods.

The transfer of technology, production, patents, licensing, and other foreign-affiliate operations of U.S.-based multinational companies have caused the displacement of production and employment in an increasing variety of finished products and components.

As much as half or more of what is reported as U.S. trade is now composed of intracorporate transactions between U.S.-based multinational companies, their foreign subsidiaries, and other foreign affiliates in both industrial and developing countries. Such intracorporate transactions are not competitive. Neither are they arm's-length transactions between Americans and nationals of other countries.

The increasing impact on the U.S. position in world trade of managed national economies, the internationalization of technology and the operations of multinational companies have made old theories of free trade and protectionism obsolete. It is neither possible for the American economy to hide behind high tariff walls nor to pretend that free, competitive trade relations are possible.

U.S. policies that were designed for the world of the 1930's and 1940's have become outmoded. They now contribute to undermining the U.S. economy at home and abroad.

A battery of realistic policies and measures are needed. The U.S. Government must now make economic conditions at home a starting point for U.S. policy and posture in international economic relations. Policies should be based on the premise that trade is a complex network of international relationships and measures are needed to deal with the foreign investments of U.S. companies and banks. At the same time, action is required to slow down the flood of imports that displace U.S. production and employment.

U.S. Government measures are required:

1. To stop helping and subsidizing U.S. companies in setting up and operating foreign subsidiaries—for example, to repeal section 807 and similar provisions of the Tariff Code, and to repeal the tax provision which permits the deferral of U.S. taxes on the income of U.S. companes from their foreign subsidiaries.

2. To supervise and curb the substantial outflows of American capital for the investments of U.S. companies in foreign operations.

3. To press, in appropriate international agencies, for the establishment of international fair labor standards in world trade.

4. As a stopgap in the face of growing unresolved problems, to regulate and slow down the flow of imports into the United States of a variety of goods and product lines, in which sharply rising imports are displacing significant percentages of U.S. production and employment.

5. To prevent the further deterioration of America's trade position by rejecting any new preferential tariff agreements or other special arrangements that actually benefit multinational firms.

6. To reject further tax bonanzas to business, in the name of encouraging exports—such as DISC, a measure which would add substantially to the burdens of American taxpayers, for the benefit of big exporting companies, largely multinationals, and with little net addition to the export of U.S.-produced goods.

7. The U.S. Government should encourage the use of U.S.-flag ships and seek to remove freight rate discrimination against U.S. exports.

VI. Health Security Program

America needs to replace the profit motive as the heart of its medical care philosophy, a single primary goal—good health for all its people.

The AFL-CIO believes that the National Health Security bill is the only truly comprehensive program of national health insurance that meets the challenges of care, financing, costs, development, and reform.

America has the best available medical talent—but available to only part of the society.

Americans who live in poverty in city ghettos and rural shacks can expect 7 fewer years of life than more affluent Americans; their babies have as much chance of surviving as infants in Ecuador; their young mothers have about the same chance of surviving childbirth as the woman of Costa Rica.

Health care is not equally provided for all Americans. It is a myth that private insurance is doing—or can do—the job. More than 20 percent of the population under 65 is not covered against the most costly aspects of medical care—hospital and surgical services. More than half have no coverage for physician home and office visits. A miniscule number have coverage for dental costs.

Under National Health Security, every resident of the United States will be eligible to receive virtually the entire range of personal health care services without deductibles or coinsurance.

Financing of medical care today is a patchwork effort of personal, private, State, local and Federal funds. Medical bills are paid part by private insurance, part out of workers' pockets, part out of welfare funds, part out of medicare.

For example, State and local governments are burdened with a $2½ billion a year expenditure for health care, plus approximately $500 million a year to provide private health insurance for their employees.

National Health Security will be financed by taxes on employers, employees, the self-employed and unearned individual income, as well as from general revenues.

The workers' share—1 percent of wages and unearned income up to a total of $15,000—represents no new tax. Workers are now paying almost that amount toward medicare. Further, National Health Security would significantly reduce workers' out-of-pocket, non-reimbursed medical expenses with the added bonus of better and more complete medical care.

Self-employed persons would be taxed at a 2.5 percent rate up to $15,000.

The employer's contribution—3.5 percent on payrolls—is about what many employers now pay for inadequate private health insurance for their employees. Some pay much more; some pay less; some pay none.

General tax revenues would account for the remainder of the Health Security Trust Fund—approximately 50 percent of the total. This is not all new money. Medicaid, medicare and other medical costs already constitute a significant and growing portion of the Federal budget. Health Security would absorb these costs.

The program would also result in a direct form of revenue sharing by relieving State and local governments of much of their present health care burdens. Additionally, State and local government employees would receive comprehensive benefits at no cost to the governmental units.

National Health Security is needed to stabilize and control runaway medical costs. Medical care costs have been rising at least twice as fast as the general cost of living. Blue Cross premiums have more than doubled, on the average, since the late 1950's. In 1970 the average worker paid $324 in health-care charges for each member of his family.

Union bargaining committees are faced with the dilemma of rising medical costs at every negotiation session. Reasonable wage gains are sacrificed for improvements in health insurance, but medical expenses increase faster than the increase in coverage.

Private insurance companies are unwilling or unable to deal with increased costs. They have acted simply as a pass-through mechanism, paying for whatever care was offered, good or bad, needed or unneeded, efficient or inefficient. Their rates go up not only to pay for increased medical costs of policyholders, but also to maintain profit margins and pay high operating expenses.

National Health Security will have effective fiscal controls by contracting with hospitals and other institutional providers on the basis of an approved budget, and by maximum emphasis on prepayment to contracting groups, such as medical and dental societies.

The program will not constrict individual liberty. Doctors will be free to choose whether or not they will participate. Patients will be free to choose their physicians and health delivery systems.

An essential feature of National Health Security is the Health Resources Development Fund which will be used for health manpower education and training, group practice development and other means to expand and improve health care personnel, facilities, and services.

At present, health care is fragmented, disorganized, inadequate, and spotty. It is a nonsystem—a haphazard collection of isolated and uncoordinated institutions.

National Health Security has built-in financial, professional and other incentives to encourage organized arrangements for patient care and to encourage prevention and early diagnosis and treatment of disease.

Hospitals will be encouraged to increase efficiency; to cooperate in planning, purchase and utilization of new equipment, and to eliminate unnecessary, wasteful and duplicative expenditures. Doctors will be given a financial stake in keeping their patients well. Care will be provided at the best—not the most expensive—location.

National Health Security—introduced in the House (H.R. 22) by Representatives Griffiths, Corman, Reid and Mosher and in the Senate (S. 3) by Senators Kennedy, Cooper and Saxbe—is the proper program to provide quality health care for all Americans. The AFL-CIO is proud to endorse it.

We arrived at our decision after careful examination of other proposals—some substantive and some merely crude attempts to avoid needed reforms in the present system of delivering health care.

The American Medical Association's "medi-credit" plan and the private insurance carriers' "Healthcare" proposal are thinly disguised efforts to protect vested interests and insurance company profits. They are bandaids, where surgery is required.

There are other proposals—such as the bills introduced by Senators Javits and Pell and the proposal of the American Hospital Association—which are much more substantive. (Senators Javits and Pell are also cosponsors of S. 3.)

But, generally, all of the proposals, except National Health Security, lack at least one of the following: equal access to health care for all people; comprehensive coverage; restructuring of the health care system; effective incentives for quality and efficiency or controls on costs; or they depend on inadequate private insurance as carriers or intermediaries or both.

It has been nearly a year since President Nixon declared there is a "massive crisis" in the area of health care and a threat of a "breakdown" of the medical care system. In that time, he has met that crisis by vetoing a hospital construction bill and a measure to provide for the training of more family doctors, and he threatened to close down vitally needed Public Health Service hospitals.

After taking one action after another to forestall urgently needed health care measures, the President has at long last delivered a health message. It contains one or two constructive features such as the belated recognition that prepaid group practice can deliver better medical care at less cost and the proposal to eliminate the onerous medicare premium the elderly must now pay.

But it is evident that the President's approach taken as a whole, is both piecemeal and inadequate. It places main reliance on discredited private insurance which has been largely responsible for the high cost, low quality medical care we have today. The President's proposals do not provide for effective cost controls or quality incentives.

His proposals fall far short of meeting the "massive crisis" in health care.

VII. Public Investment To Meet America's Needs

America, in the 1970's, needs a long-range, national effort to greatly expand and improve public investments in facilities and services. Planned public programs will be needed for the rest of the 20th century to revitalize the Nation's urban areas as centers of American civilization and to improve the quality of life of the American people. Such effort is essential to meet the requirements of a growing and increasingly urban population in the midst of rapid and radical changes in technology, urban growth and race relations.

For 40 years, the country has been undergoing vast social changes, with rapidly multiplying needs for every kind of public investment from sewer systems and waste treatment facilities to urban mass transit, education, health care, public safety, libraries, roads and airports. Despite efforts to meet these growing needs in the past 25 years—and particularly during the latter 1960's—large backlogs of unmet needs have remained and some have expanded to monumental size. Putting fingers in the dike can no longer be depended on to prevent a potential flood.

From 1930 to the end of 1970, the population soared from 123 million people to over 206 million, a rise of about 70 percent. Moreover, the great migration of the American population, in the recent decades, resulted in a sharp decline of rural areas, while the growth of metropolitan areas boomed. Huge rural regions of the country—in the Southern, Central and Rocky Mountain States—saw their populations decline, and some of these areas, such as Appalachia, remain in depressed economic condition. At the same time population-growth skyrocketed in the metropolitan areas that stretch along the Atlantic and Pacific coasts and the Great Lakes.

Under the impact of the technological revolution in agriculture, employment in farming dropped from 10.3 million, or 20 percent of the labor force, in 1930, to 3.5 million, or only about 4 percent of the labor force, in 1970.

The rural and small-town life that dominated much of American society as recently as 1930 is now largely gone. About 70 percent of the population lives in urban areas, and this percentage is continuing to increase. Although the overall growth of the population has slowed down considerably in the past several years, after nearly two decades of very rapid expansion, migration to urban and, particularly, large metropolitan areas, has continued.

This social upheaval has been greatest among Negroes. From an overwhelmingly Southern rural population in 1930, Negroes have become overwhelmingly urban—as a result of the great migration out of the rural South to the cities, particularly the large cities of the North and West.

All of the new migrants to America's cities—whites and Negroes, Puerto Ricans and Mexican-Americans—have faced the difficulties of adjusting to a new and strange environment. The Negro migrants, in particular, have brought with them a history of 350 years of slavery, segregation, poverty, lack of education and, frequently, poor health, as well as suspicion of government authorities. The cities are now suffering, in part, from the social ills and delinquencies of the Southern rural areas.

On coming to the cities, the new migrants have faced the discriminatory practices of those areas, as well as a lack of low- and moderate-income housing and the impact of the technological revolution in industry on job opportunities for uneducated and unskilled urban workers. The types of industrial jobs that helped previous generations of foreign immigrants and rural Americans to adjust to urban life have not been expanding.

In addition, there has been another great migration in the past quarter of a century. Millions of middle and upper income families have been leaving the cities for the suburbs, the most rapidly growing sections of the country. This movement has opened up older housing in the inner cities. But, combined with the additional migration of industry to the suburbs and countryside, it has reduced the tax-base of the cities while the demands for low- and moderate-cost housing, welfare, education, police and fire protection, manpower training and other public facilities and services have been mounting. Increasingly, the inner cities have become concentrations of decaying and poverty-stricken areas, with small pockets of wealthy families, while the needs for city facilities and services multiply and the tax base narrows.

Moreover, the change of industrial location has compounded the problem of inadequate mass transportation facilities for lower income city dwellers to get to the new areas of employment growth. And most suburban communities have had color barriers, as well as a continuing absence of low-cost housing.

The major burden of trying to solve these problems has fallen on the State and local governments, whose expenditures and taxes have shot up. But most of these governments have inadequate, as well as unfair, tax systems and they lack the necessary resources. So public investment needs multiplied faster than the State and local governments could provide, even with a helping hand from the Federal Government. As a result, many States and most cities face an immediate or potential financial crisis, while public facilities and services fail to meet the mounting needs of their inhabitants.

During the early 1930's and from 1941 to 1945, many public investment needs were neglected when the Depression and World War II caused shortages of money, manpower, or materials. For a brief period of about 8 years, from 1933 to 1941, the New Deal started vast Federal efforts to modernize and strengthen the underpinnings of American society—including a social insurance system, public housing, a Federal home mortgage system, rural electrification, flood control, TVA, Bonneville, conservation, irrigation, the development of parks and recreational areas. But since the end of World War II, many of these Federal public investment efforts were terminated or their expansion and improvement was slowed down by tradition, conservative opposition. Between 1952 and 1966, for example, the New Deal's low-cost public housing programs nearly perished.

Federal efforts to help meet public needs lagged through most of the late 1950's and early 1960's. Finally, in 1964–66, the long-delayed Federal response came with an outburst of programs, involving grants-in-aid to the State and local governments, including the hard-pressed cities. Such Federal grants-in-aid—for such programs as elementary and secondary school education, model cities and public safety—almost doubled, from $13 billion in the fiscal year ending June 30, 1966, to about $24 billion in fiscal year 1970. Nevertheless, actual appropriations and outlays for these programs fell increasingly behind the planned expansion of their authorized funding—from about 80 percent of authorizations in fiscal year 1966 down to only 65 percent in 1970.

An analysis by the staff of the Advisory Commission on Intergovernmental Relations, issued in June 1970, reports:

> Dollar authorizations were established for these new and expanded programs 3 to 5 years in advance, in ever-increasing amounts. * * *
>
> The fact remains, however, that the actual outlays represented a substantial scaling down of domestic program funding, when compared to the optimistic "Great Society" program authorizations of the 1964–66 period. As a consequence, the authorization-appropriation gap widened steadily, increasing from about 20 percent in fiscal 1966 to 25 percent in 1970. Had it been possible to retain even the 1966 gap margin. Federal aid would approximate $30 billion by the end of fiscal 1970, rather than the $24 billion estimated for this year.

This increased gap of $6 billion of Federal aid for specific programs by 1970 is greater than President Nixon's $5 billion of "general revenue sharing"—with no program purpose, no national priorities, and no performance standards—for 1972, 2 years later.

The programs of 1964–66 aroused expectations of overnight solutions to problems that had developed over many years. But the increasing gap between authorizations and appropriations held back even realistic achievement of their goals in aiding State and local governments to meet public investment needs. In addition, tight money, high interest rates, and the recession of 1969–70 resulted in smaller State and local tax receipts than expected, while their welfare burden, interest payments, and other costs mounted.

So public needs and expectations multiplied, while increases in public investment outlays proved to be insufficient. The great growth of unmet public investment needs brought a deterioration in the quality of life of many Americans: The near-collapse of elementary and secondary school education in sections of the major cities; the increase of violent crime and lawbreaking; traffic jams in the cities and in the air above airports; the spread of poverty-stricken slum areas in the inner cities; the increasing pollution of the water and air.

Moreover, during the past quarter of a century, the tax system, which provides the foundation for public investment outlays, moved further and further away from a structure based on ability to pay. Tax loopholes for the benefit of corporations and wealthy individuals riddled the Federal tax system, and the Tax Reform Act of 1969, on net balance, was merely one small step forward. State and local government tax structures became increasingly regressive—with their emphasis on sales and property taxes, which are an inequitable and heavy burden on low- and middle-income families; and inequitable assessments make property taxes even more unfair. In addition, the tight-money and high-interest rate policies of 1969–70 resulted in postponing many public investment programs and greatly increasing the costs and debt burdens of those that were pursued.

Unfortunately, there are no instant solutions to such complex of pressing problems. But rapid forward strides are essential.

Some "public" investments are provided by regulated but privately owned public utilities, such as electric, gas, and telephone facilities. And some are provided by private nonprofit institutions, such as many hospitals. But for the overwhelming majority of public facilities and services, the American people depend on government at the State, local and Federal levels.

The Federal Government, representing all of the American people, holds the key to workable solutions to most of the public investment needs of American society, since they usually involve nationwide social issues that cut across the boundary lines of the States, cities, counties and school districts. Moreover, with all of its defects, the Federal tax system is much more productive and equitable than State and local tax structures. In addition, only the Federal Government can establish national priorities, goals and nationwide performance standards.

No State or local government can solve the Nation's vast public investment needs in isolation. Neither can private enterprise, even with the promise of tax subsidies. Meeting these needs requires national policies and nationwide measures, with adequate Federal funds and standards—and the cooperation and backing of the States, local governments, business firms and private groups.

A long range, planned national effort to meet the needs of the American people for public facilities and services can also provide the basis for economic growth in the period ahead. Each era of economic expansion in America has been accompanied by growing investments and employment in new industries. The last third of the 19th century saw the building of the railroads, the agricultural implement, steel and oil industries. In the first two decades of the 20th century, there were the public utilities—the electric, gas, telephone and urban transit systems. During the 1920's, economic growth was accompanied by the development of the auto and radio industries, and after World War II came television, aircraft, air travel, electronics and advanced technology. Now, in the 1970's, America's new frontiers are in a major emphasis on public investment to strengthen the foundation of American society and provide the investment- and employment-basis for a new period of national economic expansion.

Several steps are essential:

1. The first is the full funding by the Federal Government of present public-investment programs, plus a temporary acceleration of funds for short-term projects, to lift sales, production and employment in this period of economic stagnation.

Such immediate stepup in the appropriation of Federal grants to State and local governments and Federal agencies for the expansion and improvement of public facilities and services could be the key to reconversion—to offset the declining military proportion of total national production. It would provide opportunities to employ the talents and skills of unemployed scientists, engineers and technicians, as well as job opportunities for returning GI's and other categories of unemployed workers.

2. To sustain the planned expansion of public investment, the Federal Government should develop, coordinate and maintain a national inventory of public investment needs, based on estimated future population growth and present backlogs—in each major category, such as low- and moderate-cost housing, schools, health care facilities, day-care centers, parks, pollution controls, other community facilities and public services. Each State and metropolitan area should be encouraged, with the assistance of Federal planning grants and technical aid, to develop a similar inventory of needs within its geographical jurisdiction. Such a comprehensive inventory of needs should provide the foundation for planned nationwide programs in each category, based on adequate Federal financial and technical assistance to the States and local governments, including Federal grants-in-aid and guaranteed loans, as well as direct Federal efforts.

Target dates should be established for achieving specified objectives in each category—along the lines of the 10-year national housing goal, established by the Congress, under the Housing and Urban Development Act of 1968—and the pace of continuing advance should be speeded up or slowed down, with sufficient funds, depending on the availability of manpower and productive capacity. In this way, the inventory would also be a shelf of public works, with an accelerated pace in times of general economic recession and a slower advance in periods of shortages of materials and manpower.

To facilitate such programs, a Federal urban bank or similar mechanism may be required to provide long-term, low-interest loans for the construction of moderate- and low-income housing and community facilities, as well as for aiding State and local governments in financial crisis.

3. An Office of Public Investment Coordination should be established in the executive branch of the Federal Government to encourage, assist and coordinate public investment planning and execution by State and local governments and Federal agencies.

4. Congress should direct the Federal Reserve System to allocate a significant portion of available bank credit, at reasonable interest rates, to effectuate the construction of housing and community facilities.

5. A land-use policy should be formulated to provide the basis for the rational development of urban areas, new towns, parks and recreational facilities and to curb land speculation, which has substantially increased the costs of housing and community facilities. Idle or under-utilized Federal land should be examined for such possible use as sites for housing, parks, recreation areas, wild-life and nature preserves.

6. We urge the Administration to develop a capital budget, as an integral part of the annual Federal budget, to assist the Federal Government in planning, financing, and executing public investment programs. Such businesslike budget for the Federal Government would establish a Federal investment account, including outlays for the creation, improvement or acqusition of assets or the acquisition of recoverable claims—separate from the account for general housekeeping expenses and national security. Such budget methods are almost universally used by modern business firms, most western democracies, at least one-third of the States and most large American cities.

7. Proposals to dismantle the system of Federal grants-in-aid to the State and local governments, as well as proposals to supplant the expansion of such programs with no-strings Federal funds that lack program purposes, national priorities and standards, should be rejected. However, administrative simplication of the large number of Federal grants requires the consolidation of many overlapping grants, without undermining their purposes, goals and standards.

8. Justice in the Federal tax structure—and additional revenue—should be achieved by eliminating the loopholes of special tax privileges for corporations and wealthy families. Congress should also prohibit the implementation of the Treasury Department's tax bonanza to business in the form of acclerated depreciation, which will amount to annual revenue losses of $2.7 to $4.1 billion in the next several years. Efforts to move the Federal tax structure further away from the principle of ability to pay—such as the proposal for a national sales tax under the name of a value-added tax—should be rejected.

9. Federal efforts are needed to assume the costs of welfare payments and lift this burden from the backs of State and local gov-

ernments. The Federal Government should also encourage and assist State and local governments in developing more productive and equitable tax structures. Such measures would provide State and local governments with additonal funds to meet their responsibilities.

10. The provision of health care for the American people should be greatly improved by the establishment of a national health security system, as well as the expansion of health facilities and services.

There will, as always, be those who say that America cannot afford these programs. The AFL–CIO is convinced that America cannot afford to stand still or move backward, as it has done for the last two years.

The AFL–CIO has absolute confidence in America and in America's ability to meet and overcome its problems. But those problems must be grappled with. It is time to move boldly, confidently and—above all—in the right direction: toward securing economic justice for all Americans.

It is in that conviction that we submit this positive program for building a better America.

AMERICAN LIFE CONVENTION AND THE LIFE INSURANCE ASSOCIATION OF AMERICA

This statement is submitted on behalf of the American Life Convention and the Life Insurance Association of America, two trade associations with a combined membership of 360 life insurance companies which account for over 90 percent of the legal reserve life insurance in force in the United States. The total assets of the life insurance business aggregate $206 billion, which represents the savings that have been entrusted to us by millions of policyholders. We appreciate the invitation of the Joint Economic Committee to comment on the economic issues which face the Nation.

A primary factor in our appraisal of current economic policies is our deep concern over the impact of inflation on the purchasing power of the billions of dollars of savings accumulated through the purchase of life insurance. There is a crucial need to achieve a more stable level of prices to protect the economic value of these funds over future years. The adverse effects of inflation are not confined, of course, to the loss of value in savings. We are also cognizant of the impact of inflation on lower-income families and disadvantaged groups who are not in a position to demand higher wage rates or to raise their incomes to offset the rising prices they must pay for everyday necessities. During the past 3 years alone, prices of consumer goods have increased by more than 15 percent and the specter of still more inflation is a very real prospect.

Hardships of inflation and the economic distortions produced by rapidly rising price levels are too well known to require recitation here. But we would emphasize strongly that the continuing need to combat inflation during coming months and years is of critical importance to the well-being of the economy and the citizens of this Nation. Indeed, it is difficult to expect a balanced, sustainable expansion of the economy in 1971 and beyond unless substantial progress is made toward curbing inflationary forces that remain active today.

Economic Report of the President

An outstanding feature of the *Economic Report of the President* and the *Annual Report of the Council of Economic Advisers* is the figure of $1,065 billion presented as the "target" for gross national product in calendar year 1971. This figure has been described by the Council as "an appropriate intermediate target" for national economic policies during 1971, representing a 9-percent increase in dollar GNP over 1970. According to subsequent testimony by CEA Chairman Paul W. McCracken, the 9-percent growth estimate implies "an increase of about 4.5 percent in real GNP or slightly more," with the remaining

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rise in GNP apparently reflecting an inflation rate of almost 4.5 percent for the year.

Private forecasters have widely challenged the $1,065 billion estimate for GNP and other Government agencies are also reported to have developed materially lower estimates. In the view of economists and investment officers in the life insurance business, a more likely prospect is for a growth in dollar GNP to a range between $1,045 and $1,050 billion, or a percentage increase of about 7.5 percent. This estimate visualizes a real growth rate of about 3 percent, with a price rise for the year of about 4.5 percent. While the expected 4.5 percent inflation rate for 1971 is similar to the implied estimate of the Council of Economic Advisers, it should be emphasized that this estimate indicates very little progress in the goal of reducing inflation. An inflation rate of 4.5 percent is without question an unsatisfactory prospect for the Nation's economy and the millions of citizens who suffer a continuing loss of value in their incomes, their pensions, or their savings.

The expected inflation rate of 4.5 percent for 1971 would represent only a modest reduction from the 5.3 percent rate in 1970 and 4.7 percent in 1969, a reduction that we believe is unlikely to materialize if national economic policy does in fact seek a $1,065 billion GNP for this year. A continued decline in the inflation rate to 3 percent by mid-1972, as anticipated by the Council, would seem even less likely.

In short, the outlook in our opinion provides little ground for optimism with regard to prospects for a significant abatement of inflation, in the light of expansionary fiscal and monetary policies urged by the Council of Economic Advisers. While such policies may provide support toward raising the level of employment, extreme care is needed to avoid further stimulation of inflationary forces which remain so active in today's economy.

The Role of Monetary Policy

To achieve the 9-percent increase in dollar GNP set as a target by the CEA, Chairman McCracken has indicated that an increase in the money supply of at least 6 percent and possibly more than 7 percent would be required, as compared with a 5.4 percent growth rate in the money stock during the past year.

We are deeply concerned that an acceleration in the growth rate of the money supply would foster inflationary forces in the economy and also weaken the ability of the monetary authorities to counter inflation by reducing the degree of credit ease, if this should become necessary later this year.

The extent to which the easing of monetary policy has already boosted credit availability in recent months is greatly understated by the narrow definition of money supply. When only demand deposits and currency are considered, the money supply during the second half of 1970 increased at an annual rate of 5 percent. However, a broader definition of money supply which includes commercial bank time deposits reveals a 17 percent growth rate in the second half of 1970. The expansion of total bank credit in this half-year period was at a 13 percent annual rate.

New money has been created so rapidly in recent months that a large share has spilled over into a buildup of time deposits at commercial banks, since the public has been provided with more demand balances than they wish to hold under current economic conditions. Evidence of overforcing money growth is also seen in the fact that business loan demand has grown very slowly in the past several months, so that bank asset growth has largely reflected a rapid buildup in holdings of liquid securities.

As a result, the banking system today is highly liquid and an acceleration in the rate of money supply growth would accentuate this condition. The potential already exists not only for a sizable rise in the active money supply through a shift from time deposits to demand accounts, but also for a sudden and uncontrollable surge in bank lending financed by a conversion of liquid bank assets into loans. The Federal Reserve would find it most difficult to restrain the inflationary impact of the billions of dollars such developments would release into the income stream.

The international implications of current monetary trends must also be taken into account. On an official reserve transactions basis, the deficit in the U.S. balance of payments rose to a record $9.8 billion in 1970. This outcome very largely reflected the easing of monetary conditions in the United States while monetary conditions abroad remained relatively firm. Such a deficit is not only disruptive to other countries but also raises doubts abroad about our commitment to the goal of checking inflation.

In view of the many uncertainties as to future economic trends and the continued threat of inflation, we believe that monetary policy must be doubly cautious in the use of predetermined targets for monetary growth rates. It is of particular importance that the Federal Reserve retain the flexibility to adjust credit policies to deal with unexpected developments in budgetary receipts and outlays and to counteract any strengthening of inflationary pressures that may arise during the months ahead.

Annual Budget Message

The Federal budget for fiscal year 1972, as proposed in January by the administration, has estimated total receipts of $217.6 billion, expenditures of $229.2 billion and a resulting budget deficit of $11.6 billion. On the receipts side, the budget estimates are based on the high target figure of a $1,065 billion GNP and on the specific assumptions that personal income will rise more than 8 percent while corporate profits will advance by almost 20 percent in 1971. In our view, these budget assumptions appear to be overly optimistic and, accordingly, actual revenues may fall short of the budget estimates by a considerable margin, thus increasing the deficit well beyond $11.6 billion. For example, the staff of the Joint Committee on Internal Revenue Taxation, using lower projections for personal income and corporate profits in 1971, has estimated Federal receipts of $6 billion lower than set forth in the *budget message*, indicating a deficit of about $17.6 billion.

On the expenditures side, the fiscal 1972 budget estimates anticipate a rise of $16.5 billion in Federal outlays, or an increase of 7.7 percent. In dollar terms this advance exceeds the rise in budget outlays now anticipated in fiscal 1971. It is noteworthy that the spending projections provided to the Congress a year ago will be exceeded by $12 billion, according to the latest estimates. We would urge that every effort be made to restrict the growth in budget outlays to the levels shown in the budget, and resist strongly the temptation to allow increases over budgeted amounts, as has occurred in prior years.

This becomes especially important when account is taken of the tenuous basis on which Treasury receipts, and hence borrowing, are being estimated. The budget projects a decline of net Treasury and agency borrowing from the public—including borrowing by federally-sponsored agencies—from $25 billion in this fiscal year to $20 billion in fiscal 1972. However, this sizable decline is predicated on revenues which will not materialize if the economy behaves as most private economists, and some government economists, anticipate. Borrowing then will probably exceed this year's total based on the projected level of expenditures, and will exceed it substantially if the spending estimates are breached again.

Although no ceiling on Federal expenditures apparently is contemplated by Congress, we note that the President in his budget message states that "Expenditures must never be allowed to outrun the revenues that the tax system would produce at reasonably full employment. * * *." The President is already projecting expenditures at this full employment level of revenues.

In the management of the public debt, a needless and at times dangerous impediment to Treasury borrowing operations results from the presence of a 4¼ percent ceiling on interest rates for Treasury issues beyond 7 years in maturity. One consequence of this ceiling has been to force the Treasury to confine its new borrowings to the short- and intermediate-term markets, where borrowing costs have run well over 4.5 percent until the past few months. The inability to market longer term issues at a 4.5 percent rate in the past few years has resulted in a decline in the average maturity of the debt to 3 years, 4 months. Naturally, this has produced a more rapid turnover of the public debt and compelled the Treasury to make more frequent entry into the money market.

We urge removal of the 4¼ percent ceiling on the grounds that it will permit more flexible debt management operations, foster a better structure of the public debt, and allow the Treasury to tap longer term markets supplied by savings funds rather than newly created bank credit.

Wage and Price Policies

Grave concern has been widely expressed over the inflationary threats posed by collective bargaining wage settlements that far outstrip any possible productivity gains, thereby exerting strong upward pressures on prices. According to the statistics presented in the Annual Report of the Council of Economic Advisers, the median rate of increase in the first-year wage and benefit packages was 12.4 percent during 1970. Negotiated increases in wages alone averaged 10.2 percent for all industries, while the average for nonmanufacturing industries was 15.7 percent. Moreover, many negotiated contracts called for automatic adjustments in the second and third years with subsequent increases almost as large as the immediate pay boosts.

While increased productivity may offset a modest part of such wage hikes, the magnitude of these increases and the arrangements for further hikes in later years present an alarming prospect for large and persistent increases in the price level throughout 1971 and into 1972 and 1973. It is particularly important to note that the largest increases are characteristically occurring in the service industries, where productivity gains are the lowest.

The Need for Longer Run Solutions

It should be clear from the experience of the past 3 years that inflation cannot be viewed as a temporary or transistory factor in the American economy. It is a long-range problem that calls for long-range solutions. The stability of price levels is threatened by "cost-push" factors which are currently being built in through negotiated labor contracts governing wage increases for 2 and 3 years ahead. Moreover, we cannot ignore a recurrence of the "demand-pull" factors of inflation that result when excessive demands outrun our capacity to produce. Long-term structural changes in the economy, including the growing importance of the service sectors where technology is not able to assure productivity gains, also bring into question the future of national price trends.

In spite of the enormous size and productivity of the American economy we must recognize that our output potential is not unlimited. This problem is examined at length in chapter 3 of the Annual Report of the Council of Economic Advisers, which sets forth a 5-year projection of gross national product, measured against presently visible claims on total output from the public and private sectors. This analysis represents a valuable approach to the question of long-run plans for national priorities among the many competing claims on total output. Decisions made today, especially in governmental programs, will carry through to affect actual spending many years hence.

According to the CEA projections for 1975 and 1976, governmental and private claims already account for all but a small margin of unallocated resources. Less than 1 percent of total GNP in 1975, and 1.5 percent in 1976, remain available for division among the many competing sectors of the economy. After allowing for new government programs and new forms of private demand, the implication is clearly for continued demand pressures on output, with resulting upward price pressures and continued inflation.

A Proposed Commission on Inflation

In view of the current high rate of inflation, the shift to expansionary fiscal and monetary policies, and the long-term prospects for continuing inflationary pressures, it is our considered opinion that new approaches are urgently needed to supplement our traditional economic policies. There has been much discussion in recent months of various forms of an "incomes policy" ranging from full-scale wage and price controls as in World War II, to temporary freezes on wages and prices throughout the economy. However, these approaches would interfere with the effective operation of market forces, lead to an increasing misallocation of resources, and in general focus on the symptoms, not the causes of inflation. We note also that many of the advocates of such controls are recommending them in the expectation that they would permit a more expansionary fiscal and monetary policy than otherwise would be possible.

While it is our view that formal controls, mandatory or voluntary, are a step in the wrong direction, it is important to understand the real nature of inflationary forces that are at work in the economy, and how they relate to the changing structure of our economic system. It is equally important that the public at large, as well as Congress and the executive branch, be kept closely informed of those decisions or actions, public or private, which lead to increases in wage costs in excess of productivity, and in other costs and prices.

Accordingly, we recommend the establishment of a continuing independent governmental commission to study the causes, the consequences, and remedies for inflation, to report regularly or on an ad hoc basis to Congress and to the public, but without any enforcement powers. The commission would study policies and actions of both public and private organizations from the single point of view of their implications for inflation. Such a commission should not be called upon to balance various policy goals as the operating departments and agencies of government must do. Rather, it should conduct such studies as it considers most fruitful, and issue whatever reports it deems appropriate, from the standpoint of preventing inflation.

While inflation in the nature of things is a concern of many governmental agencies, including particularly the Council of Economic Advisers, the Treasury, and the Federal Reserve Board, there is presently no agency with a responsibility to study inflation and publicize actions, policies and developments that are clearly inflationary in nature. Such a commission as we are proposing, if its members have sufficient stature and do their job, could have a far-reaching impact on both public and private actions. A high level commission of distinguished members would serve as an effective supplement to a sound fiscal and monetary policy without which inflation cannot be brought under control.

In conclusion, we would urge the Congress to remain vigilant to the problem of inflation—both current and future—in the decisions that it must make during the present legislative session regarding national economic policies. Progress in reducing inflation has been made, but the gains achieved so far could be easily lost if we falsely assume that the battle against inflation has been won.

CHAMBER OF COMMERCE OF THE UNITED STATES

By Carl H. Madden, *Chief Economist*

The Chamber of Commerce of the United States welcomes the opportunity to comment on the *Economic Report of the President* and the *Annual Report of the Council of Economic Advisers.*

The State of the Economy

The strong reaction of skepticism from many economists to the administration's $1,065 billion GNP forecast for this year has obscured the unanimous view that 1971 will be a year of recovery from the business downturn that started in the fall of 1969. True, the administration's forecast is some $20 billion above the consensus of business economists. This consensus is partly based on the fact that seldom has there been a sharp recovery form a long, gentle recession such as the country has just experienced. But the argument has revolved around the rate at which recovery will occur this year and not the likelihood of recovery itself. Consistent with the general acceptance of the fact of recovery currently and the prospect of further recovery is a universal expectation that the unemployment rate will average less this year than last and that the rate of inflation will continue to subside.

The argument about "numbers" in the economic forecast should not be permitted to hide the real problem for economic policy: to stimulate the economy to move up fast enough without arresting the decline in inflation or, worse yet, renewing expectations of accelerating price rises. We should not forget the obligation of the President, under the Employment Act of 1946, to pursue an emonomic policy leading to stable growth at high employment. Those who argue that forced draft expansion of the economy could be accomplished without renewing inflation rely excessively on the arithmetic of hypothetical economic potential and its growth over time. They ignore human psychology and expectations. They also ignore the President's responsibility under the law.

The danger of renewing inflation is threefold in the real world as contrasted with the economic models that rely on only a few economic variables. The danger lies, first, in excessive wage increases negotiated by unions demanding and getting 3-year increases in excess of productivity gains. It lies, second, in a rising proportion, now 60 percent, of the work force in labor-intensive service industries where productivity gains are meager and demand continues to rise steadily. The outstanding example of such an industry is construction. (Because of the importance of construction to our current national problem of above-productivity wage increases, I am attaching to this statement a recent speech entitled "Construction Wages: the Great Consumer Robbery," that I delivered on the industry.) The danger of renewing inflation under the impact of excessively easy monetary and fiscal policies lies, third, in the growth of public unionism which has led even the President to grant 6-percent average wage increases this year on top of a total of 15-percent wage increases to Federal workers within a period of a year and a half.

The pressure in the real world toward renewed inflation centers also around the social issues which concern the Nation. Pollution, the need for reform of welfare, for adequate job training, for measures to stem rising crime and urban blight are social issues which, according to Dr. George Katona, of the Consumer Survey Research Center, at the University of Michigan, now keep consumer confidence suppressed, independently of economic questions. It is the tremendous outlays of capital and resources needed by State and local governments which lead to proposals such as revenue sharing. It is the pressure of these social issues which biases the economy toward inflation.

The Full-Employment Budget

Indeed, pressures of the real world threaten to push Federal spending above full-employment revenues. What is troublesome about the Federal budget is not this year's deficit and the deficit expected in fiscal 1972, but the direction and size of spending and revenues over the next several years. Although the concept of balancing expenditures with revenues that would result from substantial full employment—the full employment budget—is useful, it is also risky. For one thing, the concept of full employment itself remains unclear, and so does the calculation of full-employment revenues. For another thing, the added revenue which would accrue from full employment in fact is not available, and the actual deficit has to be financed, with resulting impact on interest rates and credit policy. If the deficit is financed largely through the banking system rather than through tapping the savings of the public, the deficit will have an inflationary effect.

There is a kind of fiscal restraint involved in the full-employment budget but it is a restraint limited to periods of "full" or "overfull" employment, as in the years 1966 through mid-1969. The national chamber does not accept the full-employment revenue constraint as sufficient justification for incurring a deficit at any time. The chamber believes that there should be tighter budgetary control over expenditures than that provided by partly hypothetical full-employment revenues, taking into account in particular the persistent tendency of Congress to legislate more spending than called for in the President's budget and, in consequence, to expand the public sector at the expense of the private sector. The chamber is especially concerned by the inflationary implication of the proposal, advanced by former Chairmen Heller and Ackley of the Council of Economic Advisers, that Federal spending should be accelerated in fiscal 1972 to move the full-employment budget into deficit.

The Case for Balance

A strong case can be made for seeking balance in pursuing both high employment and an end to inflation. In the political sense inflation is simply a tax of expedience by political leaders unwilling to seek financing for Government spending programs. Inflation is a bad tax because it hits heaviest those on fixed income and low- and middle-income receivers.

No one denies that our present inflation was the clear result of Government policies between 1965 and 1969 that led to large deficits at full employment. The rise in Federal spending between 1965 and 1968 was 50 percent in 3 years, about equally divided between Vietnam and domestic programs—guns and butter. The perfectly predictable result of financing such deficits by excessive money creation was inflation—too much money chasing too few goods.

The wage-price spiral we now face is a result, not a cause of inflation. But it can complicate and prolong the task of getting inflation under control. Even though only about one in five nonfarm workers belongs to a union, the effort of unions to demand and get 2- and 3-year packages of wage hikes above productivity gains pushes up costs across the board.

More and more it is coming to be realized that excessive wage gains year in and year out are the major obstacle in many industrial countries to the restoration of control over inflation. This requires a hard look at income policies as well as monetary and fiscal policy as a means of dealing with pressures in the real world.

It may be that many measures recently suggested by Arthur Burns, Chairman of the Federal Reserve Board, will be needed to bring inflation under control. Many of these measures have long been supported by the business community generally.

International Implications

Certainly, the international implications of continued inflation here can be dangerous to United States and world prosperity and stability. The world is in effect on a dollar standard, with the dollar serving both as the principal trading currency and as the principal form of international reserve currency. But if confidence in the dollar by foreign holders were to erode, a worldwide financial crises could develop. There would be grave risks of the kind of international monetary collapse which made the Great Depression of the 1930's a prelude to world disorder.

To be sure, the issue is not reflected strictly in the balance-of-payments deficit. No one seriously believes that the U.S. balance-of-payments figures reflect the change in the basic U.S. position, when the figures improved on a liquidity basis from a deficit of $7 billion in 1969 to a deficit of $3.9 billion last year while on an official transaction basis the shift was large and opposite—from a $2.7 billion surplus to a $9.8 billion deficit. The basic problem is not measured by the deficit figures. It is that the United States has been unable to earn enough from its surplus on goods, services, and remittances to finance our net private foreign investment and the foreign aid of the U.S. Government.

The guns-and-butter inflation drastically reduced our current surplus because inflation sucked imports into the United States faster than our exports grew. The period of restraint improved our trade surplus.

Because the dollar is the world's standard for trade and monetary reserves, the world expects the dollar to symbolize a standard of monetary stability and monetary discipline for the rest of the world. When the United States tolerates inflation, this casts doubt on the functioning of the international monetary system.

Continuing large deficits in the U.S. balance of payments place more dollars in the hands of foreigners. This contributes to a belief by Europeans that the United States is "exporting" its inflation problem abroad—since the dollars are effectively used abroad as reserves for expanded money stocks in those countries.

The prospect for the balance of payments in 1971 is little changed from last year. The trade surplus appears unlikely to gain much, if any. Faster economic growth abroad combined with monetary and fiscal restraints suggest that, on average, the U.S. dollar in foreign markets will be no stronger than in the last 2 years, and may be weaker. This prospect underscores the wisdom of economic policy measures in this country that will foster recovery but not at such a breakneck pace as to reinflate the economy.

We need also to take into account longer term developments in framing our economic policies.

Today the United States and the Western World are facing a new era of intensified competition in trade and investment, areas in which we enjoyed a virtual monopoly in the first decade following World War II. The second decade has witnessed a rapid growth of international corporations, mostly American, accompanied by great long-term capital outflows. We are now competing in a world where many industrial nations have equally effective technology and have adopted American marketing and management methods. So it is an urgent necessity for the United States and its free world trading partners to collaborate and coordinate their economic policies as equals in recognition of their common goals. It is equally urgent that they collaborate, also, to combat emerging nationalistic threats to the remarkable growth in world trade which has doubled since 1963.

Conclusion

The need both domestic and international for maintaining greater control over inflation in the United States, and the risks from the wage-price spiral, the pressure of social issues, and the trend toward rising deficits all argue for giving priority to bringing the prolonged guns-and-butter inflation under firmer control.

Therefore, a moderate rise in economic activity in 1971, in an economy facing a mounting agenda of social reform and private demand, may be the course of long-term prudence while appropriate means are forged for moving on environment control and urban reconstruction.

(The speech referred to in the text follows:)

CONSTRUCTION WAGES: THE GREAT CONSUMER ROBBERY

By Carl H. Madden, *Chief Economist, Chamber of Commerce of the United States* [1]

Soaring wage rates in the Nation's giant construction industry are approaching a national scandal. President Nixon has labeled the construction situation a

[1] Substance of remarks before the annual meeting of the Associated Builders and Contractors, Sonesta Hotel, Washington, D.C., Mar. 10, 1971.

"crisis" and invoked his powers in an "emergency" to suspend the Davis-Bacon Act. The fantastic climb of construction wage rates is a growing social and economic menace, called the most important obstacle in the way of subduing inflation by a national magazine.

The reason is that unless the United States finds a way to stop the wage explosion in construction, the pattern will spread into many other industries, sever the tie between productivity and income gains, and undermine the credibility of market-determined incentives and rewards. One result, seen in Britain, of such labor anarchy is chronic inflation with high unemployment, called "stagflation." Another result, threatened in Sweden where pay for workers is climbing above salary levels of organized professionals, is growing class animosity that may shake the stability of that welfare state.

THE GREAT CONSUMER ROBBERY

The wage push in building amounts to an unabashed and unique giant consumer robbery. Recently, one State building trades president said, "There is no reason why a union man should not be earning $30,000 a year." In fact, many electricians in New York City now earn, according to some contractors, more than $35,000 per year. If Ralph Nader and his coworkers and imitators really want to protect consumers from exploitation, they could do no better than train their big guns on the wage monopoly in our Nation's biggest industry.

The basic issue of the wage push, particularly in building, though, is even broader than controlling inflation or ending consumer exploitation. "The question before us," as Heath Larry, Vice Chairman of United States Steel, said recently, "is whether a democracy predicated upon a free market economy can really cope with the problem." The impact of skyrocketing construction settlements is incredible; it is pulling settlements sought in other industries upward like a magnet; the spread outward reaches far beyond the building industry to cost pressures on homeowners and taxpayers as prices of schools, hospitals, and public buildings escalate. The means are not lacking to lick this problem, and the potential of the coming construction boom of the 1970's demands it. I still believe it can be done, but it will take a galvanized effort of national will.

The average American needs no one to tell him that building costs are soaring but he seems unaware or unconcerned about what the power of the craft unions is doing to him. The loose confederation of craft unions known as the building trades is now probably the most powerful oligopoly in the country. Websters defines an oligopoly as "control by a few sellers of the amount and price of a given product or service to a large number of buyers."

The building trades have got a stranglehold on the huge $90 billion construction industry, which usually accounts for 10 percent or more of the Nation's annual output (GNP) and is bigger than the auto and steel industries put together. It is a case of the tail wagging the dog. The 17 AFL–CIO construction trades unions and their nearly 3 million workers in 10,000 locals threaten to dominate the U.S. work force of more than 80 million by setting the pace for wage negotiations, accelerating price increases, and fueling the inflation.

Construction is not only the Nation's biggest industry, but it has a pervasive effect on nearly every other industry. When the price of roads, schools, hospitals, factories, and housing rises faster than the productivity of the men who build them, vast pressure is put on Government to pass the bill on to consumers and taxpayers through inflation. Construction costs have risen almost twice as fast as general U.S. prices. Building costs, to be sure, are pushed up also by recent interest charge rises now abating and by soaring land prices in urban areas which may double again in the next 10 years. But without doubt it is mainly wage cost inflation that is pushing up the cost of new homes beyond the reach of more and more middle-income families and forcing middle-income as well as low-income families to seek out Government-subsidized rental apartments.

THE WAGE EXPLOSION

For at least 20 years now both the level and the rate of increase in earnings of construction workers have exceeded those of workers in industry generally. Since 1947, average hourly earnings of construction workers have increased almost 250 percent, while those in manufacturing have gone up 175 percent.

In recent years, the gap between construction and other wages has been widening. Last year, labor settlements gave union construction workers an average wage raise of 18.3 percent a year, more than double the 8.1 percent increase in manufacturing. Many settlements will virtually double construction wages over the next 3 years. According to testimony before Congress, the pipefitters of Baltimore are going to get an annual increase—an increase, that is, each year—over the next 3 years, of $8,760. The electricians of Waterbury, Conn., over the same period will get annual increases of $12,000. Beginning August 1, 1971, a laborer at straight time in Kansas City would receive $19,094.40 for a full year.

National average pay actually received by various crafts, including nonunion workers, ranges from $10,850 to nearly $13,000, according to one trade association survey. But because most building occurs in metropolitan areas, representing around 2 percent of the Nation's land area, these averages are misleading. In New York State, for example, the survey showed that average pay received last year for carpenters in high wage areas was $25,000; for cement masons, $20,000; for ironworkers, $30,000; for operating engineers, $30,000; and for common laborers, $22,000.

The direct and obvious effect that such wage raises and levels in construction will have on demands of in-plant crafts and industrial wages generally is easy to demonstrate. Members of industrial unions are widely aware of what building craft unions are getting. According to the testimony before a congressional committee of Roger Blough, chairman of the Construction Users Anti-Inflation Roundtable in January of this year, the head of a key civil service union in New York City recently complained to a building trades union leader that construction pay scales had been pushed so high his civil service members were unconcerned by the city's financial plight. "Do you think I like making these screwball demands?" the building unionist asked. 'The trouble is you ask for the moon and you wind up getting it."

Some people cite the cost of living to explain construction settlements, but their contention is not supported by the facts. During 1969, the consumer price index rose 6.1 percent while the median first year construction cost settlements was 14 percent, with many settlements much higher. Other people cite the seasonality of construction work. But today building goes on in summer and winter in the North and the South with relatively few interruptions. The surveys of income actually received by construction workers already cited belie the seasonality argument.

Unions occasionally cite profits of corporations to justify higher wage rates. But from 1966 to 1970, corporate profits have shrunk as a share of GNP while investment spending rose from around $65 billion to more than $80 billion. While inflation in recent years has lifted replacement costs of buildings and equipment, corporate profits in dollar terms have fallen since 1969. There is very little in the record of corporate profits in recent years to justify higher and higher wage increases. Meanwhile, the credit restraint from 1969 to early 1970 sharply cut the demand for housing and caused increased bankruptcies and losses among builders.

In fact, the shift in credit policy underway since February of last year and the expansive fiscal policy of this and next fiscal year's Federal budget only magnify the threat that construction wages will lead to chronic cost-push pressures in the economy. Already, signs of a housing boom are multiplying, now that credit is more plentiful and cheaper. Rosy prospects for building in the 1970's come from the need to rebuild our cities and from a fourfold increase over the 1960's in homebuying families with heads aged 25 to 44. Construction labor in this decade will be very much in demand and can use its muscle even more to push up wage rates.

What Labor Power Has Done

President Nixon last December in a speech before businessmen said that "when construction wage settlements are more than double the national average for all manufacturing, at a time when construction workers are out of work, then something is basically wrong with that industry's bargaining process." The plain fact is that craft unions have been able to bully outsize increases from contractors because they control most of the labor supply.

Most Americans don't seem to realize or be concerned that this is true. Ever since New Deal days, public opinion has sentimentally sided with the political and legal climate so favorable to the building trades as to produce an irresponsible labor monopoly strong enough politically and economically to remain beyond the reach of legislative reform. Although the American public does not appear to care, in construction the real conflict of interest is not between management and labor. It is between labor and consumers, with the contractors merely serving as a medium to pass on labor's exactions to the public at large.

The reason is that while building trades unions have been traditionally strong, contractors have been a notoriously weak bargaining position. Of an estimated 870,000 contractors in the United States, only 1,200 have 100 or more employees and most are quite small. Only about one-tenth of 1 percent of contractors hire 100 or more people. No one contractor does even 1 percent of the total industry volume. According to Census Bureau figures, the operative builder employs 5.6 people per firm. In 1967, the average for all contract construction was 9.7 employees per firm. The building industry operates as a multiple of builders representing management, subcontractors who are responsible for certain portions of the work, and supplier-distributors who provide materials for construction. Because the market for building in the United States is discretionary, cyclic, and local, there is no single market for a relatively few standardized models as in the auto industry.

Taking advantage of the industry's fragmentation, the craft unions have been able to dominate management. In the construction industry, the union, not the employer, decides who gets which job, supplies foremen as well as craftsmen, has a decisive voice in the management of pensions, insurance, vacations, and other employee benefits, and so largely controls both manpower and production.

Contractors generally get their manpower for each project through a union hiring hall. Unions generally dictate crew sizes and working conditions. The skilled worker appears on the payroll of a given contractor only for the period of a specific project, and then moves to the payroll of another contractor. The union arranges this; it finds the work, decides who shall be hired, and remains in complete control of job security. This is how the union hiring hall operates. The union acts much like an employer, in fact, and its negotiation with contractors is much like one employer contracting with another. During the current inflation, contractors, caught between unions on one side, and customers in a hurry to finish projects on the other, have been able and forced to simply pass along cost increases.

Trouble With Output and Supply

Labor power in construction has led to productivity trouble and artificial shortages of labor supply. When local unions do their own bargaining city by city and craft by craft, it is no wonder that one-third of construction negotiations end in strikes. Featherbedding and work preservation practices echoing a depression philosophy are notorious. So we have plumbers who cut off threads already on pipes and rethread the pipe on the job; carpenters who refuse to install prehung doors or sash; painters who won't use spray techniques and limit the size of brushes; bricklayers who will lay only 400 bricks a day compared with 800 bricks normal for open shop work; electricians who require skilled craftsmen to install a light bulb. According to Roger Blough's congressional testimony, these practices exist on a widespread scale. The result is that productivity, as best measured, is lagging if not trending downward in construction.

Labor unions limit membership to create artificial labor shortages through restricting apprenticeship training. An artificially created shortage is the main reason for higher than normal wage increases in some trades and among laborers. It takes only 18 months to train an airport controller, but unions insist that plumbers helpers spend 3 to 5 years learning the craft. There are far too few apprentices trained. In 1968 there were only some 125,000 building trade apprentices in the entire industry, less than 4 percent of the construction labor force. That year, only 37,300 apprentices "graduated" while attrition by death or retirement was 70,000.

"Owing to union opposition," according to one writer, "vocational instruction has almost disappeared from the U.S. school system." This, at a time when a record number of young people are going to be buying homes and a record number of young people will be reaching the labor market each year. This, at a time when teenage unemployment rates are more than three times those for adults, when Negro teenage joblessness reaches 36 percent in some metropolitan areas, and when 85 percent of unemployed young people are in school and are looking for part-time work. In Europe and particularly Germany and Sweden those young people not heading for academic careers usually attend a state-supported vocational school and learn a trade. The result is that a majority of young people get vocational training, compared to only a small proportion in the United States.

Some people may object that in homebuilding, which accounts for roughly one-third of total new construction, a large proportion of employees are non-union. A survey of members of the National Association of Home Builders showed that less than 20 percent reported all employees were union members. But this fact does not alter the wage control in the industry by unions, because nonunion wages generally follow union wages and in construction booms may even exceed them. And apartment construction, up from 18 percent in 1959 to 44 percent of all new housing starts in 1969, is more thoroughly unionized than single-family house building.

In fact it seems that Government itself has participated in fostering excessive pay and restrictive practices in building unions. The Davis-Bacon Act, recently suspended by President Nixon in the present emergency, is one example of Government policies that lend support to excessive union wages. The law, passed in 1931 in the midst of the Great Depression, requires that not less than "prevailing" wages, as determined in a locality by the Department of Labor, be paid on all work contracted for or assisted by the Federal Government. In practice, the prevailing wage seems often to be the union scale in the city or metropolitan area nearest to the local site and to be actually higher than the local scale. The President's action, which makes it possible for merit shop contractors to compete for jobs with union contractors, was condemned by President George Meany of the AFL–CIO as "antiunion," even though suspension in no way affects union arrangements.

The "job preservation" doctrine of the National Labor Relations Board, upheld by the Supreme Court in 1967 in the *Philadelphia Door* case, prevents innovation and preserves featherbedding. The highest court held in that case that a union may legally boycott products when their use lessens the amount of work done on the site if the prohibition of those products was contained in the agreement with the employer. The doctrine has prevented use of such products as prefabricated roof trusses and forms for concrete, precut insulation, packaged boilers, and factory assembled piping. A major barrier to innovation, this doctrine would have prevented the power loom and the assembly line under today's conditions of union power in construction.

Putting it all together, the construction industry is a classic example of what happens when competition goes out the window. The late brilliant Henry Simons of the University of Chicago once pointed out that most errors in economic policy in democracies came from favoring people as producers rather than as consumers. Simons was therefore a bitter enemy of concentration in industry and a champion of competition. He predicted that labor power, exempted from the antitrust laws, would inevitably restrict production and employment in order to push wages up. This is exactly what has happened in construction.

What Is To Be Done?

From time to time somebody argues that the way to deal with craft unions is to invoke the antitrust laws. It is certainly not hard to make the strong case that unions violate the spirit of the original Sherman Act of 1890, which forbids restraint of trade and collusive fixing of prices. But historically unions have been excluded from the purview of antitrust laws. The Clayton Act of 1914 stated the famous dictum that "the labor of a human being is not a commodity or an article of commerce." The paradox is that unions have behaved precisely as if it is, and by restricting the supply and quality have artificially hiked the price paid for union labor in competitive markets.

Even so, later court decisions and congressional actions have more and more insulated labor from antitrust enforcement. By doing so Government has made outright attack on work rules impossible and lent support, until recently, to preserving the structure of bargaining. The Norris LaGuardia Act in 1932 exempted labor unions from injunctions. The Wagner Act of 1935 supported and enlarged labor's right to organize and bargain. The Taft-Hartley Act of 1947 partly redressed the balance by forbidding coercion of workers and protecting their right not to join unions. But construction unions, far from respecting Taft-Hartley, have vigorously sought to legalize secondary boycotts.

The result is that it is practically impossible to challenge union practices under the Sherman Act unless a deliberate conspiracy between labor and business to harm a third party can be proved. Even then, the courts do not necessarily go along.

The National Labor Relations Board and the Supreme Court in recent years have made featherbedding the law of the land. The use of cost-saving methods and materials was restricted, and product or secondary boycott was upheld, in the National Woodwork, Houston Insulation Contractors and Philadelphia Door cases. The courts, in a period of revolutionary technological change and expanding income and employment, have effectively outlawed important innovations that would give the consumer more housing for his money in union areas.

There are some signs of resistance to outmoded union practices among both contractors and big construction consumers. The rapid growth of your own Associated Builders and Contractors is one. As you know, since its founding in 1950 your organization has grown to represent more than 3,000 firms with a working force of 160,000 and is growing at about 33 percent a year. Your wise merit-shop policy, far from being antiunion, emphasizes efficient use of labor and allows any firm to work with any other firm, union or not. This is as it should be to benefit the consumer by doing the job better and serving him better. Few people are even aware of the difficulty of your growth pains, since you are denied the use of union hiring halls, to say the least.

In 1969, partly through the auspices of the Chamber of Commerce of the United States, big construction users formed the construction "users" anti-inflation roundtable and asked Roger Blough, former chairman of U.S. Steel, to serve as chairman. The construction "users" are getting involved because they began to see they were part of the problem. Corporate construction is usually part of a competitive plan and operates on a tight schedule. Add inflation of construction costs at 1 percent a month and you get pressures by corporate users put on contractors to settle labor disputes at whatever cost needed ot avoid even more costly delay and downtime. The roundtable is tackling this problem through 33 local "user" groups and eight task forces, trying to educate big construction "users" without violating antitrust laws to the importance of their own role in upping construction costs.

A change may be in the making from local, State, and Federal governments. Up to recently, politics itself has been an ideal vehicle to pass on union arm-twisting through government to unwary taxpayer consumers. Everyone is familiar with government white elephant building projects whose costs magically escalate during construction without visible explanation or support. This has gotten pretty important, since all government together finances a third of all construction. But recently in a growing number of communities organized taxpayer groups have started turning down bond issues for new construction, though few if any have organized against escalating construction wages.

The Spread of Wage-Push

Government recently has increased its concern about labor union power and its use to shortchange the consumer, not so much because the power is new but because its abuse is now so obvious. Arthur F. Burns, Chairman of the Federal Reserve Board, last December declared, "Monetary and fiscal tools are inadequate for dealing with sources of price inflation such as are plaguing us now—that is, pressures on costs arising from excessive wage increases." Burns called for market-oriented incomes policies covering a wide spectrum of measures. Included were suspension of the Davis-Bacon Act, a teenage minimum wage law to improve job opportunities for youngsters, establishment of national building codes, compulsory arbitration of labor disputes in industries vital to the public interest, and the like. Burns also proposed a high level Price and Wage Review Board that, "while lacking enforcement power, would have broad authority to investigate, advise, and recommend on price and wage changes."

Other leading Government policymakers such as George P. Schultz, Director of the President's Office of Management and Budget, have opposed incomes policies because they believe that only monetary policy—that is, the power to increase the money supply—can create inflation. They are, of course, technically correct. They have lost the argument because of a certain overly simple view of how changes get made in the political process and because they fail to appreciate the political environment in which monetary policymakers must necessarily carry out their responsibilities.

Vice chairman Larry of U.S. Steel, has argued it is not enough merely to recognize that ours is now a wage-push inflation; rather, what we need to see is that "something is clearly out of balance in the bargaining processes as presently structured." It is easy enough for some to dismiss the concerns of businessmen, but the steel industry is rightly concerned. Currently it is caught in the middle, facing contract negotiations with a powerful, industry-wide million-member industrial union, and beset by increasing competition from suppliers abroad with modern technology and lower wage rates. The steel industry has to face up realistically to the national and international implications of the wage spiral.

Larry cites some grim facts to make his case. In all but two out of the last 20 years in the United States, unit labor costs have increased, and recently labor costs per man-hour in manufacturing have risen at more than double the long-term average rate of productivity. This imbalance between productivity gains and wage gains is the inflation nightmare haunting businessmen. The reason is our position in international trade. Manufactured goods now make up 60 percent of all world trade, up from 40 percent 20 years ago. During that time, the U.S. share of world exports of manufactures has dropped from above 28 percent to just under 20 percent. And in the same period, our imports of manufactures have increased about 8½ times, while our exports of them have increased only 3½ times. Labor costs are far and away the most import reason for our slipping position in world trade.

Our competitors have been surpassing us in productivity. From 1965 through 1969, this was true of Japan, Germany, France, the Netherlands, Sweden, Italy, Canada—and even the United Kingdom. Even though wage rises are accelerating abroad, Larry points out, our wage rates are widening the gap and our unit labor costs rose faster from 1965 through 1969 than all these countries except Canada. The dangers of increasing protectionism—supported by labor unions—is related to the decreasing competitiveness of the industrial economy. The response of labor unions to foreign competition is consistent with their response to domestic competition—they wish to restrict it. Of course, the consumer benefits when he can buy foreign goods cheaper than domestic goods.

What To Do?

Here we are brought back full circle to the great consumer robbery in construction. The fact is that agriculture and manufacturing have been the source of the largest productivity gains which lie at the base of rising real incomes for Americans. But these sectors are employing a smaller and smaller portion of our work force. Today only about one-fourth of our work force is in manufacturing. Two-thirds of it is in what are broadly called the service industries, and the trend is upward for the future.

One central problem in the 1970's is to improve productivity in the service industries, including construction. The really big wage increases did not start in manufacturing but in construction, followed by transportation, other service industries, and public employment. The rapid rise of unions in public employment spreads union gains in construction or manufacturing—whichever public unions think they can get—into sectors of public employment such as education, where we don't even know how to define productivity but wonder whether, however defined, it is not falling rather than rising.

One necessary answer to the trend to service employment is to keep productivity gains high in manufacturing. The Nixon administration suspended the investment tax credit early in 1969, ostensibly to shift from private to social investment. Subsequent events seem to show things are not that simple. Private investment has lagged during the recent readjustment but social investment does not yield the same measurable productivity gains. The President's National Commission on Productivity has argued for more investment incentives for business, and the President's recent changes in depreciation schedules may be followed by other measures soon.

But improved productivity is not enough. Despite many improvements in productivity in building and reductions of costs, the results are obscured by rising prices for land, materials, more supplements, and above all, wage costs. There is no denying that conventional housing is better engineered, employs more power tools, better fastening equipment, and better management of the process of building than ever before. Indeed, widespread industrial construction of housing is not necessarily the boon to productivity which common mythology believes, as is made clear by Michael Sumichrast, NAHB economist in the survey earlier mentioned.

One answer, offered by J. K. Galbraith of Harvard, is a wage-price freeze to precede institution of a comprehensive, permanent, and enforced system of wage and price controls. Galbraith has managed to convince himself that the market doesn't work to our benefit anyway, and so he would make short shrift of what he now considers a competitive charade that exists in the "mega-economy" of large firms. Galbraith believes that the entrenched power of giant firms and giant unions is bad, so he wishes to substitute the entrenched power of central government, which is standard socialist mega-psychology. One does not have to agree with Galbraith in order to acknowledge that he is not a proponent of halfway measures. His views about the market power of giant firms, however, entirely overlook interindustry and international competition. Galbraith is most correct about his own political allies, the labor unions.

The plain fact is that some new form of bargaining structure is needed in unions, particularly construction. Reform of labor unions is surely less Draconian than Galbraith's abandonment of the market process. A call for union reform is inevitably interpreted by unions as a threat to their existence and therefore antiunion. This is the conditioned reflex of leadership that is oriented to the era of depression in the United States and is still haunted by past struggles for recognition. It is a cultural hangover, though, in an effluent society in which the problem is equitable sharing of rising affluence. During the depressed 1930's, Henry Simons noted that "questioning the virtues of the organized labor movement is like attacking religion, monogamy, motherhood, or the home." Surely we are living today in an era when, in our effort to improve and renew our institutions, valid criticism of labor practices need not be viewed as smashing idols, but should be considered on its merits. There is no escaping it; it is clearly in the interest of labor to recognize that, as Larry points out, "a continuation of the wage trends of the past is a luxury this Nation simply cannot afford."

Restructuring of the union process is only one but an important example of the renewal of our institutions needed throughout American life if we are to adapt to the technological era already developed. The problems of the construction industry, as NAHB economist Sumicharst points out, are not "the lack of technological innovations but social, political, and economic restraints." Perhaps a new generation of union and management leadership is needed to throw off the shackles of the past and to rethink the status of union membership and employment security to avoid the manifestly irrational practices of today.

However, the need for action now is pressing. Certainly Davis-Bacon prevailing wage doctrine and the job preservation doctrine of the courts should be legislated out of existence. Some substitution for local bargaining in construction, whether the regional arrangements suggested by President Nixon or some other, would seem to have merit. A great reform is needed in manpower training to give more opportunity to young people and minorities than is given now by union apprentice practices. Badly needed are uniform, statewide building codes based on performance requirements rather than specifications of particular materials and methods. The union hiring hall, an antiquated and at times vicious system, could be supplanted by the U.S. Employment Service. The National Labor Relations Board needs a thorough going over to eliminate prejudiced notions of "what's good for labor is good for the economy."

In truth, what is needed is a national effort to reexamine the basis and validity of existing concepts of craft and industrial unionism. Its problems are somewhat similar to those in the health care field, where over specialization and a creaking delivery system push up costs and impede access to quality care. For example, the delivery system of supplying labor to construction deserves a careful analysis in order to shape it to the needs of the future. The solid and impressive growth of merit shop construction itself may well constitute the best challenge to the entrenched restrictive practices of unions. The abysmal waste and corrupting make-work suggested by craft union practices stands in sharp contrast to the gains in the quality of shelter that could be provided ordinary American families, and in employment opportunity that could be provided young people, including minorities, if our construction industry were free from some of the present social, economic, and political restraints.

The news report on March 3 that building unions and major contractors have signed a reform pact is itself a tribute to the constructive value of the rise of merit shop construction and the President's recent move to suspend the Davis-Bacon Act. The 17 AFL–CIO building trades unions and 34 major industrial contractors agreed to bar restrictive work practices, illegal strikes, unneeded standby crews, and "featherbedding" practices. Whether locals will honor this agreement remains to be seen. But the move was interpreted by the press as stemming from the "deep concern * * * over the inroads made by nonunion construction firms and the threat of further Federal action to hold down building wages and costs." The reform pact demonstrates that constructive change is possible, that needed reform in the craft unions can occur.

Indeed, it should be made clear that reform is equally needed elsewhere than in labor to end our housing difficulties. We need to reconsider land taxation and assessment to curb the soaring cost of urban land. There remain problems of reconsidering methods of land planning, zoning, and land use patterns with cost reduction in mind. There is need to improve the efficiency and reduce the cost of financial services associated with housing transactions, and need to develop more efficient financial instruments.

Yet, until the underlying problem of labor costs is confronted, progress elsewhere—as the distinguished housing expert Miles Colean has pointed out—will be frustrated. What's more, the builders and construction users may do what they will, but success in attacking the great consumer robbery depends on how well public opinion can be marshaled and brought to bear on the construction industry.

Needed More Consumerism

Union leaders are strong because they wield a lot of political power, but their political power could be a source of weakness. Congress as presently constituted is not going to consider any legislation in 1971 and 1972 that would change the construction union or any other union structure and bargaining process because of the present power of union leaders in politics. The only way to get any bills out of the House Education and Labor Committee is by overwhelming public demand. For years it has been virtually impossible just to improve construction statistics because of union opposition, but it is weakening.

And unless progress is made in restructuring the building unions, the Nation will only drift hopelessly further out into the sea of housing subsidy and the increasing dominance of the housing market by Government. The reason is that unions have no hesitation in using their political power to subsidize the increase in demand for housing as presently organized in order to preserve the existing craft union arrangements.

Contractors and construction users can, however, inform the public. Perhaps the greatest service the contractor-users group can perform for the American consumer is to follow the advice of one writer and "take all the time and trouble (and money) necessary to inform the community and get it involved," when faced with outrageous union demands.

The consumer is the best ally of an industry wanting to improve quality. Consumers are voters, and politicians listen to them. Any union leaders confronted by a great army of consumers can't keep the politicians with them because politicians—on balance, I think, properly—respond to votes. When the consumer becomes that aroused, then the great consumer robbery will be over.

COMMITTEE FOR ECONOMIC DEVELOPMENT

By EMILIO G. COLLADO, *Cochairman, Research and Policy Committee*

On behalf of the Research and Policy Committee of the Committee for Economic Development, I should like to express our appreciation for this opportunity to comment on the Economic Report of the President and the Annual Report of the Council of Economic Advisers. The underlying rationale of the stabilization policies proposed in the two reports coincides to a considerable extent with principles that CED has long advocated as well as with various specific recommendations presented in our November 1970 policy statement on "Further Weapons Against Inflation: Measures To Supplement General Fiscal and Monetary Policies." Indeed, the formal espousal by the President of the use of the "full employment budget" as the basic guide for fiscal policy represents the adoption of a concept that was initially developed and publicized by CED's Research and Policy Committee in 1947.

Mr. Howard C. Petersen, chairman of the Fidelity Bank and our vice chairman for national economic studies, testified during an earlier phase of these hearings on many of the issues raised in our November 1970 policy statement; we understand, moreover, that the summary chapter of that policy statement has been incorporated in the record of the hearings. I shall, therefore, not attempt to review the November 1970 statement in detail. Instead, I shall make use of that statement, and of earlier policy positions taken by our committee, in examining selected key issues posed by the two economic reports.

THE OVERALL FISCAL-MONETARY POLICY STRATEGY

The approach to fiscal-monetary policy strategy outlined in the two reports is generally in accord with the recommendations made in "Further Weapons Against Inflation" that ". . . the basic aim of fiscal and monetary policies should now be to restore an orderly resumption of economic growth to levels at which aggregate demand and supply will generally be in balance . . ."; that budgetary policy over the next year should be formulated in terms of a "high employment" budget surplus, and that there should be no resistance to deficits in the actual budget "to the extent that they are needed to counter the current weakness in the economy"; and that "a principal share of the stimulus that the economy currently requires to resume its forward movement should be provided by monetary policy."

The more specific targets of the economic policies outlined in the two reports are to move the economy towards a reduced unemployment rate in the 4.5-percent zone and a lessened inflation rate approaching the 3-percent range by mid-1972. If simultaneously attainable, these are, indeed, desirable goals. The council views the $1,065 billion GNP which it projects for calendar year 1971 as consistent with, and necessary for, satisfactory progress toward these targets.

Past experience does not rule out the possibility that the targets cited can be attained, given the program outlined in the reports. We are not persuaded, however, that the council's forecasts represent the most probable outcome that can presently be envisaged. Indeed, it appears to us that the chances of substantial deviations from the projected results are very considerable, both in terms of greater-than-expected inflation and of less-than-anticipated real growth. The nature of these uncertainties, and their implications for policy formulation, need to be clearly understood.

The Possibility of Greater-Than-Anticipated Inflation

One range of uncertainties involves the likely rate of inflation if one assumes that the projected real growth of GNP will, in fact, be attained. The official forecast indicates that, after adjustment for the effects of the GM strike, real GNP will rise by 6 percent from the fourth quarter of 1970 to the fourth quarter of 1971—a relatively rapid rate of rise by past standards. Since a pronounced forward momentum in the economy has frequently been associated with increased upward pressure on prices, is it plausible that the council's forecast of real growth can be reconciled with a decline of the inflation rate to 3 percent by mid-1972?

The council answers this question in the affirmative, citing four principal reasons. First, it expects that the lagged dampening effects on prices exerted by the recent pronounced weakness in the economy will continue to make themselves felt for some time after the economy resumes a more vigorous forward momentum. Second, it stresses that upward pressures on prices stemming from increases in demand tend to be minimized as long as the economy still operates with substantial slack and underutilization of capacity. Third, it expects that cost and price performance will be considerably aided by the relatively high rates of productivity growth that can typically be expected in the earlier stages of a recovery. Fourth, it notes that structural and other supplementary measures can be utilized to contain price pressures attributable to market imperfections and "cost-push."

Each of these factors should play an important role in helping to contain the strength of inflationary forces in the period ahead. At the same time, however, there is considerable doubt that these factors will be sufficient to achieve the price target envisaged for mid-1972.

One reason for such doubt is the fact that the lagged effects of changes in economic activity which are expected to benefit the price picture in the immediate period ahead could well work in the opposite direction during 1972, when lagged influences of the renewed stimulation of activity will become more fully evident. Moreover, as the economy moves closer to high employment, the protection against upward price pressures afforded by the existence of unutilized human and other resources will gradually become less significant. The rate of gain in productivity, furthermore, tends to be most pronounced during the very beginning phases of an upturn and may well slacken as output moves closer to potential. Finally, it is not at all clear that the supplementary measures to deal with "cost-push" and related factors that have thus far been initiated will make a sufficiently major dent on upward price pressures to allow the degree of improvement in the price situation envisaged by the Council. This is particularly the case if one considers that a rapid forward thrust in economic activity—and the more hopeful economic expectations that this tends to engender—are likely to add new fuel to income demands, over and above the very strong underlying pressures in this area that are already evident.

These considerations, in our view, add up to a strong possibility that the projected rate of growth in real economic activity could lead to substantially more inflation by mid-1972 than the Council envisages; indeed, such greater-than-expected inflation could well occur even if the real growth of the economy falls short of the Council's projections. The possibility also cannot be ignored that the expansionary stimuli which are to be put into place during the coming fiscal year will tend to have their most pronounced inflationary impact sometime after the fiscal year has ended. This is all the more likely because—as is discussed more fully below—and net stimulative effects that may be exerted by the Federal budget will apparently be mainly manifested in the second half of fiscal year 1972.

Risks of Inadequate Recovery

A second range of doubts about the Council's forecasts centers on the question whether the projected rate of real growth can in fact be achieved with the policies that have been proposed. Broadly speaking, it would appear that the Council expects that the main stimulus to increased economic activity will be provided by an expansionary budget; by a further easing of monetary policy, with especially strong stimulative effects on housing and State and local outlays; and by an autonomous revival of consumer confidence and of confidence in the economy generally, engendered by the President's stated commitment to policies of vigorous economic expansion.

In this scenario, an expansionary Federal budget is clearly expected to play a major role. As already noted, we strongly welcome the President's adoption of a full-employment budget (or "high employment budget," in CED's terminology) as the basic guide for fiscal policy. Use of this budget concept makes it possible to distinguish between the budget's effect on the economy and the economy's effect on the budget; moreover, it systematically highlights the need for relating fiscal policy to the normal growth of the economy at high employment levels. In contrast to fiscal policies that focus on actual budget levels, adherence to a given high employment budget target assures that in periods of economic fluctuations, the automatic stabilizers inherent in our fiscal system are permitted to exert their full effect. Thus, under the current conditions of substantial economic slack, reliance on the high employment budget means that no attempt should be made to resist actual budget deficits to the extent that these are caused by the shortfall in tax receipts from levels that would be generated under high employment conditions.

It is important to recognize, however, that adherence to a high employment budget (at a time when the economy is weak and the actual budget is in deficit) does not automatically mean that the budget will exert a sufficiently stimulative effect on the economy. As the Council's report points out in its excellent analysis of Measures of

Changes in Fiscal Policy, such effects depend on changes in the full employment surplus from period to period. These changes, the Council notes, "are much more important indicators of how much fiscal policy is moving toward contraction or expansion . . . than the absolute levels of the full employment surplus or deficit." The Council's report, however, provides no explicit indication of the projected changes in the relevant measure of the full employment budget surplus during calendar year 1971 and in fiscal year 1972.

As the Council itself emphasizes, it is the full employment budget computed on a National Income Account (NIA) basis which, in the view of most economists, provides the most accurate measure of the budget's fiscal effects. The Council's report, however, contains no projections of the full employment budget on an NIA basis, and the full employment budget projections shown in the Budget document itself are presented on a unified basis only. Nevertheless, the approximate contours of the implied movements in the high employment surplus now appear fairly clear. Thus, Chairman McCracken indicated in his recent testimony before this Committee that under the Council's projections, the NIA high employment surplus in calendar year 1971 will show little change from its estimated level of approximately $7 billion in calendar year 1970. It appears, moreover, that if the Council's estimates of high employment budget levels in past periods are used as a base, the NIA high employment surplus implied by the new budget can be expected to rise from about $6 billion in fiscal year 1971 to $8 billion or more in fiscal year 1972.

In terms that the Council itself has cited as of principal significance for fiscal analysis, therefore, the likely overall impact of the proposed budget on the economy appears at best to be approximately neutral rather than expansionary. More detailed examination of the nature and timing of components of the budget suggests that the impact of the budget may actually prove somewhat restrictive during the first half of fiscal year 1972 but will become stimulative during the second half. Thus, many of the important expenditure increases proposed in the budget, such as those for higher Federal civilian pay, for military pay improvements, and for revenue sharing, are not scheduled to take effect until calendar year 1972. A related relevant fact is that Federal purchases of goods and services on an NIA basis—that is the Government expenditure category generally regarded as most potent in its fiscal impact—will show a net decline of close to $2 billion during the current calendar year, with a sharp rise projected for the first half of next year.

It should be noted that the NIA high employment budget surplus implied by the fiscal 1972 budget is within the range of the $6 to $10 billion surplus that was suggested in our November 1970 policy statement as consistent with a resumption of orderly economic growth toward high employment levels. The principal focus in that statement, however, was not upon a specific numerical high employment budget target but on the need to make active use of fiscal policy to foster achievement of our broader policy objectives. Since the proposed high employment budget targets were prepared at a time when the extent of the developing weakness in the economy and the degree of increase in unemployment were not yet fully apparent, it appears that under present conditions, some downward revision in our projected target numbers—or at least emphasis on the lower end of the target range—would clearly be appropriate.

Even in the absence of a clearly stimulative Federal budget, a favorable combination of other factors might prove sufficient to permit achievement of the Council's economic goals. It must be recognized, however, that many of the conditions which helped to bring about unusually rapid rates of economic advance in earlier periods—such as the force of a rebound from an unusually sharp prior decline; a strong need for rapid inventory rebuilding; or a high anticipated rate of plant and equipment spending—are not clearly on the horizon at the present time. The main burden for moving the economy toward the targets suggested by the Council would thus seem to rest on a very marked upsurge in consumer outlays, sparked by a major improvement in consumer confidence, and on a substantial further easing in monetary policy.

The Reports suggest that if there is public confidence in the attainability of the official forecasts, this will itself provide the major impetus for the projected increase in spending by consumers and in the economy generally. By the same token, however, significant public doubts about the Council's forecasts—both with respect to employment prospects and to the containment of inflation—could substantially dampen the strength of consumer and other spending propensities.

Additional monetary easing can clearly be a further major source of stimulus for the economy. But it is also clear that there are limits on the extent to which ample provision of money and credit availability can by itself bring about a rapid economic recovery. In the State and local finance area, moreover, sharply rising tax burdens can be expected to serve as a significant offset to the stimulative influence of easier money and enlarged financial assistance from the Federal Government.

The above analysis of the uncertainties surrounding the Council's forecasts suggests two major conclusions. First, we believe that since the proposed fiscal-monetary strategy appears to involve an unusually large number of risks, it is of particular importance that our policymakers be prepared to respond promptly and flexibly if the actual course of events should deviate significantly from their projections. Secondly, a variety of measures to supplement general fiscal and monetary policies needs to play a major role in the overall economic strategy if there is to be significant progress toward the Council's stated objectives.

The Importance of Flexibility in Fiscal and Monetary Policies

To guard against the danger that the projected sharp upward spurt in economic activity might cause much larger increases in price levels than the Council anticipates, means should be at hand to reimpose required overall fiscal restraints with relative promptness if this should become necessary. We cannot feel comfortable about a policy of putting the economy into high gear unless there is assurance that it will be possible to apply the needed brakes with adequate force once the economy approaches high employment levels or a new inflationary threshold.

In this connection, we feel that it is by no means too soon for the Congress to give renewed consideration to our proposal that the President be granted discretion to raise or lower income tax payments by up to 10 percent in a form to be decided by the Congress and subject to its veto. Moreover, as indicated in our September 1970 policy statement on "making Congress more effective," we believe that effective control over fiscal instruments requires that congressional decisions with respect to authorizations, appropriations, and expenditures be taken in a much better-integrated fashion. In particular, early action is needed to establish procedures under which the Congress would regularly define its overall expenditures and revenue targets for the coming year.

In the monetary area, there is already wide scope for flexible use of the available policy instruments. If an overly inflationary impact of monetary stimulation is to be avoided, however, policymakers must continuously remain alert to the time lags typically associated with the use of monetary policy instruments. Also, while a shift in policy direction can often be carried out more promtply in the case of monetary policy, a reasonable balance needs to be maintained between the use of fiscal and monetary policy weapons.

A comparable flexibility in policy responses will be required if the projected revival of the economy should begin to fall substantially short of expectations. Again, flexible use of monetary instruments would clearly be needed. Monetary policy, however, should not be expected to bear an excessive share of the overall stabilization task, either in terms of restraint or of stimulation; thus, measures to render fiscal policy more stimulative would also be in order. In devising such measures, we believe it will be highly important to concentrate on steps that can be temporary in nature and that would permit a relatively rapid reversion to a less stimulative fiscal posture once this again becomes appropriate. "Contingency measures" that could suitably be employed in this connection might, for example, include deferment of the scheduled increase in the Social Security tax base as well as the institution of federally-assisted public service employment programs that are automatically enlarged as unemployment rises above specified levels but that also provide for an automatic scaling-down of activities as the economy regains high employment.

Some question arises as to whether the degree of fiscal flexibility outlined above would be feasible under the budgetary rules set forth in the President's Economic Report. The report places great stress on the principle that, "except in emergencies," expenditures must not exceed high employment revenues. Since the fiscal year budget shows expenditures and high employment revenues to be virtually in balance (on a unified budget basis), a strict interpretation of the report would appear to leave no room for using additional fiscal stimulus as a counter to weaker-than-expected economic conditions unless these can clearly be classified as emergencies.

CED has long recognized the usefulness of employing the high employment budget as a means of exerting discipline on the level of budget expenditures. Our rule is that the high employment budget should normally be set to yield a moderate surplus on an NIA basis.

This rule, however, is not intended to be enforced with complete rigidity, regardless of economic conditions. Indeed, since our first policy statement on the high employment budget was issued in 1947, the Research and Policy Committee has placed growing stress on the importance of using the high employment budget as an instrument for flexible responses to significant economic fluctuations. This view was strongly emphasized in our January 1969 policy statement on "Fiscal and monetary policies for steady economic growth" and is clearly apparent in the following formulation of elements of CED's stabilizing budget policy which appeared in our November 1970 statement:

> The impact of the budget should vary with the condition of the economy as a whole, being more expansive when the economy is depressed and more restrictive when the economy is booming or inflationary.
>
> The overall impact that the budget exerts upon the economy should not, when combined with appropriate monetary and other policies, be so restrictive as to make attainment of high employment ordinarily unlikely or be so expansive as to lead to persistent inflation.
>
> If demand conditions deviate significantly from those on which the stabilizing budget is based, flexible adjustments should be made in monetary policy and, if need be, in tax rates and some types of expenditures.

We believe that these are the basic principles which should guide fiscal and monetary policies in the period ahead. They are fully consistent with achievement of a significant surplus in the budget once actual high employment is approached, but do not rule out flexible adjustments in budget policy when the state of the economy makes this desirable.

The Need for Measures To Supplement General Fiscal and Monetary Policies

As noted earlier, we believe that measures to supplement general fiscal and monetary policies must play a major role in the economic strategy during the year ahead. In our judgment, they need to be given still greater emphasis than is suggested in the Economic Reports. Since our views on this topic were discussed in especially great detail in "Further weapons against inflation," I shall here comment only briefly on needed action in several areas.

Structural Measures To Deal With Inflation

A massive and integrated effort is required to overcome structural and institutional impediments to price stability, encourage greater competitiveness in both labor and product markets, and increase productivity and supply. Concern with cost-push and other inflationary pressures induced by the Government's own operation should play a major role in this effort. In this connection, we greatly welcome the President's action in suspending the Davis-Bacon Act and other active efforts by the administration to bring about basic reforms in the construction industry that can help contain the especially severe inflationary pressures in that industry. We are encouraged, too, by the recent broadening of the functions and the greater activism of the Regulations and Purchasing Review Board, a development that is in line with our recommendation that such a Board should assume the role of a really forceful "Public Defender" of the price stability objective within the government. The Council's discussion of possible ways of improving competitiveness in the economy by modernization of regulatory practices also contains much that strikes us as very valuable. At the same time, we are impressed that the steps taken to date constitute only a very modest beginning toward the kind of comprehensive effort that is needed in all these areas.

Liberal International Trade Policies

Given the special current need to find additional means of containing domestic cost pressures and improving productivity, a continuation of U.S. adherence to liberal international trade policies—and a further strenthening of such policies—is exceptionally important under present circumstances. We, therefore, welcome the Council's strong emphasis on liberal trade policies in its report and its stress on the need to resist the intense current pressures toward increased protectionism. Supplementary measures that hold down domestic price pressures and aid the U.S. competitive position should, in turn, be of key assistance to the longer term improvement of our balance-of-payments position.

Voluntary Wage-Price Policies

Since our recommendations for adoption of voluntary wage-price policies were made in our November 1970 policy statement, the administration has, in Chairman McCracken's words, in effect adopted "many elements of what has come rather loosely to be called an incomes policy" and is now also "considering ways to make these elements more systematic and comprehensive." In light of these developments, it is rather surprising that the Council's report (on page 79) takes a decidedly negative view toward a system of voluntary wage-price restraints under which "the Government, or a quasi-independent board selected by the Government, specifics comprehensive standards of wage-price policy to be observed voluntarily by labor and business * * *".

The Council's report does indicate (on page 80) that there are cases where price or wage increases not justified by competitive market forces are contributing to the prolongation of inflation and to unemployment as well. It notes that "in some of these cases the government has means of correction available that do not interfere with market performance but rather tend to improve it * * *" and clearly suggests that in such cases, governmental action of some kind may often be justified. These statements, however, do not make clear on what basis the particular price or wage increases deemed in need of correction are to be selected. By implication, they favor an approach to wage-price policies that permits the Government to act on an essentially ad hoc basis.

It is precisely such an ad hoc approach which our proposals seek to avoid. As Mr. Petersen indicated in his testimony, "our recommendations are based on the view that it would be more equitable as well as more effective if the needed efforts were undertaken as part of a systematic wage-price policy based on publicly stated rules and carefully worked-out administrative procedures." It is in this context that a board of prices and incomes could play an especially important role and that public opinion could be most effectively utilized to help restrain excessive wage and price increases.

Manpower Policies and Public Service Employment

Even if the Council's forecasts were to prove correct, unemployment and the extent of economic dislocations would remain uncomfortably high for some time to come. If the rate of economic growth should fall short of the projections, these problems would become all the more serious.

We believe that in this setting, an especially strong need exists for a significant stepup in governmentally sponsored training and other manpower programs, and for very substantial Federal efforts to foster or support useful public service employment for persons who cannot obtain jobs in the private sectors. The types of activities that need to be intensified were discussed at length in our July 1970 statement on Training and Jobs for the Urban Poor. These steps would not only help alleviate the severe human hardships caused by inadequate economic expansion but should provide badly needed assistance to hard-pressed local communities and contribute to the economy's overall productivity.

The Council's report does not specifically deal with the matter of public service employment. As indicated earlier, we favor the kind of public service employment programs under which funding will be automatically increased when the unemployment rate exceeds successive "trigger" points but which calls for a phasing out of such added funding (except for programs to deal with long-term structural unemployment) when the economy moves sufficiently close to high employment.

Readjustment From a War Economy and the Problem of the High-Skilled Unemployed

A wide range of measures will be needed to help cope with the special adjustment problems arising from the scaling-down in defense and related expenditures during the past several years.

The Council's report goes so far as to suggest that because of reduced defense and space procurement, the recent period of economic sluggishness has been characterized by an unusual concentration of increased unemployment in durable goods manufacturing. This conclusion, however, is not borne out by an examination of earlier periods of weakness in overall economic activity. In the 1957–58 recession, for example, durable goods manufactured actually accounted for a higher share of the increase in unemployment in the private nonfarm sector, while the corresponding share in the 1953–54 recession was roughly the same.

However, the current situation clearly can be distinguished from some of the earlier episodes of cyclical decline in terms of the extent to which unemployment has been concentrated in defense and space-related activities, i.e. in the sectors of the economy that are under the most direct control or influence of the Federal Government. These are, of course, also the sectors in which the scope for systematic forward planning to smooth the process of economic adjustment would appear to be unusually great, particularly when the time pattern of the military phasedown can be anticipated with reasonable certainty.

The Council's report describes in some detail various activities that have recently been undertaken or initiated to assist in dealing with these readjustment problems. We believe that such efforts need to be considerably intensified and that there should be substantially improved and better coordinated advance planning for coping with readjustment problems that can be readily anticipated.

One area that is of particular concern to us is the exceptionally rapid increase in the unemployment of high-skilled personnel, particularly scientists and engineers. Wastage of the special abilities of these persons through extended periods of joblessness or through their employment in much lower-skilled jobs could do great damage to the country's long-term economic and scientific strength, particularly since there is an urgent need to utilize more of our high-skill talents to help solve the pressing problems of our cities and of the environment.

A variety of commendable efforts have recently been undertaken by the administration to facilitate the placement and relocation of displaced high-skilled personnel. We strongly support these efforts and believe that they need to be further broadened and enlarged. Additional strengthening of existing manpower programs would be of assistance in this connection. We also urge that particular stress be placed on early implementation of the administration's proposals for sizable increases in budget allocations for civilian research activities.

Near Term Budget Priorities

The Council's report includes a valuable discussion of the potential uses of the economy's high employment output in 1975–76. One conclusion that clearly emerges from this analysis is that the room for new types of Federal expenditures programs will be extremely limited unless ways can be found to reduce existing programs or increase total revenues. The need for utmost care in the allocation of Federal fiscal resources within the framework of overall national priorities is, therefore, evident.

These considerations are highly relevant to nearer-term as well as to intermediate-term budgetary choices. The Council's report, unfortunately, sheds little light on some of the most pressing issues of near-term priorities. Thus, no clear impression emerges regarding the extent to which any fiscal savings from recent or future reductions in Vietnam-related defense expenditures are to be channeled to domestic uses rather than being automatically allocated to the defense sector. Availability of more detailed information along this line would be very desirable as background for the assessment of broader priority issues, particularly since the level of defense purchases is now again expected to rise, following a period of significant declines.

A second range of questions with respect to near-term priorities arises in connection with the President's proposal for large-scale budget funding of unrestricted revenue-sharing, as a means of providing enlarged fiscal aid to States and localities. The most important consideration in assessing this proposal is whether it would constitute the best and most efficient means of channelling scarce Federal budgetary resources to where they are most needed.

In our April 1970 policy statement on improving the public welfare system, we called for the early establishment of a truly uniform national system of public assistance based on income maintenance. As part of such a through-going reform and "as an objective to be attained as soon as fiscally feasible", we also recommend that "the Federal Government undertake a substantially higher proportion of the financing of public assistance with a phased take-over by the Federal Government of State and local public assistance costs over the next 5 years as a goal." To the extent that the fiscal year 1972 budget leaves room for substantial additional financing of State and local government needs, we believe that accelerated implementation of the proposal for Federal assumption of nationwide welfare costs should have far higher priority in budgetary allocations than a program of unrestricted grants.

There are also various other types of enlarged Federal grant assistance for needed purposes—some of them mentioned earlier in this testimony—that ought to rank well ahead of unrestricted revenue-sharing in the scale of national priorities. Possible burdens on State and local governments through such increased assistance that might be implied by Federal matching provisions could be substantially mitigated by enlarging the Federal shares of such grants. None of this is to deny the importance of continuing review, consolidation, and reform of existing Federal grant programs. Such steps, however, need to be taken in a way that will entail sufficient control over the use of funds to assure their employment in line with priority national objectives.

We are concerned, too, that under the proposed revenue-sharing program, there will be insufficient incentives for States and localities to intensify their own fiscal efforts where this is both feasible and desirable. As was indicated in our 1967 statement on a fiscal program for a balanced federalism, use of a system of Federal tax credits for State income taxes would serve this purpose much more effectively than unrestricted revenue sharing.

There is one point with respect to all these matters that deserves much greater attention than it has yet received in public discussion. To the extent that the Federal Government assumes all or a large share of State and local welfare costs, or that it steps up other forms of assistance without requiring substantial matching contributions, States and localities will in effect be relieved of very sizable fiscal burdens. They will thus have room to use the resources so freed for any purposes they wish. In this way, the shifting of selected fiscal burdens to the Federal Government will give States and localities just as much freedom in making added expenditures as would be the case under unrestricted revenue sharing. At the same time, however, such an approach would normally preserve some linkage between the raising and spending of funds.

CONCLUDING COMMENT

In conclusion, let me emphasize again our basic agreement with the broad policy directions outlined in the two reports and with many of their specific recommendations. At the same time, we believe that the many uncertainties in the economic outlook make it especially important that fiscal and monetary policymakers be prepared to respond quickly and flexibly if significant deviations from the projected path should occur. We feel, moreover, that vigorous use should be made of a wide range of supplementary policies, and that there is need for substantial further review of the proposed near-term budget priorities.

COMMUNICATIONS WORKERS OF AMERICA

Members of the Communications Workers of America are seriously concerned, at this point, over the condition of the economy. They are aggravated by the continuation of an inflation that now is threatening to wipe out their wage increases of the last 3 years. At the same time they are worried by the developing increase in unemployment, and government anti-inflation policy which seems to be directed toward producing unemployment.

This was the manner in which we began our response to the invitation of the joint committee to comment on the Economic Report of the President in 1970. We can think of no change in our approach to reports on economic conditions this year, except to observe that everything appears to have deteriorated and, we ask: "When oh when, oh Lord," will the administration have had enough and face up to economic realities?

Separating fact from fiction, as a matter of fact, appears to be the primary problem in trying to analyze the current Economic Report as we move into 1971.

We are told (on page 23) that "The primary goal of anti-inflation policy in 1970 was to limit the decline of output that had been initiated by earlier restrictive measures and then to get output rising again in the second half. The increase of output that was desired was an amount sufficient to keep the rise of unemployment moderate but not so large as to prevent progress toward a lower inflation rate." After some review of the needed monetary and fiscal policy considerations associated with these objectives, the report goes on to say: "These requirements of policy were all met."

Monetary restrictions were eased over 1970, the stock of money was allowed to increase and credit was expanded. All of this was intended to stimulate investment through declines in the interest rate. There is, on the other hand, considerable basis for suspecting that part of the decline in interest rates was the result of absolute reductions in the level of gross private domestic investment, which was supposed to rise in response to lower interest rates.

Instead, investment fell off from the preceding year for the first time since 1967. While investment did recover some in the second, and, more particularly, the third quarter, it declined again in the fourth quarter.

It is said that fiscal policy also changed sharply in 1970 (although it is not mentioned that congress blunted some serious efforts by the administration to hold back some expenditure increases). The net budget position shifted from a surplus of $9 billion for calendar 1969 to a deficit of $11 billion in 1970. But, this does not mean the policy was changed. Indeed, the Economic Report for 1970 asserted that: "Fiscal policy for 1970 should aim at continuing a modest surplus in the unified budget."

The 1971 report admits that most of the $20 billion reversal was the result of the lower level of the economy in 1970. Then it is asserted that if, somehow, the economy had been at full employment, we nevertheless would have had a $5 billion surplus. It almost appears that the administration will turn to its credit what appears to be any favorable happenstance, even though its policy was directed in an opposite direction.

We think the administration has been able to fool no one other than itself. It is difficult for us to see how anyone could be fooled. While it is asserted that policy was directed towards a revival in gross national product for the second half of the year, and GNP in money terms, on the basis of inflation, moved towards the $1 trillion mark, there was only a very moderate recovery of national physical output in the third quarter, before it declined again in the fourth quarter. The third quarter output did not regain the fourth quarter output of 1969, and there was an overall net decline in national physical output from 1969 and a fourth quarter decline of 4 percent. But, still, everything is progressing.

The price level is progressing. One objective for policy in 1970 was to reduce the rise of prices. What this suggested was that while the objective was not to secure a decline in prices, the increase in prices was to be reduced from the 5.4 percent rise, from December 1968 to December 1969, to something like a 4.5-percent rise from December 1969 to December 1970. Instead the price rise in 1970 was higher than the price rise of 1969. It is not as much higher over 1969 as the rise in 1969 was over the rise in 1968, but there was no reduction in the price rise.

Of course, price increases provide their own restrictions and the administration certainly can take credit for this in 1970. Higher prices pushed up costs and cut profit margins. Higher prices reduced the purchasing power of wages and restricted consumption expenditures which could provide the margin which might have permitted expansion of output.

Instead, the index of total industrial production proceeded irregularly downwards from 108 in December 1969 to under 107 in May, June and August and, thence, down to under 105 in September continuously to a 102.2 low in November.

Consumption as a proportion of disposable income fell off sufficiently that the percent of that income in savings rose to a high of 7.6 percent the third quarter before savings began to be eaten into by unemployment.

Labor has paid the price in unemployment. The policies designed to produce "not too much unemployment" brought a steady increase in unemployment from 3.6 percent in December 1969 to 6.2 percent in December 1970. Even the decline from that level to 6 percent in January 1971 appears to be due only to conclusion of the auto industry strike, or a continuing increase might still be evident. The increase in unemployment was so rapid that, whereas the U.S. economy had a lower unemployment rate than Canada at the beginning of the year, it had a higher unemployment rate at the end of the year.

In the face of these "accomplishments," the 1971 Economic Report asserts:

> The policies of 1969 and 1970 set a ceiling to the mounting inflation and turned the inflation down; they set a floor to declining output and turned it upward. The strongest American inflation in over a century, aside from periods of major war, was countered by deliberate acts of policy; another change of policy checked the accompanying decline in the real economy before it had gone far.

In view of what we see as the economic facts of life, we find these claims truly astonishing. It almost appears that we live in a world in which "up" is really down and "down" is really up.

In addition, we are constrained to ask, what deliberate acts of policy were involved in the securing of this congenial state of affairs?

We are aware, of course, that there was in 1969 and into 1970 a stringent monetary policy. The inherent character of this policy under the existing economic structure in this country is such, however, that its impact zeroed in on particular markets, disrupting the housing market and the building industry, and disrupting money markets. It never had any real impact on investment back in the period of the investment boom where economic restraint was needed.

After increasing costs closed profit margins as producers heaped higher prices on other producers which caused consumers to retrench their buying patterns, reversals in interest charges and loosening of credit could not be expected to restore investment, and this has not taken place.

Actually, the administration has continuously maintained the impression that the actions of the Federal Reserve System were autonomous and beyond its control. It has even created the public image of some remonstrance with the Fed, from time to time over its restrictiveness, in an effort to isolate itself from political criticism of the more painful results of monetary restraint and to secure absolvement from blame if, as is the case, restriction went too far. Under these circumstances, the administration's claims of "deliberate policy" have dubious merit.

Again, in the case of deliberate fiscal policy, we are fully cognizant of the mid-year demise of the late unlamented income sur-tax, which already had produced some "over-kill." While this loss in revenue amounted to $8.3 billion, we find particularly instructive the Economic Report's admission that "other tax changes during 1970" reduced taxes further by all of six-tenths of a billion dollars while "most of the $20 billion swing" in the net budget position was "the result of the lower level of the economy in 1970." And we ask again, what deliberate policy?

And why this policy? We did not need a deficit of $11 billion to result from a decline in the level of the economy. We needed it earlier as a stimulus before the economy went into such a decline. A defiicit secured from the wrong reasons is a defiicit that produces no positive benefit, and makes it all the more difficult to practice fiscal policy later. These results can only be described as deliberate acts of "impolicy."

It is increasingly clear, as we warned last year, that the time for planning deliberate fiscal policy toward expansion was at the time of, and in conjunction with, the passage of the so-called Tax Reform Act of 1969.

The deliberate policies of 1969 and 1970 have been a national disaster:

(1) Total unemployment increased from 2.6 million workers in December 1969 to 4.6 million by December 1970—an increase of 77 percent.

(2) While the total labor force has risen over 1970 by 1,309,000 the level of total civilian employment has declined by 272,000.

(3) The number of workers forced to live on unemployment compensation almost doubled—from 1,465,000 to 2,632,000.

(4) The number of workers who have exhausted their unemployment benefits has more than doubled between Dcember 1969 and January of 1971—15,000 to 31,000.

(5) During the 2 years of the Nixon administration, the consumer price index has climbed over 12 points, almost double the 7-point increase of the previous 2 years.

(6) Food prices have skyrocketed. During the period from January 1969 to June 1970, the price of pork increased 17 percent, hamburger 15 percent, fresh fruits and vegetables 8 percent, while bread and dairy products 6 percent.

(7) The cost of owning a home went up 16 percent over the same period.

(8) Physicians' fees went up 11 percent; hospital costs increased 18 percent.

The entire Economic Report is a paradox of claims of achievement resulting from policies that did not exist, and which were the result of forces counter to expressed administration policy, mixed with declamations of denial of any failure in policy where adverse effects are to be associated with the administration's policies.

Thus, the report goes on: "Although total output declined slightly from 1969 to 1970, this decline was less than the decrease in production for defense; the output devoted to nondefense purposes increased" with the implication that there is a direct causative relation between these two components. "The real per capita disposable income of persons (that is after allowing for changes in both taxes and prices) reached a record high in 1970." It is not added that real per capita disposable income has likewise reached a new high in every year since at least 1962. Nor, is it mentioned that, in the face of increased unemployment, this can only mean that those who "have" now must have more in relation to the "have-nots" than those who had before. It might even be added that it is inconceivable that this fortunate state of affairs could have alleviated the progress of inflation during the period preceding 1970, when the administration alleges its polices in this regard were crowned with success.

"Real compensation per hour work," the report is able to say, "increased by 1.1 percent over 1969 * * *" and "Real personal consumption expenditures for the year were 2 percent above those for 1969." We should certainly hope that this was the case inasmuch as there was a 2.5 percent increase in the annual average labor force from 1969 to 1970. These people at least have to eat.

But all of this perhaps says too much about the pattern of distribution of goods and services after taxes in this economy. For, while there was some increase in real compensation per hour of work amounting to an economywide gain of 1.1 percent, the real increase in total nonagricultural average hourly earnings from December 1969 to December 1970 was only 0.26 percent—and this was only after some of those late year wage settlements of which the administration was so critical. The only source of an overall gain at all was the settlements in the construction industry where the real increase amounted to 2.1 percent. Meanwhile, average hourly real earnings in manufacturing and the retail trades actually declined by one-third of 1 percent. We find, generally, little comfort from a 2-percent increase in real consumption which fairly clearly must have been distributed for the most part to nonwage income groups. It is fairly clear that while the percentage increase in per capita disposable income was just equal to the percentage increase in the labor force for the year, the increase was not spread around very evenly.

THE OUTLOOK FOR 1971

Since it is apparent that the administration feels that everything is being accomplished that should be accomplished, by its doing virtually nothing, it is very difficult to see what it might feel it should do, if anything, in 1971. And, true to this analysis, the Economic Report does not indicate that any extraordinary innovations in policy are under consideration for 1971. Instead, the report offers various observations on what the possible directions of growth are likely to be, given the policies as they are now established; concludes that the projected results are very desirable and that, therefore, there is little to be done right now—but, everything will be "played by ear."

Of course, if one should accept the reports projections, it might very well be that there is nothing to be done. Unfortunately, the reports' "considerable body of opinion that expects the gross national product for 1971 to be in the range between $1,045 and $1,050 billion, which would be an increase of 7 to 7.5 percent above that for 1970" has no documentary or professional support from other economists. And its suggestion that the outcome is more likely to be in the neighborhood of $1,065 billion, as one noted economist has suggested, borders on sheer fantasy.

No estimate is made as to what proportion of this "growth" would be in the form of real goods as compared with further inflation. It is suggested that it would be desirable to have 1971 demonstrate a slowing of the rate of inflation to 3 percent and a reduction of the unemployment rate to 4½ percent—not immodest goals by comparison with a 7.5-percent increase in gross national product, which would then require a 4- to 4.5-percent general increase in productivity.

It is true, as the report points out, that past first-year recoveries have had average growth rates in line with these figures and higher than the growth rates of succeeding years. It also points out, correctly, that most forecasters have a tendency to underestimate the strength of movement in either direction. But, all of these hopes and desires are promulgated with no indication as to how all of this is to be achieved.

The report does set the stage, however, for future explanations as to why the goals for 1971 were not achieved. It is said that wage increases which anticipate future price increases are "not a reasonable response to our present situation. If the inflation is to be slowed down, all wages that have not kept up with the inflation of prices cannot catch up in any short period." And, again, "a continuing 7 percent annual rate of increase of employee compensation per hour would commit the economy to a continuing inflation rate of about 4 percent."

There appears to be no recognition of the fact that real consumption expenditures must advance faster than they have in 1970 if businesses are going to be induced to bring back into use the existing unused capacity that has produced our unemployment. We must begin somewhere and, in the absence of a positive policy, people must make their way as best they can.

We will admit that the policy requirements are considerable. We think they should be dealt with. For one thing, our review of the figures in the economic report suggests that there is something wrong with the distribution of income.

Some people need considerably more; others could get along with considerably less. There is also something lacking in the distribution of employment. A considerable fiscal expansion will be necessary to completely wipe out excess unemployment. Reducing the level to 4½ percent is not enough.

At the same time, the impact of close-to-full employment on the inflationary problem is vexing. Long before we get to full employment, prices begin to get out of hand. This has been the experience. Many economists have suggested that the system is becoming too rigid and sophisticated. Businesses with rigidly controlled price structures anticipate good times in advance of their arrival and a return to full employment can be cut short by reinstitution of wider profit margins. We think the tax structure might be utilized to approach this problem, too. While increases in the corporate income tax are felt to put a brake on expansion, there is some evidence to indicate that the predictability of the present tax makes it possible in inflationary times to shift it to higher prices. Reintroduction of some progressive features into the corporate income tax might provide it with additional flexibility as a fiscal policy instrument.

Further revision of the personal income tax structure toward a more equitable distribution of income also would add flexibility to fiscal policy. Coupled with the administration's proposals for welfare reform, these policies could facilitate stimulation of different patterns of output in different industries than in the past and stimulate the increases in consumption expenditures the administration has hoped would reduce unemployment.

Meanwhile, the pattern of expenditures in the economy should be shifted to different priorities anyway. Some carefully structured changes in tax policy might encourage such shifts while at the same time providing some control on inflation. A more stringent antitrust policy could be utilized for an important contribution. But, a direct Federal expansion of expenditures is a necessary fiscal device to stem the tide of unemployment. We need the full funding of Federal appropriations for such vital needs as housing, education, health-care and community renewal. Half-hearted efforts in this direction through proposals to dismantle the system of Federal grants-in-aid to the State and local governments as well as proposals to supplant them with no-strings-attached Federal revenue sharing with no program purposes, national priorities or standards, will not accomplish the purpose.

The time is long overdue for the Federal Government to create jobs for the long-term unemployed and the provision of urgently needed public services. Immediate legislation is needed to provide funds to State and local governments to create at least 500,000 public service jobs this year for the unemployed. Federal efforts are needed to assume the costs of welfare payments to lift the burden from the backs of State and local governments.

Much of this could be undertaken through the development of a capital budget as a mechanism to assist the Federal Government in planning, financing, and executing public investment programs. Such long-range budgeting would regularize the process of Government investment.

In all of this monetary policy should be called upon to play a neutral role. In particular, high interest rates at the present time can only add to price levels. The recent loosening of monetary restrictions has eased restrictions on construction, but high interest rates still are providing depressing pressures.

In specific terms, we urge the administration to help itself by pressing for:

(1) Further reform in the structure of the Federal personal income tax towards a more equitable distribution of income by plugging the loopholes on capital gains taxation, expansion of the individual exemptions, and allowances for income subsidies.

(2) A more flexible corporate income tax with some progression in rates to enable the Government to stimulate new output but permit some control over excessive pricing. Monetary controls will never enable the Government to do this.

(3) Federal tax credits for State and local income taxation.

(4) Expansion of Federal expenditures in public housing.

(5) Expansion of present grant-in-aid programs and continuing Federal control of priorities at local levels.

(6) Implementation of these programs through development of a capital budget.

(7) A complete Federal takeover of welfare costs as a beginning to easing the financial burdens of our cities.

(8) Revitalization with the necessary funds of the retraining programs for which appropriations have been cut.

(9) Enactment of a comprehensive national health program.

(10) Further relaxation of monetary restraints.

Enactment of these policies would go a long way toward securing the outcome from our present difficulties which the administration asserts are its goals. Reduction of unemployment and inflation cannot be secured by exhortation, wishful thinking, nor assurances that everything has gone according to plan. Positive thinking and positive action now are required, if not of the administration, at least by the Congress.

CONFERENCE ON ECONOMIC PROGRESS

By Leon H. Keyserling [1]

As in previous years, I am deeply appreciative of the opportunity to offer for your consideration my comments on the "Economic Report of the President;" in these comments, I shall refer to what I regard as the high points in the 1971 Economic Report, and discuss the adequacy or inadequacy of the main policies and program recommended by the President to convert long years of economic stagnation and recession into the progress which our capabilities make feasible and which our nationwide needs demand.

Central Conclusion

The President, on several recent occasions, has asserted without qualification that his basic economic thrust has shifted from one of restraint to one designed to achieve vigorous expansion. Regretfully, I submit that the policies and programs advanced by the President fall lamentably short of our economic expansion requirements during the calendar years 1971 and 1972. Further, all difficulties are enlarged when grossly inadequate policies and programs are accompanied by extraordinarily excessive claims. I shall endeavor to show, in the course of my comments, that the fiscal 1972 Federal budget, as proposed by the President, and the other policies and programs proposed by the President, do not make any appreciable shift from restraining to expansionary policies, but instead are a veritable continuation of measures which have worked very poorly during the past 2 years. They are also, in large degree, a continuation of measures which worked poorly during a number of preceding years.

I refer to a number of preceding years because, as I believe this committee appreciates, I have never attempted to score political quick tricks against any national administration. I have endeavored to base my analysis upon the unfolding economic facts as I see them, and upon their lessons as I read them. Nor is there any element of futility in being severely critical of the current administration. In the first place, I trust that this administration is eager to benefit by the diversified views which this committee, to a unique degree, has always encouraged in the public interest. And second, as our form of government provides for division of policy and program responsibility between the executive and legislative branches, I feel and hope that the Congress, with the help of this committee, will reshape the policies and programs initiated by the President, in directions compatible with our needs and potentials as a nation and a people.

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THE INADEQUACY OF THE PRESIDENT'S SO-CALLED EXPANSIONARY PROGRAM

Page 3 of the President's Economic Report provides the keynote to the entire report, when it states:

> The key to economic policy in 1971 is orderly expansion * * * total spending and total output should rise as rapidly as possible to lift the economy to full employment and full production * * * with the stimulus and discipline from the budget which I have put forward, and with the Federal Reserve System providing fully for the monetary needs of the economy, we can look forward confidently to vigorous and orderly expansion during 1971.

The President places his main reliance for this vigorous and orderly expansion upon his proposed Federal budget for fiscal 1972. He claims, and the claim has received general acceptance despite considerable criticism in detail, that this budget represents a dramatic shift from policies of restraint to policies of expansion. I challenge this claim, not only in the degree that many other economists have done, but in its entirety. I respectfully submit that the President has proposed a very restrictive budget, representing no large change from the fiscal policies in effect before he announced his dramatic conversion to what he called, and many others call, the Keynesian economics.

For the purposes of my analysis, I have translated the President's proposals and estimates for fiscal 1972 (and in some cases, for other periods) into their calendar 1972 equivalents. This can be done with sufficient accuracy for the purposes of my analysis, by projecting from the middle of calendar 1972 (the end of fiscal 1972) to the end of calendar 1972, on the basis of proposals and estimates for fiscal 1972, taking account also of a few earlier trends where relevant. The results which I find are as follows.

THE SPENDING SIDE OF THE PRESIDENT'S BUDGET: NO LARGE POLICY CHANGE

On the spending side, the President's budget for fiscal 1972, trended 6 months beyond the end of that fiscal year, implies $239.9 billion of actual Federal spending in calendar 1972, measured in fiscal 1972 dollars.

This would increase calendar 1972 Federal spending above estimated calendar 1971 Federal spending by almost exactly the same amount as the actual average annual increase in such spending during the immediately preceding 4 years or so, which were claimed to represent a severely restrained Federal spending policy in the misguided and ill-fated battle against inflation. So the President has made no appreciable change in Federal budget policy on the spending side. He is merely maintaining an established trend which has proved far too restrictive on both economic and social grounds, and been highly inflationary for this very reason.

THE DEFICIT SIDE OF THE PRESIDENT'S BUDGET: NO LARGE POLICY CHANGES

The President also says that he is deliberately developing a large deficit in the fiscal 1972 Federal budget, in order to expand the economy. The deficit that he estimates for fiscal 1972 is consistent with a deficit of about $12 billion in calendar 1972. But a deficit of at least this size was forecast by most competent economists even before the President announced his alleged change in policy; and a clear majority now forecast that this deficit will be closer to $20 billion than $12 billion in calendar 1972, because of the grossly inadequate economic growth which will result from the President's grossly inadequate program. Thus, on the deficit side, the President has done nothing new; he has merely attempted to make the worse appear the better cause by hailing loudly the prospect of a deficit which is occurring, not through a constructive attempt to stimulate the economy, but rather by continuing to neglect it.

Taken as a whole, the President's skillfully packaged program is nothing more nor less than the pouring of old wine into new bottles, with much "hulla-ba-loo."

Inadequacy of President's Budget and of His Economic Goals

The President's various estimates, reasonably projected, import that his program would lift total national production, measured in fiscal 1972 dollars, to about $1,142.7 billion for calendar 1972, and reduce full-time unemployment to about 4.2 percent by the end of that year. But most independent and objective analysis, with which I agree, indicates that total national production for calendar 1972 will fall about $24.2 billion below the President's target, with full-time unemployment of 4.8–5 percent by the end of that year.

Even more important are the differences between these likely results of the President's program and appropriate goals for the economy, which are much higher than the President's targets. His program is likely to result in total national production for calendar 1972 about $54.6 billion below an $1,173.1 billion goal (fiscal 1972), representing adequate movement toward full production. And the likely result of 4.8–5 percent unemployment at the end of that year, under the President's program, contrasts with an appropriate goal of 3.7 percent and the further goal of getting down to 3 percent, or full employment, early in calendar 1973.

Now, just how far does the President's proposed budget for fiscal 1972 fall short of that required to meet the employment and production goals I have just set forth? In fiscal 1972 dollars, the President's implied expenditure program for calendar 1972, consistent with the President's budget for fiscal 1972, is $27.4 billion below the $267.3 billion which would be appropriate in terms of achieving economic restoration at the desirable pace which I have indicated. This higher level of spending might result in a Federal deficit of about $30 billion in calendar 1972, contrasted with the $20 billion likely to result from the President's program. But this difference of about $10 billion would be a very wise investment to yield an estimated difference of $54.6 billion in total national production in calendar 1972. Moreover, the President's program involves the likelihood of a hugh deficit in the Federal budget, not only in calendar 1972, but also for many years thereafter, in consequence of deficient economic performance. But a deficit consistent with adequate progress toward economic restoration in calendar 1972 offers the prospect of a balanced budget within a few years.

Inadequacy of President's Proposals for Priority Programs

The adverse impact of the President's inadequate budget upon our economic and social performance is intensified by the distorted composition of the budget in terms of our national priorities—a distortion not masked by the small and misguided proposal for "revenue sharing."

For calendar 1972, the President's budget, consistently carried forward, imports spending for all domestic programs about $9.2 billion below the needed amount. His proposed spending for public assistance imports about $10 billion below the needed amount. His proposed spending for health comes to about $0.8 billion below the needed amount. His proposed spending for manpower imports about $1 billion below the needed amount. And his proposed spending for housing and community development, importing about $4.7 billion, is about $7 billion below the needed amount of $11.7 billion. All of these needed amounts for calendar 1972 are those estimated by me (fiscal 1972 dollars), and not far from those estimated by some others, in the course of long studies of what kind of Federal budget would do most for the economy and the people, and therefore be best for the Federal budget itself in the long run.

One reason why total domestic spending imported for calendar 1972 from the President's fiscal 1972 budget comes to only about $9 billion below the needed total, despite the fact that the deficiencies which I have just stated come to far more than $9 billion, is that his budget contains far too much spending for other purposes, and I am not taking about national defense. His budget imports about $20 billion for Federal spending in calendar 1972 for interest payments on the national debt. This is more than $8 billion above what the interest payments would have been on a debt of the same size, if interest rates had stayed where they ought to be. In addition, if unsound monetary and fiscal policies had not contributed so much to economic stagnation and recession, the Federal debt now would have been much lower than it actually is, or at least enormously less in ratio to total national production. The program which I advocate would reduce this ratio from 38.3 percent estimated for calendar 1972 to 21.4 percent in calendar 1980.

Revenue Sharing: Fact or Pretense?

On earlier occasions in various places, I have expressed my opposition to the original revenue sharing plan proposal made by economists Walter W. Heller and Joseph Pechman, and to the President's current proposal for revenue sharing, which in substance is very close to the earlier proposal. My views are set forth most fully in an article in the New Republic on March 25, 1967, entitled, "Revenue Sharing with the States."

But quite apart from these objections, the President's proposal for revenue sharing strikes me as a delusion and a snare, in the context of his total fiscal 1972 Federal budget as I have just examined it. Moreover, the implication which the general public receives from the President's revenue-sharing proposal is that the Federal Government will make much more money available to the States and localities for domestic purposes. But in view of the gross inadequacy of the total budget proposed by the President, his revenue-sharing proposal seems merely to be robbing Peter to pay Paul. It has the further serious disadvantages of distracting attention from the extreme inadequacies in the budget by offering a glittering gadget, bedecked with the entirely fallacious claim that this would enlarge the people's participation in public policies and programs. An essential precondition to genuinely constructive revenue sharing in proper form is that the total amount of money being made available through the Federal budget for domestic purposes rise to the challenge of our needs and capabilities; the President's proposals do not do this.

Appropriated Goals for Full Economic Restoration

Contrasted with these gross inadequacies in the President's economic goals and proposed budget, and to amplify the discussion of adequate goals which I have set forth just above, I now offer more comprehensively the goals which I believe to be essential. These goals are designed to bring us close to reasonably full employment and full production by the end of calendar 1972, and to reach these levels shortly thereafter.

The goals which I set forth, as the Joint Committee will recognize, have been developed by me over many years, and corrected from year to year, in the context of what might be called an overall economic social budget for the United States economy. This is an exercise which I have always believed to be mandated under the Employment Act of 1946, although the performance under that act has not recognized this mandate. As the committee is familiar with my previous yearly findings, I shall state these goals very succinctly, especially in that the charts which portray them contain far more detal.

Appropriate Goals for GNP and Its Major Components

My chart 1 indicates that, measured in 1969 dollars, total national production should rise above the fourth quarter 1970 ananual rate by $128.2 billion in 1972, and $664.7 billion in 1980. The chart also sets forth component goals for consumer spending, private business investment, investment in residential structures, and Federal, State, and local outlays for goods and services.

My chart 2 indicates the reasonableness of the foregoing goals. The average annual productivity growth rates achieved during years of reasonably full resource use, coupled with a trend toward acceleration over the decades, indicates clearly that an average annual productivity growth rate in the private economy of at least 3.8 percent (and perhaps considerably higher) should be readily attainable under conditions of reasonably full resource use. Taking account also of the likely and desirable growth rate in the civilian labor force under conditions of reasonably full resource use, an average annual economic growth rate in real terms substantially above 5 percent in total national production seems to me to be a very reasonable goal after restoration of reasonably full resource use. As my subsequent chart 11 shows, however, an average annual growth rate in real terms of 8.3 percent is needed from fourth quarter 1970 through 1972 as a whole, to bring us sufficiently close to reasonably full resource use by the end of that calendar year. Other estimates, on this score, are reasonably close to mine.

Appropriate Goals for the Federal Budget

My chart 3 indicates the general nature of a Federal budget exercising its appropriate, but not excessive, expansionary role, taking account also of those priorities of need requiring extensive Federal support. Measured in fiscal 1972 dollars, and in contrast with the President's proposed budget of $229.2 billion for fiscal 1972, the goal which I recommend is $267.3 billion for calendar 1972, and $406.7 billion for calendar 1980. In an economy expanding at an optimum rate, total Federal outlays so projected are estimated at 22.8 percent of total national production in calendar 1972 and 23 percent in calendar 1980, compared with 20.6 percent as the actual annual average during the fiscal years 1966–71, and approximately 20.5 percent as proposed by the President. Measured in ratio to my projected total national production, my estimate is that the Federal debt would decline to 33.7 percent in calendar 1972 and 21.4 percent in calendar 1980, contrasted with an estimated 38.3 percent in calendar 1972 under current programs and policies, and an actual annual average of 42.4 percent during the fiscal years 1966–71.

My chart 4 details the dollar goals which I recommend for important components of the Federal budget for calendar 1972 and calendar 1980. It also expresses these goals on a per capita basis, and in ratio to my total national production goals. It also contrasts these goals with the President's budget for fiscal 1972, basing the ratios to GNP upon his implied GNP objectives for fiscal 1972, which are far too exuberant in terms of his programs and policies, although far short of our actual needs and capabilities.

Goals Are Consistent With Traditional Relationships

My chart 5 depicts the GNP and component goals which I project for calendar 1972 and calendar 1980, and demonstrates that the ratio of the components to the total would be in accord with our traditions, and not involve vast shifts between the private and public sectors. As this exercise is in calendar 1969 dollars, the results are numerically different from those earlier goals which I stated in terms of fiscal 1972 dollars.

THE PRESIDENT'S RELIANCE UPON FACTORS OTHER THAN THE FEDERAL BUDGET TO INDUCE ADEQUATE ECONOMIC EXPANSION IS HIGHLY UNREALISTIC

Having indicated that the President's proposed Federal budget for fiscal 1972 falls egregiously short of expansionary needs, I now turn to other factors relied upon by the President to add to an expansionary movement. In each instance, I submit that the President's optimum is entirely unjustified.

More Tax Bonanzas for the Wrong Recipients at the Wrong Time

The President, on page 6 of his Economic Report, cites as a favorable factor the additional depreciation and related allowances granted by the Treasury recently to investors in plant and equipment in key sectors of the economy. A number of economists have validly pointed out, and many businessmen have candidly acknowledged, that this will not add much to such business investment. in the climate engendered by far more important factors. I would make the even more important point that these bonanza concessions repeat errors committed several times since 1962, and that we should have learned the lesson by now. Even if such bonanzas should temporarily stimulate investment of this type beyond the level it would otherwise attain, this would in the longer run increase the disequilibriums and imbalances throughout the economy. These investors do not need the higher returns per unit which result from such bonanzas. They need larger markets for their products, requiring an entirely different set of policies. I shall develop this point more fully later on in my statement, when I come to my discussion of the central problem of economic equilibrium or balance.

The President Is Far Too Complacent About Housing

The President states, on page 5 of his Economic Report, that the construction of new housing offers large prospects for economic expansion. This is really whistling in the dark, when tested by past experience, current reality, and likely prospects.

The official economists may preen themselves in the thought that "housing is looking up," in that total private housing starts, nonfarm and farm, rose at seasonally adjusted annual rates from 1.06 million in January 1970 to 1.70 million in January 1971. But much more perspective is in order. From January to December 1969, the drop in total private housing starts was about 34 percent, or the most catastrophic decline for any major industry since the great depression. And during 1959 to 1970, inclusive, the average annual rate of total private housing starts was only 1.42 million, when the need was at least 1.8 million a year. The annual rate of 1.70 million in January 1971 does not look so encouraging, when compared with more than 1.91 million, two full decades ago in 1950, considering that the Nation and economy have advanced so enormously during these two decades in population, incomes, and business activity. Nor does the annual rate in January 1971 look so encouraging, when compared with the needed average annual rate of much more than 2 million during the decade ahead.

Moreover, it is crystal clear that the current rate of homebuilding is so predominantly concentrated upon the upper half of the market that "saturation" and decline will again set in, even if interest rates and national economic conditions and policies do not remain as unfavorable as they still are.

Meanwhile, vacancy ratios are now critically low in most of our largest cities; overcrowding is outrageous; costs of occupancy soar; one-sixth or more of a nation still live in urban and rural slums; and the slums are choking our urban areas. Although we all continue to talk about the housing problem, and even to enact much housing legislation, the action does not match the words.

The Long and Current Neglect of the Housing Problem

As my chart 6 shows, from 1960 to 1969, the average annual growth rate in real terms was 4.5 percent for total national production, 7.5

percent for investment in producers' durable equipment, 6.2 percent for new plant and equipment expenditures, 3.6 percent for investment in nonresidential structures, and only 1.7 percent for investment in residential structures combined with those types of commercial structures which go along with home building in the process of urban development.

As my chart 7 shows, investment in residential and commercial structures, standing at 41.7 percent of total fixed investment in 1961, declined to 32.1 percent in 1969 (it declined further to 22.4 percent in 1970); the ratio needs to be lifted to 38.7 percent by 1980.

As my chart 8 shows, for 1967 (later comprehensive data not available), the portion of the total value of depreciation and depletion allowances granted to various factors of the U.S. economy came to 47 percent for manufacturing; 22.7 percent for transportation, communication, and electric, gas, and sanitary services; 7.8 percent for wholesale and retail trade; and only 4.9 percent for real estate, including housing. Yet, in the so-called tax reform legislation of 1969, the very sector of the economy which was most in need of help, and which was in the worst shape, was accorded punitive and discriminatory treatment, with respect to depreciation allowances and related tax treatment.

As my chart 9 shows, during the fiscal years 1965–70, 55.7 percent of net Federal expenditures for subsidy programs went to agriculture, 18 percent to air transportation and maintenance, and only 5.5 percent to housing. In fiscal 1970 only about 14.8 percent went to housing.

The fiscal 1972 budget proposed by the President contains only $4.5 billion for housing and community development, contrasted with $11.7 billion needed in calendar 1972 to fulfill our legitimate housing promises, and to achieve the rates of investment and employment in housing and community development essential to a rounded program for the restoration and maintenance of reasonably full resources use. The President's proposal for housing comes to only about 0.40 percent of his estimated total national production, while his proposal for national defense, space technology, and all international comes to 7.56 percent, or about 19 times as much.

The President's talk about adequate mortgage money for housing neglects what we have known for the past three or four decades: The number of slums will be reduced very little, and practically no new housing will or can be provided for the lower 40 percent of the population in urban areas, at current or prospective interest rates. To be sure, the effective interest rate on housing appears to have dropped from 8.5 percent or higher to 7.5 percent or somewhat lower, if one does not take account of the under-the-cover extra charges which probably lessen the difference considerably. Be that as it may, it was recognized fully at the time of the General Housing Act of 1949 that even the 4.25 percent effective interest rates then prevailing could do very little to rehouse such portions of the population, and that the interest rate needed to be gotten down to 3 percent or lower to do this part of the job. Instead, in addition to the doubling of housing interest costs, housing costs other than interest costs have risen tremendously. I shall discuss the interest rate problem more fully when I come to my treatment of the prevalent monetary policy.

The Size of the Housing Task Ahead

The persistent and current treatment of housing as a stepchild of national economic and financial policy offers slim prospect of achieving, during the decade ahead, a rate of much more than 2 million new homes a year—which we need—about 300,000 a year, contrasted with a record in recent years of less than one-seventh of this number on the average, should be built for those who require public housing or its equivalent. The more than 1.7 million remainder per year need to be divided, approximately equally, between conventionally financed housing and new types of housing, at very low interest rates, with large Government assistance in one form or another.

Compared with the need for a total increase in civilian employment of more than 20 percent over the next decade, the employment increase in contract construction needs to be close to 40 percent. Compared with an average annual real growth of investment in nonfarm residential construction of only about 0.5 percent during the past decade, this rate needs to be lifted to more than 11 percent during the decade ahead to achieve balanced economic growth, full employment, meaningful urban renewal, social amelioration, and elimination of social and civil tensions. In short, this type of investment needs to grow, in real terms, at an annual rate more than twice as fast as the total U.S. economy during the decade ahead.

Excessive Optimism About State and Local Spending

On page 5 of his economic report, the President cites, as a very strong factor, what he deems to be the improved financial condition of the States and localities, and he foresees strong increases in spending by them. I wonder where the Governors and mayors were, when the President wrote this, or where his economists get their information. I even wonder how this cheery note can be reconciled with the President's insistence on revenue sharing—albeit through what I consider to be a distressingly misconceived plan—on the ground that the financial plight of the States and localities has reached critical proportions.

Excessive Optimism About Interest Rates

The President, on page 5 of his economic report, places much reliance upon the fact that interest rates have dropped. Apart from the housing problem which I have already discussed, it is true that some interest rates have dropped considerably. But no discernible forces are yet in motion to drive interest rates down enough, or to bring the expansion of the money supply high enough, to meet even the minimum requirement for adequate economic growth and sensitive attention to priority needs. For example, interest rates on U.S. long-term bonds dropped 12.3 percent from December 1969 to December 1970. Meanwhile, interest rates on Aaa corporate bonds dropped only 1.0 percent, and those on public utility corporate bonds rose 0.7 percent. In December 1970, compared with 1960, interest rates on U.S. long-term bonds were 48.5 percent higher, interest rates on Aaa corporate bonds were 73.2 percent higher, and interest rates on public utility corporate bonds were 81.7 percent higher.

Nor is this all. Such inadequate declines in interest rates as have thus far occurred have been achieved at the cost of stagnation and recession which, as I shall subsequently show, have meant forfeiture of more than half a trillion dollars in total national production, and forfeiture of more than 6 million man years of employment opportunity, during 1966–70 (see my chart 12). And since the prevalent monetary policy still rests on the theory that tight money and rising interest rates restrain inflation, and that fuller resource use and fuller employment invite inflation, what is there to stop the Federal Reserve Board, under its present leadership, from lifting interest rates again, when and if we make even partial progress toward the economic restoration which the administration is now seeking?

Excessive Optimism About Consumption and Saving

On page 5 of his Economic Report, the President cites as a strong expansionary factor that consumption has increased. I shall later indicate how dangerously it has lagged, and is still lagging, relative to its appropriate role in desirable economic performance. Concurrently, the President attaches much favorable significance to the unusually high current rate of saving. But why is saving so high? It is so high, not because the ordinary American family finds it easy to make ends meet. Instead, it is so high because those in the higher ranges of the income structure are receiving more income than they want to spend in consequence of the regressive policies all along the line which have gotten us into all the trouble we are in now, and show no signs yet of sufficient change to get us out.

Excessive Optimism About Ending of Auto Strikes

On page 5 of the Economic Report, the President lists as a strongly favorable influence the fact that the auto strike is over. This is really a joke. We had progressive stagnation for more than 4 years before the auto strike commenced. We now have a catch-up-peaking of auto sales, as a short-term aftermath of the strike. But it will not take long for that to wear off. In the long run, I can think of no strike that has had much net effect upon the economy (except in consequences of the terms of settlement).

Excessive Optimism About Exports

On page 5 of his economic report, the President cites as a favorable expansionary factor that our exports are going strong. In the main, our exports of goods and services have been going strong for many years, with brief exceptions. It is perhaps some net progress that the official economists are no longer bewailing, as our main economic danger, an unfavorable balance of payments. This bewailing in the past was the result of utterly confused thinking, and failure to recognize that the real problem was not the unfavorable balance but the anachronistic method of settlement. Beyond all this, marginal differences in the ratio of our exports to our total national production have not been, and cannot be, large enough to make much difference in our total economic performance.

It is really tragic that the economists who advise the President have led him into these sorts of unanalytic and erroneous pronouncements. I shall have more to say about this later on in my testimony. But first, as the most overwhelming example of economic nonsense in national policy, I turn now to a consideration of the ill-fated campaign against inflation, and the prevalent monetary policy which spawned this travesty.

The Upside-Down Campaign Against Inflation

Unsustained Claims of Progress in Restraining Inflation

On page 4 of the economic report, the President makes a strong claim of progress in slowing down the rate of price inflation. In support of this claim, he cites the facts that the annual rate of increase in the Consumer Price Index dropped from 6.0 percent in June 1969, to 4.6 percent in the last half of 1970; and that the annual rate of advance in wholesale prices dropped from 5.3 percent in the first half of 1969 to 2.1 percent in the second half of 1970. The manifest jumping around and inconsistencies in the periods selected for this demonstration cast large doubts upon its validity, or at least its substantial significance.

In view of the erratic movement of prices from month to month, longer and more significant periods of time must be examined to clarify the picture, as a guide to policy. Besides, even if there were some genuine abatement of price inflation in the second half of 1970, it is not much of an achievement to have registered during that period a rate of price inflation which was still extraordinarily high (as I document below), after 4 years which averaged economic stagnation, and in the face of absolute recession.

As my chart 10 shows, looking at what I regard as more meaningful periods for purposes of objective analysis, and comparing the average annual rates of price increase during 1966–70 with the rates of increase from fourth quarter 1969 to fourth quarter 1970, inflation accelerated from 4.6 percent to 5.6 percent for consumer prices, from 2.6 percent to 2.8 percent for wholesale prices, and from 2.8 percent to 3.7 percent for industrial prices.

If one attaches much significance to price movements over very short periods of time, it is noteworthy that, from December 1970 to January 1971, the seasonally adjusted data, even without allowance for compounding, show an average annual rate of increase of 3.6 percent for consumer prices, 6 percent for wholesale prices, and 3.6 percent for industrial prices. From January to February 1971, on the same basis, I do not yet have the figures for consumer prices, but the annual rate of increase was 8.4 percent for wholesale prices, and 1.2 percent for industrial prices. It would take very rosy-colored glasses indeed to derive much satisfaction from these latest trends, especially in view of the likelihood that the fantastic rate of increase in whole prices will work its way through to consumer prices in due course.

The Prevalent Theory That Stagnation Reduces Inflation Is Weird

For more important than torturing the facts to try to prove that substantial progress has already been made in curbing price inflation, the time is long overdue to recognize, as I have been urging repeatedly for more than 15 years, that the prevalent theory underlying the attempt to curb price inflation by increasing the idleness of manpower and other productive resources is montrously erroneous. This is true, even if one regards price trends in themselves as of prime significance, and even more montrously true when one takes account of other economic and social values. As shown on my chart 10, there was virtual price stability across the board during 1952–1955, when the economy grew at an average annual rate of 3.5 percent in real terms. But during 1955–1958, when the real growth averaged annually only 0.8 percent, and when full-time unemployment as officially measured rose from 4.4 percent to 6.8 percent of the civilian labor force, the average annual rate of increase was 2.6 percent for consumer prices, and 2.5 percent for wholesale and indusrtrial prices.

Then, during 1958–66, when real economic growth averaged 4.9 percent, and when unemployment was reduced from 6.8 percent to 3.8 percent, the price advance averaged annually only 1.5 percent for consumer prices, 0.7 percent for wholesale prices, and 0.6 percent for industrial prices.

But during 1966–70, when the average annual rate of real economic growth was only 2.4 percent, and when unemployment rose from 3.8 percent to 4.9 percent, the average annual advance was 4.6 percent for consumer prices, 2.6 percent for wholesale prices, and 2.8 percent for industrial prices. From fourth quarter 1969 to fourth quarter 1970, when the real rate of economic growth was minus 1.2 percent, while unemployment rose from an average of 3.6 percent during fourth quarter 1969 to 5.8 percent during fourth quarter 1970 and stood at 6.2 percent in December 1970, the advance in prices averaged annually 5.6 percent for consumer prices, 2.8 percent for wholesale prices, and 3.7 percent for industrial prices.

A New Theory for Price Behavior

The conclusive empirical evidence calls insistently for a new theory of price behavior, to replace the one so thoroughly discredited but still prevalent. This new theory runs along these lines:

First, when volume of business grows at a disappointingly low rate or stops growing at all, and when idleness of plant and manpower increases, those in the administered price sectors of the economy tend to lift their prices more rapidly than before, in an effort to compensate for inadequate volume by higher returns per unit. Whether or not this misguided effort is successful, and often it is not, has nothing to do with the actual behavior pattern. I have studied this behavior pattern in key industries for the past 20 years or longer, and by now there can be no question as to what this behavior pattern actually is.

Second, economic stagnation and recession bring a tremendous reduction in the rate of productivity gains. As demonstrated on my earlier chart 2, the average annual rate of productivity gains in the private economy dropped from 3.8 percent during 1960–66 to 1.6 percent during 1966–70, and was only 0.8 percent during 1968–70. This occurs because the employed labor force (fortunately) is not laid off in ratio to the rise in unused plant, and this reduces greatly the productivity gains as conventionally measured by dividing man-hours of labor input into total output. The sharply declining rate of productivity gains increases per unit labor costs, to the degree that other factors remain equal, and this usually prompts price increases, whether justified or not.

Third, the sharply rising costs of money, in the course of the spurious campaign against inflation, increase the cost of doing business, and this reflects in the upward movement of prices, especially in such industries as the utilities, housing, and the railroads. Increases in money wages, legitimately designed to compensate for the rising cost of living, follow naturally. Those who cannot or do not translate the rising cost of money into the higher money incomes, or higher public revenues, are victimized by the price inflation thus caused.

Fourth, the shortages of essential public services, caused by tight money and the rising cost of money, and by pennywise and pound-foolish efforts to restrain public outlays in order to combat inflation, are tremendously inflationary in themselves.

The Spurious Efforts To Defend the Prevalent Theory About Inflation

The efforts of the President's economists, and many other economists, to maintain the validity of the prevalent method of stopping inflation have by now passed from the highly erroneous to the palpably ridiculous. For a long time, these efforts took the form of insisting that there was a "time lag" between the early stages of stunting the real economy and the abatement of price inflation.

If the damage done to the real economy over the years had been accompanied consistently by an abatement in the rate of price inflation, even though prices still continued to rise, there might have been some slight support—although not necessarily enough—for the "time lag" theory. But when, for so long a time, the progressive damage to the real economy has been accompanied by an accelerating and phenomenally high rate of high price inflation, the prevalent theory collapses completely. For if the ancient theory of supply and demand in a free market worked reasonably well, which is the basis of the prevalent theory, prices should have started to fall as idle resources rose, and this reaction could not take more than 4 years. This is another way of saying that the behavior pattern of prices in the modern economy does not fit the prevalent theory. It is interesting to note that, in Europe as well as in the United States, increased weakening of the performance of the real economy has been accompanied by rapidly accelerating price inflation.

Avoidance of Tax Increases Circa 1967 Not the Cause of Recent Inflation

A more recent but equally spurious explanation of recent inflationary trends, put forward by many economists, is embodied in the opening paragraph of the 1971 President's "Economic Report." The President says:

> 1970 was the year in which we paid for the excesses of 1966, 1967, and 1968 when Federal spending went $40 billion beyond full employment revenues.

I shall pass over the overwhelming empirical evidence that, in a long-term perspective, no direct correlation can be established between a Federal budget actually in deficit, or theoretically in deficit at full employment, and the amount of price inflation. Suffice it to raise this question: How could the accelerating inflation from 1966 to 1970, and in some respects on into 1971, be explained by the prevalent theory that the inflation was being caused by the cited theoretical deficit of the Federal budget at full employment (this, in turn, being based on the prevalent theory that this deficit was causing an "overheated" or "overstrained" economy) when, in fact, the years since 1966 to date have been marked by progressively larger departures from reasonably full resource use and increasing idleness of plant and manpower (although the progressive disuse of the labor force was concealed for a substantial portion of this time by the sharply declining rate of productivity growth, induced by the progressive economic stagnation)? For, as shown on my chart 26 (subsequently to be discussed in detail), the real rate of economic growth fell from 6.5 percent from 1965 to 1966 to 2.6 percent from 1966 to 1967, 4.7 percent from 1967 to 1968, 2.8 percent from 1968 to 1969, and minus 0.4 percent from 1969 to 1970.

Price Stability Is Never the Prime Desiteratum

Because the prevalent theory, that damaging the real economic performance reduces price inflation, has now been so completely discredited by empirical observation, it seems unnecessary for me to discuss in great detail the shallowness of economic analysis and thought upon which this prevalent theory rests insofar as it erects price stability per se into a prime desiteratum. But some discussion on this point seems desirable.

It is remarkable to note that economists and others, with rare exceptions, have neglected the obvious truth that price trends are not significant per se, except in their impact upon full and wise use of resources, and upon the priorities of our national needs. Yet, all experience indicates that these great purposes may be served or disserved under a falling, stable, or rising price level. The imbalances of the economy during the 1920's, which brought on the Great Depression, occurred under a remarkably stable price level, except for falling farm prices (the stock market debacle is a separate issue). These imbalances occurred because, even under a stable price level, wages and other forms of compensation grew far too slowly, relative to productivity and investment in the capacity to produce. The real problem then, as always, was how actual trends in prices, and other factors, affect the allocation of resources and the distribution of income. In the final analysis, the problem is one of income distribution, and the studied avoidance of this problem, by most economists, even while actual policies have served to militate against improved income distribution, has been appalling if not inexplicable.

To illustrate: If the amount of price inflation which we have experienced since 1966 were accompanied by, or in consequence of, policies and programs to maintain full employment and full resource use, to meet the great priorities of our domestic needs, and to bring actual income distribution into closer accord with simple justice and equity in the American tradition, such price increases would have been well worth the cost. But price increases in these magnitudes, actually generated by policies and programs deliberately contrived to reduce business and employment opportunities and to ignore the great priorities of our domestic needs, and at least having the consequence of introducing regressionary factors into income distribution—this kind of price inflation, so developed, has been a cruel and stupid inflation.

What I have said thus far implies that economists and others, both inside and outside the Government, have thoroughly ignored the entire problem of resource allocation and income distribution; and this neglect is even harder to explain because this is the very problem which has been the traditional central concern of economists from the beginning. So I shall now turn to a discussion of the policies and programs which have so significantly ignored this central problem, in its bearing upon our economic performance.

Equilibrium Analysis Is Ignored by the President's Ecomonic Report, and Was Also Ignored for Many Years Preceding the Current Administration

The General Nature of the Prevalent Economic Theory

Before reviewing in detail the facts and trends which demonstrate the inadequacy of economic analysis during recent years and currently, I think it desirable to make a few general observations.

The prevalent economic theory for some time has been that our economic performance falls short of reasonably full resource use when total demand in the form of actual spending falls short of the amount required, at the existing price level, to use resources reasonably fully. This leads the prevalent economic theory to the conclusion that the economy can be reactivated to reasonably full resource use by increasing total funds available for spending. This proposition, unassailable by itself, is not much more meaningful than saying that a half-full glass of water will become full, if more water is poured into the glass. In line with the prevalent economic theory, efforts have been made, when the economy is very slack, to galvanize sufficient additional spending, with preliminary reliance, at the Federal level, upon the Federal budget.

But aside from the quantitative insufficiency of the measures attempted toward this end, the prevalent economic theory has fallen short of its objectives because it has been assumed that a quantitative reduction in Federal taxes, or a quantitative increase in Federal spending, or some admixture of the two, would do the job, regardless of more refined choices in the stimuli used and where they are applied. This unrefined approach has turned out to be very faulty. For our economy does not commence a substantial departure from reasonably full resource use, simply because total funds available for spending are inadequate. If this theory were correct, one could hardly explain the onset of a substantial economic decline in real terms, because the amount of total spending power generated at any point in time when our resources are in reasonably full use is sufficient to absorb total production. Indeed, total national production itself is measured, at any given time, by total spending. The difficulty occurs because the allocation of resources and the distribution of income are not conducive to a sufficient volume of spending, measured against productive capacity. This is another way of saying that saving is not fully absorbed by private and public investment.

The Keynesian Approach Has Not Really Been Applied

This is what is frequently called the Keynesian analysis. But despite loud claims to the contrary, this analysis has been perverted, rather than genuinely applied, during recent years. Lord Keynes took the position that the distribution of income and other factors at reasonably full resource use reduced the propensity to consumer by putting too much income in the hands of those who saved too much and invested too little to maintain full resource use. He therefore proposed that this excess saving be absorbed by public deficit financing and public investment. He maintained that such public investment would also turn more of total resources toward what the nation very much needed. And he insisted that even such a program would not work successfully, without many other measures to improve the distribution of income.

But the prevalent economic theory, at least from 1960 forward, has taken the position that any reduction in taxes, or any increase in public spending, including its multiplier effects, would improve real economic growth pro tanto, without regard for the sectors of the economy toward which the alleged stimulation were applied. This has been similar to a man driving up to a gas station, and asking the attendant to "fill 'er up." When the attendant asks whether he should pour water into the carburetor, or gas into the tires, or lubricating oil into the gas tank, the answer comes forth: "What difference does it make, haven't you heard of Lord Keynes?" The great Englishman would turn over in his grave if he knew that this was being done in his name.

Detailed Analysis of Problem of Economic Equilibrium or Balance

I now turn to a more specific and factual analysis of the course of the economy since 1953, and more particularly since 1966, in order to depict how the increasing disequilibrium or imbalance has emerged, and how national economic policies and programs have augmented if not caused this trouble by their errors in analysis and direction.

The Deficient Economic Growth Rate in the Long Run

My chart 11 shows that, for the entire period 1953–69, the average annual rate of real economic growth was only 3.6 percent, or very far short of what we had achieved during some relevant earlier periods, and should have at least achieved during 1953–69 in view of the advances in technology, the productivity potential, labor skills, managerial know-how, and policy tools available to Government. The chart also indicates the need for an average annual growth rate in real terms of 8.3 percent from fourth quarter 1970 to 1972 as a whole, in order to come close to reasonably full resources use by the end of 1972, and to reach it shortly thereafter. It depicts the need for a real annual average growth rate of 5.3 percent during 1972–80. I have earlier discussed the reasonableness of these projected goals, referring especially to my chart 2 on the productivity record. My needed growth rate goals through 1972 are rather closely in accord with those of many other economists. The goal established by the President, to achieve a real rate of economic growth of about 4.5 percent from 1971 to 1972—a goal extremely unlikely to be reached, for reasons I have already set forth—is dangerously short of the real need.

The Employment and Production Deficits

The same chart also shows that the true level of unemployment in December 1970 was 7.3 percent, taking into account not only full-time unemployment as officially recorded, but also the full-time equivalent of part-time unemployment; and the concealed unemployment in the form of those not actively participating in the civilian labor force, and therefore not counted as unemployed, because of the scarcity of job opportunity. The chart does not attempt to measure the underutilization of the employed civilian labor force, reflected in the very low rate of productivity growth in consequence of stagnation and recession. If this factor were to be included, the true level of unemployment plus underutilization might be as high as 9 percent.

The same chart also shows that, in fourth quarter 1970, the annual rate of total national production, measured in 1969 dollars, was 17.1 percent of $190.5 billion below maximum production. This production deficit or "gap" is estimated by starting with the base year 1953, and comparing the actual performance with that which would have resulted from reasonably full resources use and optimum economic growth throughout the period. Although this method of measurement is entirely valid for the purpose of indicating how far behind we now are, compared with where we should have been, it is not intended to imply that the theoretical immediate restoration of maximum production would increase such production by anything like $190.5 billion. This is because the long years of inadequate performance have destroyed some of the potentials which we would now have if the performance had been adequate throughout.

My chart 12—which is also based upon calculating the deficits from a 1953 base—shows that, again measured in 1969 dollars, we forfeited during 1966–70 an estimated $547.1 billion of total national production, and 6.1 million man-years of employment opportunity, in consequence of economic stagnation and recession. The chart also apportions these deficiencies into some of the main components thereof.

Future Consequences of Low Economic Growth

The lower section of the same chart indicates the losses that we would suffer, during the years 1971 to 1980 inclusive, if the average annual growth rate should be no higher than that averaged during 1953–69, measured against the needed growth rates shown on my chart 11. In this case, however, the deficits are projected only form a 1970 base, writing off the cumulative deficits during 1953–70 or 1966–70. Thus estimated, the total national production deficit during 1971 to 1980 inclusive, if the low growth rate performance were to be repeated, comes to $1,072.1 billion (1969 dollars) and 21.6 million man-years of employment opportunity. These deficits are also shown on the chart in terms of some of their main components.

Development of Investment-Consumption Imbalance, 1955–61

My chart 13 begins my equilibrium analysis, which focuses upon the main cause of the deficient performance as a whole. This main cause was that, during each so-called "boom" period, the investment in plant and equipment, which adds to our ability to produce, advanced far more rapidly in real terms than ultimate demand in the form of private consumer expenditures plus public consumption—public outlay at all levels for goods and services. In due course, such nonsustainable investment excesses, relative to the performance of the economy as a whole, brought on sharp reverses in investment trends. And these, combined with the more enduring and quantitatively much larger deficiencies in ultimate demand as I have defined it, brought on the periods of stagnation and recession.

How the "New Economics" Missed the Boat

The data presented on this chart 13 include, first of all, four periods from the first three quarters of 1955 to the first half of 1961, preceding the advent of the "new economics." The lesson for the "new economics" was abundantly clear. National economic policies and programs should have placed almost exclusive emphasis upon the expansion of ultimate demand, and this in turn would have revived the investment process on an adequate and sustainable basis. Instead, beginning with 1962 and running through 1965, and especially through the massive tax reductions of 1964, the "new economics" placed great reliance upon enormous tax cuts and concessions. This was the wrong remedy, and especially so in that these tax cuts made the national tax structure considerably less progressive than it had been, because too large a proportion of the tax benefits were directed toward the investment function, and not nearly enough to the stimulation of ultimate demand. Even more importantly, the tax cuts were a much less productive means of stimulating the economy than an equivalent quantitative amount of public spending, quite apart from the fact that such public spending would have helped mightily to overcome the gross deficiencies in the public sector.

At the time of the massive tax cuts in 1964, I opposed them on these very grounds, before the Joint Economic Committee and elsewhere. I forecast that, to be sure, these tax cuts would result in a short and unbalanced economic spurt, but that, in the not too distant future, they would lead to more stagnation and recession. By early 1966, most forecasters felt that just this dismal prospect was just around the corner. But the "new economics" was temporarily "saved" by the vast and unexpected increase in spending for the Vietnam war. Regardless of the merits or demerits of that war, this demonstrated that public spending does far more to stimulate the economy and reactivate employment opportunity than tax cuts. Yet, despite the vast and unexpected increased spending for the war, the real economy commenced to shrink in its economic growth from 1966 forward, and moved toward progressive stagnation and then into absolute recession. Nothing could more clearly reveal the shallow and erroneous analysis which entered into those policies and programs which have perhaps been more widely advertised by their proponents than at any previous time within my memory.

Developments From the First Half of 1966 Forward

Looking in detail at the period from the first half of 1966 forward, as depicted on the same chart 13, they consistently support my central thesis. In addition, one disturbing factor of great significance is revealed for the period from the first half of 1966 to the fourth quarter of 1970. During this period, measured in constant dollars, the growth rate of private investment in plant and equipment continued at an average annual rate of 1.9 percent, contrasted with very sharp downward movements during the earlier recession periods shown on the chart. In consequence, excessive plant capacity has increased rather than been reduced, which militates against our prospects of achieving a real upturn of the size and speed which occurred, let us say, during 1960–66. Meanwhile, from the first half of 1966 to the fourth quarter of 1970, ultimate demand in real terms grew at an average annual rate of only 3 percent, or tremendously short of the rate required for the restoration of economic equilibrium or balance, and the resumption of a satisfactory upward course for the economy as a whole.

Comparative Growth Rates, 1960–70

My equilibrium analysis is continued on my chart 14. Looking at the period 1960–70 as a whole, and despite the lower growth rate in investment in plant and equipment than in ultimate demand from the first half of 1966 forward which I have already discussed, the trends for the 10-year period as a whole were as follows: Measured in constant dollars, total national production grew only 34.9 percent, private consumer spending only 32.2 percent, and Government outlays at all levels for goods and services only 33.4 percent, while total business investment grew 48.1 percent, and private investment in plant and equipment grew 60.1 percent. Underlying these distortions were the following distortions in income trends: Measured in constant dollars, while wages and salaries grew only 33 percent, and total labor income only 34.1 percent, while farm proprietors' grew only 23.6 percent, and while transfer payments grew only 32.2 percent, personal dividend income grew 41.3 percent, corporate profit grew 46 percent, and personal interest income grew 65.4 percent. I shall later discuss the price and investment trends in some key sectors of the economy, which relate the selective and distorted inflation to the trends which I have just depicted.

Comparative Growth Rates, 1966–70

During 1966–70, as shown on the same chart 14, the comparative trends appear superficially to tell a different story and point to different policy conclusions. During this period, while total national production grew 10 percent, private consumer spending 14.1 percent, and government outlays at all levels for goods and services 12.1 percent, total private business investment declined 7.3 percent—due largely to the sad performance of housing—and private investment in plant and equipment grew only 7 percent. Wages and salaries grew 17.2 percent and labor income 17.9 percent, farm proprietors' net income dropped 13.7 percent, and corporate profits declined 22.8 percent.

However, in order to discern the true meaning of these respective trends, we must recognize that the relatively low growth rate in private investment in plant and equipment, and the downward movement of corporate profits—albeit from excessively high levels—did not occur because of moderate pricing, or because of inadequate rates of return per unit. Instead, the slackening of trends in business investment and profits was occasioned by the sorely declining rate of expansion of business volume and of the overall economy, for which the main causal factors were the very deficient trends in wages and salaries, labor income, farm proprietors' net income, private consumer spending, and government outlays for goods and services, when measured against any respectable model for balanced economic restoration. If national economic policies had concentrated upon adequate expansion of ultimate demand, in the form of consumer spending and public outlays combined, there would have been no problem with respect to business investment and profits, except considerable likelihood of the reemergence of a "boom" in these areas, excessive in relationship to the economy at large.

The Importance of the Consumer Spending and Income Deficiencies

The problem of inadequate consumer spending has been so persistent and important that it deserves additional attention at this stage. This is provided on my chart 15. With all measurements in real terms, this chart shows that, compared with a needed average annual growth rate which I estimate at not less than 4.2 percent for the period 1960–70 as a whole, the actual average annual growth rate was 4.8 percent during 1960–66. This was by no means too high, but instead was too low, in view of the requirements for full economic restoration, and explains both why the economy did not get back to reasonably full resources use even by 1966, and started moving enduringly in the opposite direction thereafter.

More important, during 1966–70, the average annual growth rate in consumer spending was only 3.4 percent, and only 1 percent from fourth quarter 1969 to fourth quarter 1970. I estimate that, measured in 1969 dollars, the average annual deficiency in consumer spending was $47.6 billion during 1960–66, and rose to an annual rate estimated at $78.4 billion by the fourth quarter 1970. In fourth quarter 1970, as shown on the same chart, the annual rate of the deficit in public outlays for goods and services came to an estimated $50.4 billion, so that the deficiency in total ultimate demand came to $128.8 billion, or about 67 percent of the $190.5 billion estimated deficiency in total national production.

The same chart shows, in fourth quarter 1970, a deficiency in gross private investment estimated at $61.7 billion—annual rate. But more than half of this deficiency was due to the inadequate rate of investment in housing and related activities, a problem which I have already discussed fully. There was also a large deficiency in private investment in plant and equipment, measured against requirements at full resources use. But measured against the state of the economy and the size in deficiency in ultimate demand, this did not call for specific measures designed directly to encourage such private investment, which as I have already stated was moving upward enough to maintain an extraordinary amount of excess plant capacity. The correct way to enlarge such investment, in balance with the rest of the economy, would be to adopt vigorous direct measures to expand private consumer spending more rapidly, and to expand public outlays much more rapidly.

The True Significance of the Current High Rate of Saving

The prevalent economic theory now takes the position that the inadequate growth in private consumption is due to an unusually high rate of saving, and that this rate of saving can be reduced by "confidence" and exhortation. Nothing could be further from the true situation. The high rate of saving is due to the grossly unbalanced distribution of income, and this is at the heart of the economic problem now, just as on previous occasions. More than a third of the total population actually dissaves, spending each year more than it earns after taxes, and thus acquiring excessive private debts at excessively high interest rates. Viewing the consumer picture as a whole, my chart 16 sets forth my estimate that, measured in 1969 dollars, for the period 1960–70 as a whole, a deficiency in private consumption estimated at $475 billion stemmed from a deficiency in total consumer income before taxes of $728 billion.

Serious Income Maldistribution

The problem of income maldistribution is further illustrated by my chart 17. Looking at multiple-person families in 1969, 41 percent of total family income was received by the top income fifth and 64 percent by the top income two-fifths, while only 6 percent was received by the lowest income fifth, only 18 percent by the lowest income two-fifths, and only 36 percent by the lower three-fifths. Among unattached individuals in 1969, 51 percent of total income received by all unattached individuals went to the highest income fifth and 75 percent to the highest income two-fifths, while only 3 percent went to the lowest income fifth, only 11 percent to the lowest income two-fifths, and only 25 percent to the lower three-fifths. Looking back to 1947, 1953, or 1960, the long years to date have witnessed very little improvement in income distribution, measured against our protestations and promises with respect to the low-income problem, measured against the simple dictates of economic justice, or measured against prime requirements for economic balance and optimum economic performance.

The Extremely Regressive Nature of the Nationwide Tax System

Tax policy in the United States, which we sometimes look upon as progressive, is just the reverse in fact. In 1968—later comprehensive data not available—when one takes into account all types of taxation, direct and indirect, at all levels of government, it has been estimated that consumer units with incomes under $2,000 paid 50 percent of their incomes in total taxes, while those with incomes of $50,000 and over paid 45 percent. Those with incomes of $2,000–3,999 paid 34.6 percent, or a considerably higher percentage than any grouping ranging from $4,000–$5,999 to $25,000–$49,999.

National Economic Policies Have Aggravated the Disequilibrium

The Federal income tax has been traditionally, and remains, progressive in nature. But the grossly unsound and unfair distribution of the total tax burden, which I have just depicted, is occurring despite the progressive nature of the Federal income tax. Moreover, the massive tax reductions of 1964 reduced very considerably the progressive nature of the Federal tax burden, and this may have been the case even under the so-called tax reform legislation of 1969, although the situation here is not so clear.

In short, practically every major national economic policy since 1960—I do not imply that the situation was better during the emmediately preceding years, but deem it unnecessary to discuss them—has moved in the direction of erroneous analysis and perverse results. The fiscal policy, both on the spending side and on the tax side, has been grossly erroneous, for reasons already set forth. The monetary policy has been grossly erroneous, for reasons already set forth in part, and to be discussed more fully later on in my statement. The late Price-Wage Guidelines, for reasons which I shall subsequently discuss, were far too hard on the wage-earning consumer. They were far too lenient on prices and profits, and did not really come to grips with these aspects in any substantial or sustained way.

I have already discussed fully how and why the policies and programs set forth in the President's 1971 Economic Report and fiscal 1972 budget message will, if not drastically revised by the Congress, carry us further and further in the wrong directions. I have also set forth, earlier in this statement, my detailed recommendations for a new economic policy ad a new fiscal policy, with the goals set forth in quantitative terms.

Price, Profit, Investment, and Wage Trends, and the True Meaning of an "Incomes Policy"

At the very core of the prevalent economic thought and action, and certainly now, is the proposition that economic growth has been and is being impeded, and inflation fanned, by excessive wage increases relative to other trends in the economy. The Price-Wage Guidelines, as I have already indicated, were founded upon this thesis, and did considerable damage, as I shall indicate factually in this phase of my analysis. Since the demise of the guidelines, we fortunately have not had other definitive measures based upon the errors and analysis which still exist, but we may soon come to the restoration of these errors in even more acute and compelling form, if the current agitation persists. In any event, even the exhortation and emphases now in motion, from so many powerful sources both inside and outside the Government, are highly inimical to the absolute and relative income adjustments which we now so sorely need. I now come to my specific analysis in support of what I have just said.

The Lag in Real Wage Rate Gains Behind Productivity Gains

Viewing the strong animadversion to wage gains which has marked the prevalent economic thought and action for so many years, it is highly desirable to compare the relative trends in real wage and salary gains—wages not separately available for this purpose—with the trends in productivity or output per man-hour during the past decade.

This is done on my chart 19. During 1960–70 as a whole, the average annual advances in real wage and salary rates and in output per man-hour or productivity in the total private nonfarm economy were approximately the same—2.6 percent for productivity, and 2.7 percent for wages and salaries. But during 1960–66, when the economy was moving reasonably well and coming closer to full resource use, the average annual advance were 3.4 percent for productivity, and only 2.7 percent for wage and salary rates. This serious lag as to the latter, aggravated by the Wage-Price Guidelines which bore down upon wages but did almost nothing about prices or profits, was a major factor in the imbalances and distortions which developed during this period, and which led into stagnation and then recession.

During 1966–70, the annual average advances were 1.3 percent for productivity and 2.7 percent for wage and salary rates. The reversal of the respective trends was due to the underutilization of employed manpower, in consequence of underutilization of plant, and growing excess capacities. From fourth quarter 1969 to fourth quarter 1970, the figures were 1.2 percent for productivity, and 1.6 percent for wages and salaries.

The trends in manufacturing are even more significant, especially because the hue and cry about excessive wage increases have been concentrated so substantially in this area. For the decade 1960–70 as a whole, the average annual advances were 3.1 percent for productivity, and 2.1 percent for wages and salaries. During 1960–66, the figures were 3.8 percent for productivity, and 2 percent for wages and salaries. During 1966–70, the respective figures were 2 percent for productivity, and 2.1 percent for wages and salaries. And from fourth quarter 1960 to fourth quarter 1970, despite vast excess plant capacity, the figures were 1.5 percent for productivity, and 0.9 percent for wages and salaries.

Thus, looking at the vitally important manufacturing sector, where occur many of the collective bargaining agreements which have been the targets for the fire of those screaming about wage irresponsibility as the cause of inflation, the rate of real wage progress lagged tremendously behind the rate of productivity advance during the 10-year period as a whole, during the so-called boom period 1960–66, and in manufacturing even during the recessionary period from fourth quarter 1969 to fourth quarter 1970.

Real Wage Rate Gains Should Be Geared to the Productivity Potential

The main position of the antiwage addicts is that real wage rate gains during the most recent years have advanced more rapidly than productivity gains. This is true for the total nonfarm economy, although the opposite has been true for manufacturing. But to the extent that it is true, to attempt to base criteria for real wage rate progress upon the artificially depressed productivity gains which have resulted from contrived economic stagnation and recession (including contrived restraint upon wage rate progress which has contributed to these unfavorable developments) is dangerous in the extreme. If such a policy were to be followed, the enormously increased restraints upon real wage rate progress would undoubtedly translate stagnation and recession into a depression of major proportions.

The only sensible policy is to relate real wage rate gains to the growth in the productivity potential in the long run, under conditions of reasonably full resource use; and, under current conditions, to encourage real wage rate gains even in excess of the productivity growth potential, in order to overcome the current enormous deficit in total wages as an essential aspect of full economic restoration. Unfortunately, this approach has not yet commenced to enter prevalent economic thinking, inside or outside the Government.

Price, Profit, Investment, and Wage Trends, 1960–66

Much further light is shed upon the complex and vital subject of wage policy by examining respective trends in prices, profits, investment, and wage rates. During the "boom" period 1960–66 (measurements in current dollars, which are satisfactory for the purposes of these comparisons), profits after taxes in total manufacturing rose 103.6 percent during the period in its entirety. Investment in plant and equipment rose 86.9 percent. A 3.4-percent increase in prices not only supported the relatively excessive investment boom, but led also to profits rising even faster than investment. Meanwhile, wage rates rose only 20.4 percent (as indicated by other phases of my analysis, the wage lag was very great, even when wage gains through added employment are added to wage gains through increases in wage rates). Examination of eight other key sectors on the same chart show intrinsically the same imbalances aid distortions. Even in motor vehicles and equipment, while prices declined 0.2 percent, they should have declined much more in view of the other trends depicted, and they have been jacked up grossly during the very most recent years. Profits after taxes rose 82.1 percent, investment in plant and equipment rose 127.8 percent, and wage rates rose only 22.4 percent.

Price, Profit, Investment, and Wage Trends, 1966–Second Quarter 1969

Next, my chart 21 depicts the respective trends from 1966 to second quarter 1969, a period when the average annual rate of real economic growth was drastically reduced, but before absolute recession set in. Even during this period, the respective trends were extremely distorted and unbalanced, despite the lesson which should have been learned from the earlier "boom" period. In total manufacturing, wage rates rose 16.3 percent, and investment in plant and equipment rose 15.4 percent, or almost as much as wage rates despite heavily increased evidence that our ability to produce was getting further and further out of line with our ability to consume. The profit rise of 10.5 percent was also excessive, as the main function of profits is to support investment. which was relatively excessive. The 7.1-percent rise in prices, despite the falling off of the real performance of the economy, was absolutely indefensible, when examined in terms of the relatively excessive trends in profits after taxes and investment.

Examination on the same chart of five other key sectors of the economy shows an essentially similar picture, with some indicative variations. In iron and steel, excessive price increases of 7.2 percent led investment in plant and equipment to advance at practically the same speed as wage rates, in the face of grossly excessive unused plant capacity. That these imbalances continued in the face of a 6.4-percent decline in profits after taxes appears to indicate that profits had earlier been too high in view of their investment function. In motor vehicles and equipment, there was a 5.7-percent increase in prices and a 7.6-percent increase in profits after taxes from fantastically high levels in the base year, despite the fact that the industry recognized the essential business situation by a 13.9-percent decrease in investment in plant and equipment. The 17.7-percent increase in wage rates, not all excessive in terms of the productivity gains in this industry, certainly did not justify the 5.7-percent increase in prices, yielding a 7.6-percent increase in profits above very high previous levels.

Price, Profit, Investment, and Wage Trends, Second Quarter 1969–Fourth Quarter 1970

My chart 22 reviews the respective trends from second quarter 1969 to fourth quarter 1970. As should be expected during a period of progressive stagnation and recession, profits after taxes declined very substantially. But the continued and accelerating price increases during this period, despite the general downward movement in investment in response to deficient demand, exhibited once again the propensity to seek salvation by price increases rather than by price policies conducive to volume expansion.

Viewed in the entirety, price, profit, investment, and wage records from 1960 to date verify the general conclusions which I set forth much earlier in my statement. During the so-called boom periods, the price-profit-investment advances got far out of line on the high side, compared with the retarded advances in wage income as a major factor in consumption. When the reactions came, instead of the curative processes of price moderation, the upward movement of price accelerated, thus working severely against economic restoration.

Very Recent Trends in Real Wages

The review which I have just made does not indicate wage excesses in general but, instead, reveals a serious wage lag, measured against needed economic performance. But a substantial part of the review dealt with wage trends in current dollars, which tends to mislead unless corrected for increases in the cost of living. So I shall now stress the trends in real wages. These trends, as I have already indicated, were far too much on the low side in terms of the relationship between real wage rate gains and productivity gains, and even more on the low side in terms of gains in the productivity potential and the balanced requirements for optimum economic performance.

During the fourth quarter of 1970, measured in 1969 dollars, I estimate that the deficit in wages and salaries was running at an average annual rate of $87.8 billion. Further, the trends as I have thus far depicted them conceal what has been happening during the very most recent years. From fourth quarter 1968 to fourth quarter 1970, total real wages and salaries grew only 1.8 percent over the 2 years, or at an average annual rate of only 0.9 percent. Meanwhile, despite the inhibiting effects of stagnation and recession, investment in plant and equipment grew by 3.2 percent over the 2-year period. This means that the distortions and imbalances today are even greater than they were 2 years ago.

It is true that corporate profits declined 6.2 percent during these 2 years. But this did not prevent continuation of an investment advance which was excessive relative to the performance of the economy as a whole or the performance of wages as a whole. Even today, we are in a situation where total profits in general are certainly high enough to induce the amount of investment required until idle capacities are worked down greatly. Indeed, the most recent months show strong improvement in profits generally. Per unit profits in general are high enough to yield ample or even excessive profits for investment and other purposes when volume expands toward full resource use. Thus, what we now need most is a relatively high rate of growth in wages and other supports to consumption or ultimate demand, including public spending.

Further still, the most recent trends in real wage rates are not clearly revealed by the coupling of wages and salaries in the foregoing analysis.

Expressed in 1970 dollars, the spendable average weekly earnings of production of nonsupervisory workers on all private nonagricultural payrolls declined, in the case of workers with no dependents, from $96.50 in December 1968 to $95.97 in December 1969, and then to $95.85 in December 1970. For workers with three dependents, the decline was from $106.25 to $105.38, and then to $104.45. In manufacturing, among many workers with no dependents, the decline was from $110.58 to $109.04, and then to $107.53. For workers in manufacturing with three dependents, the decline was from $120.94 to $119.09, and then to $116.81.

It is hard to understand how these trends in real take-home pay have led to the intensifying excitement about wage-generated inflation.

Criteria for Wage Adjustments in the Near Future

Beyond all that has happened to date, the great issue now is to establish cretiria for trends in wages and wage rates from this point forward. These criteria must be consistent with the role of wages in the achievement of appropriate overall goals for the expansion of consumption and of the economy as a whole. It is an amazing indication of the bareness of the performance of the Council on Economic Advisers, and of so many other economists, that no attempt to develop these criteria and quantifications has thus far been revealed. Vacuous exhortations about "wage restraint" can hardly be a substitute for this kind of economic analysis and related policies.

Indeed, it is almost incredible to observe the degree to which the prevalent economic theory—and practice—have looked upon wages only as a business cost, and not as a factor in consumption. That this onesided view persists, even in the face of an avowed shift from a restraining to an expansionary policy, is another illustration that preoccupation with the "inflation problem" has estopped a mature view of the economy in all its aspects, and has also led to the failure to cope with inflation itself.

My model for economic expansion, which I have already discussed, embodies the goal of a real average annual growth rate in total national production of 8.3 percent from fourth quarter of 1970 to 1972 as a whole. My model includes these annual growth rates: Government outlays at all levels, 8.1 percent in real terms; consumer spending, 3.8 percent in real terms, and total private business investment, 23.1 percent in real terms.

Some explanation is necessary, to indicate why the respective growth goals which I have just stated are not inconsistent with my earlier emphasis on direct stimulation of ultimate demand, as against direct stimulation of private investment in plant and equipment. The average annual growth rate goals of 8.1 percent for Government outlays at all levels, and 3.8 percent for consumer spending would, in view of a very large portion of the total economy preempted by these two types of spending, constitute the major portion of the overall growth goal. And these are the sectors where, according to my analysis, public policies of direct stimulation need to be applied very extensively. The 23.1 percent average annual growth goal for total private business investment derives in large measure from the need for tremendous acceleration in home construction. The average annual growth goal for home construction is set at 41.6 percent. This also requires a wide range of direct Federal stimuli, including, as I have already indicated, close to tripling the proposed fiscal 1972 Federal budget outlays for housing and community development. The component of total private investment represented by investment in plant and equipment is budgeted to grow at only 5.5 percent. But my entire analysis leads to the conclusion that this growth rate does not require direct Federal aid, but instead will be responsive to the appropriate expansion of ultimate demand in the form of consumer spending and public outlays at all levels, plus the tremendous proposed expansion in the residential construction area.

Consistent with my model as a whole, I find need for an average annual expansion in real terms of about 5 percent for wages and salaries from fourth quarter 1970 to 1972 as a whole. The figure for wages alone should be in the neighborhood of 6 percent (allowing for the fact that salaries accrue in larger proportion than wages to those in the upper income brackets). And as even the President projects price inflation at the rate of about 4 percent a year (and other economists do liwewise), this imports a needed growth in total money wages of about 10 percent a year.

Allowing for the fact that total wages should be increased considerably by increased employment, but recognizing also that increases in the wage rates of those already employed is essential to the expansion of purchasing power needed or required for the expansion of total employment, I would think that an average annual increase in money wage rates in the neighborhood of 8 percent would be needed from fourth quarter 1970 through 1972, but for this additional factor: unless Herculean efforts are made—and they seem highly unlikely to be made, although they should be—to increase the wage rates of the unorganized through very large improvements in minimum wage laws and other forms of income help, it appears that money wage rate increases among organized workers engaged in collective bargaining need to advance in the neighborhood of 12 percent a year from fourth quarter 1970 through 1972 as a whole.

Although it would be much better, on both economic and social grounds to distribute wage gains more progressively among all workers, the practical reality is that it is much better for the economy to favor such wage rate gains for the organized workers as will help to balance off the retarded rate of progress among unorganized workers. Indeed, experience indicates that doing this helps the unorganized to advance more rapidly than they otherwise would, although not nearly enough.

Wage Increases Thus Far Negotiated Have Not Averaged Too High

Granted that there have been some glaring examples of excessive money wage rate gains in some recent contracts, the totality of contracts negotiated thus far and having effects continuing into 1971 and/ or 1972 certainly fall considerably short of achieving for organized workers in the entirety the average annual money wage gains of about 12 percent from fourth quarter 1970 to 1972 as a whole (with still higher wages by the end of 1972) which I have estimated to be needed in the general interest of the economy. In arriving at this conclusion, proper allowance must be made for the portions of the increases achieved in contracts during 1970 or earlier which had already entered into the wage flow as of fourth quarter 1970, and, therefore, are not properly to be counted as part of the goals projected from the fourth quarter 1970 base.

I would very much welcome analytical findings by other economists, both inside and outside the Government, which differed considerably from mine. These might turn out to be more correct than mine. But when I hear the almost universal excoriation of wage rate trends and contracts which in their totality continue to fall short of those dictated by emipirical observation of our national needs, I find another example of the vertiable poverty of the prevalent economic though and analysis.

What Is a Genuine "Incomes Policy," and How Might It Be Attained?

This brings me to the issue of an "incomes policy" for the Nation. Theoretically and even pratically, such an "incomes policy," voluntary in nature, is highly desirable. This is because the adjustments within the private economy form so large a portion of our total economic activities that substantial errors in this area can cancel out even the most effective fiscal and other policies by the Federal Government.

Nonetheless, it is reckless in the extreme to urge that a suddenly dedeveloped "incomes policy" can substitute for the basic and drastic changes in even more fundamental policies which I have urged in this statement. It may also be reckless to entrust an "incomes policy" to those whose economic analysis thus far is so faulty that giving them more weapons would increase their chance to do damage, and further distract from appropriate areas of concentration. We should have learned this from the late and unlamented.

Price-Wage Guidelines

An appropriate "incomes policy" must derive from a total economic and social budget for the Nation. Otherwise, efforts to quantify and influence appropriate trends in prices, profits, investment, and wages are flying blind. We have had too much of this already. To put this in another way, we cannot have an "incomes policy" for labor until we are also ready for one on profits. We cannot have either until we come to grips with the problem of the investment-consumption balance. Further, as I have already indicated, the problem of resource allocation and income distribution is the economic and social problem. In consequence, we must recognize that a meaningful "incomes policy" implicates also taxes, monetary policy, social security policy, welfare policy, farm policy, employment policy, and indeed the entire range of Government policies on the domestic front.

Any incomes policy which does not recognize this would be a placebo at best, and not a constructive addition to already available tools. It would therefore seem the part of wisdom to impose on the current national administration the task of straightening out the powerful public policies of a traditional nature which are already under its aegis, before giving it additional machinery to distract its attenton and deplete its energies.

New Instrumentalities Needed for An "Incomes Policy"

Even taking a narrow definition of an incomes policy, in the sense of application only to wages, prices, and profits, I believe that such a policy should be voluntary, under current and foreseeable circumstances. I think it would be a terrible mistake to embark upon definitive price and wage controls. A meaningful voluntary effort—and I favor it, subject to the conditions set forth above—requires new instrumentalities for its formulation and deployment. It requires permanent arrangements for cooperative consultation among representatives of the Government and business, labor, and other leadership. But for this to rise above the disappointment of the so-called labor-management conferences to date, the groups in assembly must talk and act in the perspective of the kind of long-range economic and social budget for the Nation to which I have referred. Parties cannot agree to do voluntarily what is right, unless the demonstration of what is right is much clearer and complete than it has thus far been.

The natural agency for the development of these perspectives is the Council of Economic Advisers. This would require that the Council emerge from the limbo of a completely inadequate interpretation of the scope and nature of its responsibilities under the Employment Act, and begin to become an agency capable of and willing to develop a unified and constant set of economic and related social goals and means. Until this is done under the Employment Act of 1946, we will continue to be bogged down and at cross purposes, whether we have an incomes policy or not.

The suggestion that we assign the development and administration of an incomes policy to an entirely separate agency seems to me to miss this point. Even during World War II, the incomes policy was integrated with unified and consistent quantified goals for production and employment, and for the allocation of resources and incomes. Although the presures on the economy now and in the foreseeable future do not require the degree of centralization nor the array of direct controls which were essential under the conditions of World War II, we should nonetheless learn, from our achievements during that war, that a mature economic program requires that we substitute a policy for policy, and a program for programs.

The Prevalent Monetary Policy: The Travesty of Travesties

General Evils of Tight Money and Excessively High Interest Rates

The errors in national economic policies and programs which I have thus far discussed are real and serious. It seems to me hard to understand how these errors have persisted for so long, and at such great costs, depite the building up of so much empirical evidence over the years that they have been wrong. Yet, one can get some glimmering of understanding, although not a complete one, as to why some mistakes have endured for so long, and thus can feel some impulse of sympathy for those who have made the mistakes.

But the prevalent policy of tight money and excessive interest rates is in an entirely different category. It was wrong on a priori grounds when initiated in 1952. It has been so palpably unsound in its economic aspects, so clearly immoral in its distributive aspects, so damaging in its application over the years, and so far from yielding any benefits compensating for its intrinsic evils, that I can feel no scintilla of sympathy for its perpetrators. And I cannot understand how the policy and its perpetrators have for so long been tolerated by successive Presidents, successive Congresses, funtioning economic groups, and the American people at large.

The prevalent monetary policy of tight money and excessive interest rates has brought recurrent stagnation and recession; it has been highly inflationary by definition; its distributive consequences have fed the fat and starved the lean; it has choked those engaged in undertakings which the Nation most needs, and has had almost no restraining effect upon those indulging, wittingly or unwittingly, in the most blatant excesses. It has defied the very concept that the people and their elected representatives should exercise ultimate control over the money power.

The Prevalent Monetary Policy Has Not Really Changed

It is equally incomprehensible to me how the belief has grown, during recent months, that the prevalent monetary policy of tight money and excessive interest rates has been laid to rest. There have been many undulations in the degree of monetary tightness, and in the movement of interest rates, since the unfortunate accord between the Federal

Reserve Board and the Treasury almost two decades ago. But always, the basic controlling philosophy has remained the same, and always the trend toward tighter money and higher interest rates has reasserted itself.

This will happen again, short of drastic assertion of Presidential and congressional will in the opposite direction. There are no signs yet that this is forthcoming. During recent weeks, the President's economists, or some of them, have been emitting faint squeaks of disapprobation of the FRB Chairman and of the operation of the Reserve System. This, too, happened during the two preceding administrations; but nothing more happened. The Congress has thus far been unwilling to attempt legislative remedies, even though the Congress has indicated its concern as to whether the President's program is expansionary enough, and even though FRB Chairman Arthur Burns has frankly told the Congress that the President's position may be sound as a goal but not as a forecast. By this comment, Dr. Burns seems to have meant that the President's economic goals are not practically attainable. Even today, despite some leniency in relative terms, FRB support for even the President's inadequate goals is not forthcoming.

It is completely misleading to point to the declines in interest rates which have occurred most recently. These declines have moved only a small fraction of the way toward viable or even tolerable interest costs. And these inadequate reductions in interest rates have been propelled by an absolute economic recession and a devastating rise in unemployment. It should thus be clear to all thoughtful people that the current FRB regime will be strongly inclined to lift interest rates again, when the economy begins to move forward at a pace faster than they deem desirable. And, ever since 1953, the pace which the FRB has deemed desirable has been far below the requirements for reasonably full resource use.

Redistributing $407.3 Billion, Mostly in the Wrong Direction

Essentially, tight money and excessive interest rates reallocate resources through the redistribution of income. Thus, the policy has been so catastrophically wrong because the allocations of resources and the redistribution of income which it has helped mightily to bring about have been so wrong.

Perhaps the best way to measure this is by turning to a few quantifications. As indicated on my *Chart 23*, the computed average interest rate on total public and private debt in the United States has risen 110.1 percent from 1952 to 1970, or risen at an average annual rate of 4.5 percent. Applying this to the trends in the total public and private debt, the dollar cost of the interest rates on total public and private debt during 1952–1970 has been 407.3 billion dollars higher than it would have been if interest rates had been held at the 1952 level. In fact, this enormous figure greatly understates the situation, because total debt would not have increased nearly so much, if the prevalent monetary policy had not done so much to bring on recurrent economic stagnation and recession. Throughout my discussion, I designate this 407.3 billion dollar cost of excessive interest rates as excess interest cost, because I submit that no part of it has had any justification.

No part of it has had any justification because rising interest rates are, in effect, transfer payments which shift income from those who borrow to those who lend. In substance, the prevalent monetary policy has redistributed income during the past 18 years to the tune of $407.3 billion, and most of this redistribution has been in the wrong direction, by all responsible economic and social tests.

How the Money Could Be Used Better

Appreciation of the enormity of this "public crime," as I have on occasion designated it, is furthered by comparing this income transfer in the wrong direction with alternative transfers of similar amounts, along directions which would have greatly strengthened our economic and social performance.

As shown on my chart 24, the excess interest costs in the Federal budget for the calendar year 1970 were estimated at $8.2 billion, this being the difference between actual interest payments and what they would have been if a Federal interest-bearing debt of the same size were being financed at 1952 interest rates. This $8.2 billion figure compares with $4.5 billion proposed outlays for housing and community development in the President's fiscal 1972 Federal budget. In other words, if the money drained from the Federal budget in support of these excess interest costs were diverted instead to housing and community development, the budget outlays for this vital purpose could be almost three times as large as those actually proposed by the President.

Contrasted with this $8.2 billion travesty, the outlays proposed for education in the President's fiscal 1972 budget come to only $6.3 billion. His budget proposal for manpower outlays comes to only $2.4 billion. His budget proposal for health services and research comes to $16.0 billion, and thus might be increased by 50 percent, through the use of the $8.2 billion of excess of interest payments.

Costs on a Family Basis, and Related to the Poverty Problem

There are other ways of measuring this travesty. As shown on my chart 25, the excess interest costs, averaging annually $22.6 billion a year during 1953–1970, involved an average cost for every family of four in the United States, rising from $4.96 in 1953 to $1,308.36 in 1970, with the figure standing at $8,357.16 for 1953–1970 as a whole. The excess interest costs per capita for the total population rose from $6.24 in 1953 to $327 in 1970, and aggregated on a per capita basis, $2,089.29 for the period 1953–1970 as a whole.

To take another illustration, as shown on the same chart. Let us suppose that, by one means or another—and many means have been available—the $22.6 billion annual average transfer of income in the wrong direction during 1953–1970 had, instead, been transferred to help the poor instead of to exact an unconscionable toll upon them. If this course had been followed with respect to all families with incomes under $4,000, it would have meant, in each of these years, an increase of $3,021 in the average annual income of each of these families. Manifestly, this would have lifted practically all of them out of the poverty cellar. To put this in another way, a nationwide and comprehensive system of income suppementation, through welfare payments or some other name, sufficient to eradicate almost instantaneously almost all of the poverty in the United States, could be accomplished by income transfers coming to only slightly more than half of the income transfers averaged annually since 1953 by the prevalent monetary policy of tight money and rising interest rates.

The Prevalent Monetary Policy Has Aggravated Inflation

The only substantial argument offered, in support of this "public crime," is that it has been necessary to restrain inflation, and has been helpful in restraining inflation. The complete answer to this spurious, if not disingenuous, argument has already been provided in earlier portions of my statement. For the proposition that (*a*) tight money and rising interest rates help to curb inflation is based upon the proposition that (*b*) tight money and rising interest rates curb inflation by slowing down the real rate of economic growth, and increasing the idleness of manpower and other productive resources. My earlier chart 10, and my discussion accompanying it, showed that this attempt to curb inflation by stunting the economy has consistently accelerated the inflationary processes, for clear and cogent reasons.

This issue is so transcendently important, however, that we should take a look directly at the relationships among the trends in real economic growth, those in consumer prices, and those in the annual growth of the nonfederally held money supply. This is done on my chart 26. I will not review this chart in detail, because that would really be retracting my earlier discussion of chart 10. But I will make a few observations about chart 26.

During 1955–70, the average annual growth rate of the economy was only 3.4 percent in real terms, or very much too low. During the same period of time, the average annual growth rate in the nonfederally held money supply was only 3.1 percent. Although I do not agree at all with economist Milton Friedman and others, who greatly overstate the influence in the trends of the money supply on our real economic performance, the comparative growth rates just cited do, in my judgment, support the conclusion that the growth rate in the money supply has been held far too low to float adequate real economic growth.

A casual inspection of the same chart reveals, in general, that every unfavorable transition in the rate of real economic growth was preceded by a drastic contraction of the money supply, and that the dual process of tight money and contraction of the rate of real economic growth led to far more price inflation than had obtained when the money supply was expanding more adequately, and when the rate of real economic growth was far more rewarding. It is true that stagnation and recession did repeatedly prompt the Federal Reserve to enlarge the expansion of the money supply, but belatedly and inadequately; and the confluence of a more rapidly expanding money supply and a more adequate rate of real economic growth, with consequent reduction of unemployment, led invariably to a very much lower price inflation.

It is revealing to look at what the chart shows for the very most recent years. From 1968 to 1969, the FRB contracted the growth rate in the money supply to only 3.1 percent, and concurrently the real economic growth rate dropped to 2.8 percent, while consumer price inflation rose to 5.4 percent. From 1969 to 1970, the FRB increased the monetary expansion to 5.4 percent. For this, some credit is appropriate, but the expansion was far too small in terms of the fact that the economy moved into an absolute economic recession of 0.4 percent. Meanwhile, consumer prices rose 5.9 percent. During 1970 and on into 1971—this not being shown on my chart—the monetary expansion has been nowhere near the amount required for dealing with the economic situation. Recession or stagnation prevailed. Price acceleration increased in some aspects, and a convincing movement toward a tolerable level of price increases was nowhere achieved.

During the past 15 years, and increasingly during the past 5 years, I have implored every congressional committee to which I had access to take firm legislative action to assert the supremacy of the people in the control on the people's money, and in the shaping of the people's economic destiny. I have done this because it has become increasingly clear that the executive branch, unlike the times from Woodrow Wilson through Harry S. Truman, somehow has seemed to lack the sense of urgency and the courage to resist the anomaly of a central bank acting without regard for the policies of the Government itself and its declared purposes. I hope that the time will come when my efforts will be more successful, and I deplore—even more than the inaction of the executive branch—the unwillingness of the members of the economics profession to join in the battle for a sensible and decent monetary policy for this great Nation.

Policy Recommendations

My policy recommendations are implicit, and at some points explicit in quantitive terms, in all that I have said thus far in this statement. So I shall now set forth my policy recommendations in abbreviated form:

First, national economic policies and programs cannot be straightened out, without the benefit of a quantified long range economic and social budget for the national economy, developed by the Council of Economic Advisers and transmitted by the President to the Congress and the people in his economic report. Without this, policy flies blind. This actual mandate of the Employment Act of 1946, so long honored in the breach, makes it urgently desirable in my view that the Congress enact additional legislation, fastening upon the Council of Economic Advisers and the President a responsibility which they have thus far managed to avoid. I have, on various occasions, drafted bills to accomplish this purpose, and I am disappointed that they have thus far had no takers;

Second, the idea of any "trade-off" of the goals of full employment, full production, and meeting the great priorities of our needs, in order to restrain inflation, should be relegated to oblivion. It is crystal clear that a reasonably full economy has turned out to be less inflationary in the long run, and that a stagnant or recessionary economy fans inflation;

Third, by calendar 1972, the Federal budget should be running at an annual rate more than $37 billion higher than the fiscal 1972 budget proposed by the President, and more than $27 billion higher than the translation of the President's budget into its implications for calendar 1972. Vast priority rearrangements within the budget are essential;

Fourth, we ought, for the time being, to put an end to all talk about Federal tax reductions in general. During the past decade, we have indulged in a veritable orgy of tax reduction, which has provided unconscionable bonanzas for some, and seriously impaired the progressive nature of the Federal tax structure. Tax reduction, and especially this sort of tax reduction, has been discredited as an effective weapon for sustained economic growth, and has added greatly to inflationary forces. It totally ignores priority needs. There is need, however, to close loopholes, and to restore much of the recently sacrificed progressiveness in the Federal income gap structure;

Fifth, spokesmen for the Federal Government, and others, should stop indicting organized labor and working people for a price inflation which they did not cause, and by which they have been victimized. From fourth quarter 1970 through 1972 as a whole, the average annual advance in real wage rates, with larger increases in money wage rates to compensate for inflation, needs to be considerably greater than that which will result from wage contracts thus far negotiated for 1971 and 1972, and perhaps at least as great as would result if the average formulas applied in wage contracts already negotiated were to be applied to contracts still to be negotiated. An "incomes policy" for the Nation, on a voluntary basis, may well be needed, provided that it includes not only wages, but also profits and prices, and comprehends not only the consumption function but also the investment function. The development of such an "incomes policy," however, is of less urgency than the realignment of the established policies of the Government in directions more conducive to economic restoration than those now in process. Until there is a profound change in the economic thought and action of the managers of national economic policies, there may even be grave risks in fastening upon them the management of still another economic weapon, as likely to be misused as to be well-used. One of the first essential steps, toward a sound "incomes policy," would be to raise the minimum wage to at least $2.00 an hour, and to make its coverage universal by Federal action and Federal inducements to State action;

Sixth, the neglect of the farm problem, and the disparities of income and public services inflicted upon farm people and other rural people, have reached critical proportions. The farm parity ratio has dropped to the lowest level since 1934. The forced uprooting of million of farm families, so many of whom have drifted to the relief rolls in our cities, illustrates poignantly the failure of the Council of Economic Advisers and of the processes under the Employment Act of 1946 to undertake the kind of deep analysis and planning which are urgently required for striking an appropriate balance between our urban and our rural populations, and the respective incomes flowing to the two. It was only a few short years ago that most economists were preaching that those driven from the farm would find full employment opportunity in American industry, even though the technological trends within industry made it clear that this was impossible. Then, these same economists insisted that the uprooted farmers would find full employment opportunity in the service trade. This has not happened, either;

Seventh, a nationwide, comprehensive program of compulsory health care should be promptly initiated. I favor the financing of this through general revenues, raised on a progressive basis, rather than through payroll taxes, in whole or in part;

Eighth, because of the compelling urgency of housing and community development, not only on social grounds and as the core urban problem, but also as the major single element in meeting the long-range problem of economic growth and employment opportunity, we must get to work at once to vindicate the promise to build more than 2 million new homes a year. Of these, about one-seventh should be public housing or its equivalent. The balance should be about equally divided between conventionally financed private housing and new quasi-private programs for lower middle-income groups, with very low interest rates and other forms of Federal assistance. In calendar 1972, the Federal Government ought to be spending about $11.7 billion for housing and community development, compared with about $4.5 billion in the President's fiscal 1972 budget, which implies about $4.7 billion for calendar 1972. We should abandon the step-child attitude of national policy toward housing and community development, evidenced by discriminatory treatment in tax policy, spending policy, and subsidy programs;

Ninth, to inaugurate a meaningful war against poverty, and to fulfill the bedrock responsibility of the Federal Government to maintain full employment, that Government should finance programs which provide employment opportunity for those whom private industry does not absorb. Even in the face of general national policies reasonably conducive to full employment, there will still be work to be done, in the public sector, virtually across the whole range of our unmet public needs. Supplementary to this full-employment guarantee, and carefully integrated with it, there should be a universal and federally supported system of income payments for those who cannot or should not work, in amounts geared to lift them above poverty immediately, and to increase their incomes further with the progress of productivity and per capita incomes throughout the Nation.

Tenth, the prevalent monetary policy, which in my view has been nothing less than a "public crime," should be scrapped by legislative action. It has already wrought havoc; its perpetuation would be tragic. The Federal Reserve Board should be brought under the meaningful control of the President and the Congress. The Board should be required to expand the money supply at a rate at least equal to the President's goals for economic growth. It should undertake far more selective monetary and credit controls, taking account of national priorities and the goals of the Federal Government, as defined by congressional and Executive action. Even before achieving any or all of the above measures, the Congress should legislate a ceiling of 3 to 4 percent on private and public loans, at least for housing and related community improvements, and perhaps for some other urgent programs. This will hurt for a while, and produce many squawks. But in the longer run, the downward movement of one interest rate after another will be highly beneficial to all except the usurious, while the jacking up of one interest rate after another has been like playing Russian roulette with our economy and our people.

In conclusion, let me express again my deep appreciation to the Joint Economic Committee, for the generous opportunities which it has extended to me, for so many years, to make my views known.

(The charts referred to in the text follow:)

Chart 1

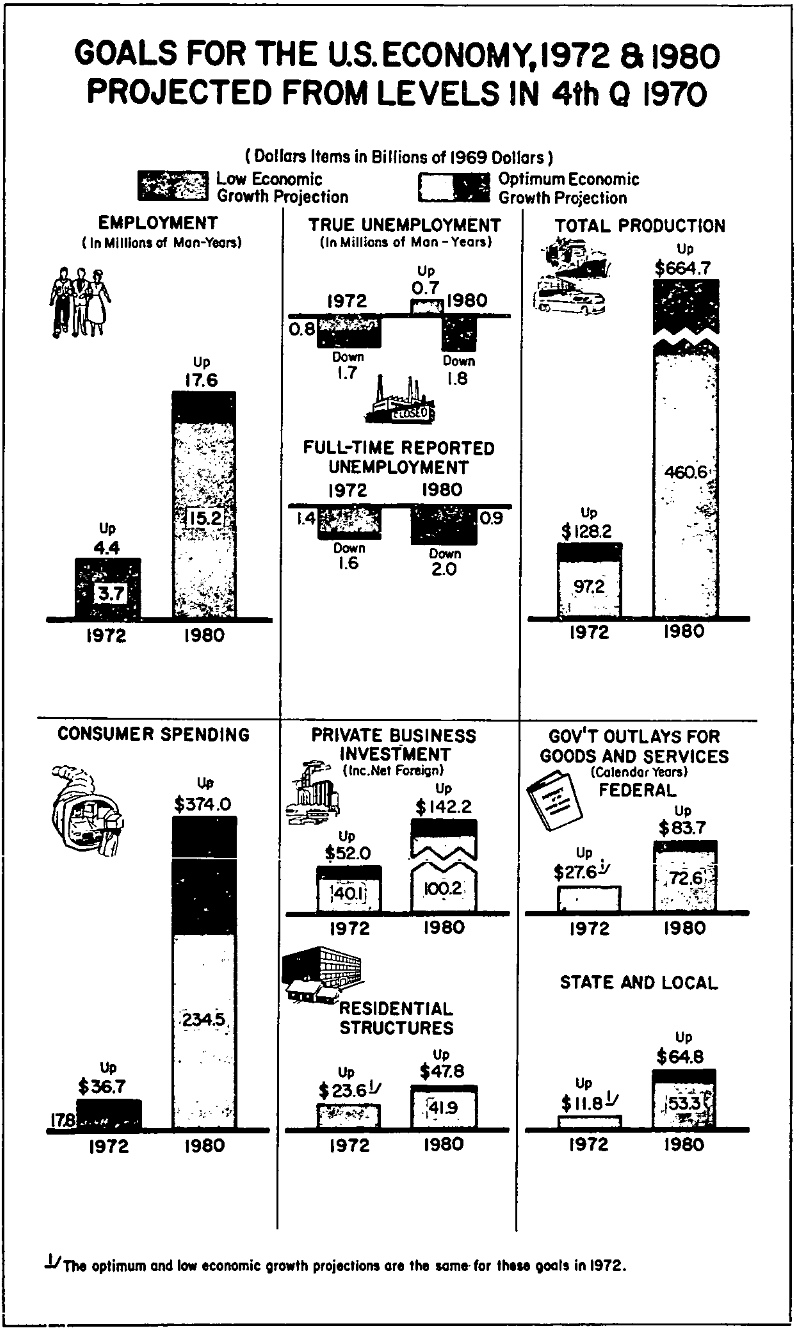
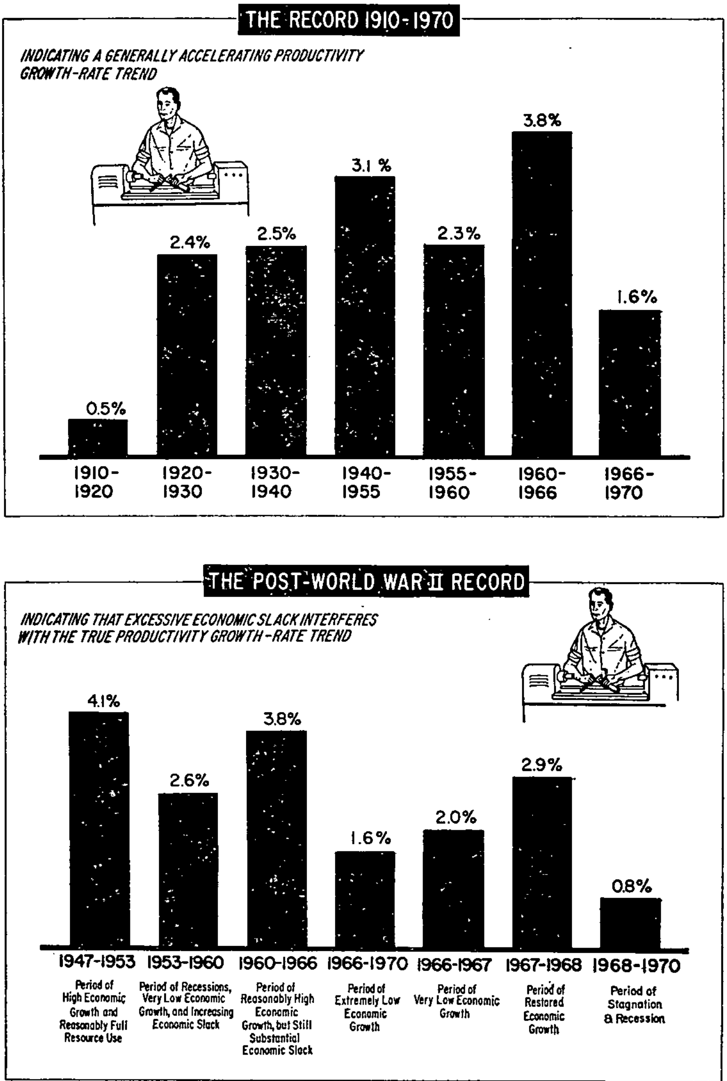

GOALS FOR THE U.S. ECONOMY, 1972 & 1980
PROJECTED FROM LEVELS IN 4th Q 1970
(Dollars Items in Billions of 1969 Dollars)
Low Economic Growth Projection
Optimum Economic Growth Projection
EMPLOYMENT
(In Millions of Man-Years)
Up 4.4
3.7
Up 17.6
15.2
1972
1980
TRUE UNEMPLOYMENT
(In Millions of Man - Years)
1972
0.8
Down 1.7
Up 0.7
1980
Down 1.8
CLOSED
FULL-TIME REPORTED UNEMPLOYMENT
1972
1980
1.4
Down 1.6
0.9
Down 2.0
TOTAL PRODUCTION
Up $128.2
97.2
Up $664.7
460.6
1972
1980
CONSUMER SPENDING
Up $36.7
17.8
Up $374.0
234.5
1972
1980
PRIVATE BUSINESS INVESTMENT
(Inc. Net Foreign)
Up $52.0
40.1
Up $142.2
100.2
1972
1980
RESIDENTIAL STRUCTURES
Up $23.6 1/
Up $47.8
41.9
1972
1980
GOV'T OUTLAYS FOR GOODS AND SERVICES
(Calendar Years)
FEDERAL
Up $27.6 1/
Up $83.7
72.6
1972
1980
STATE AND LOCAL
Up $11.8 1/
Up $64.8
53.3
1972
1980
1/ The optimum and low economic growth projections are the same for these goals in 1972.

Chart 2

LONG-TERM TRENDS IN PRODUCTIVITY U.S. PRIVATE ECONOMY, 1910–1970[1]

Average Annual Rate of Growth in Output per Man-hour for the Entire Private Economy



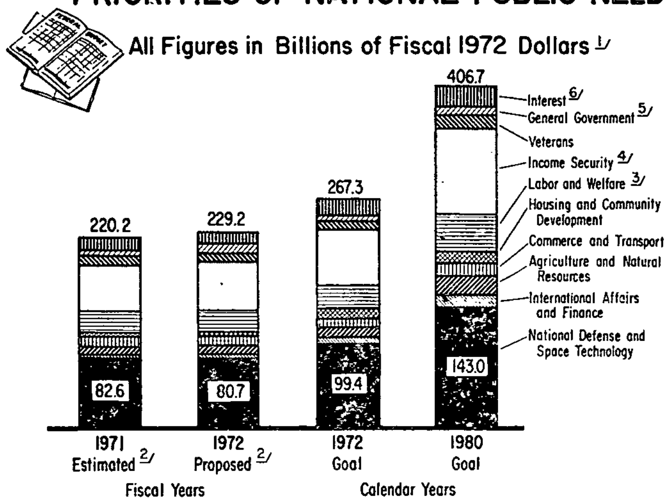
[1] 1970 preliminary.

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

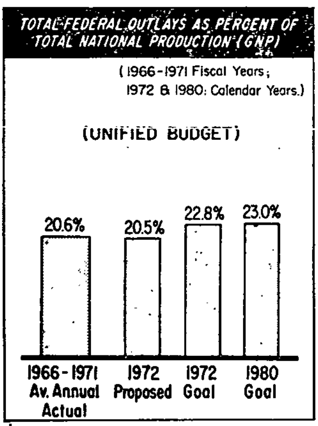
Chart 3

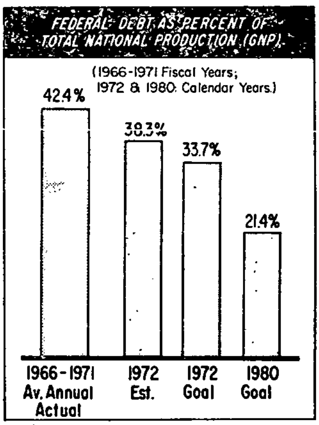
TOWARD A FEDERAL BUDGET CONSISTENT WITH MAXIMUM EMPLOYMENT AND THE PRIORITIES OF NATIONAL PUBLIC NEEDS

All Figures in Billions of Fiscal 1972 Dollars 1/



BURDEN OF FEDERAL OUTLAYS IN A FULLY GROWING ECONOMY WOULD BE WELL WITHIN OUR MEANS





1/ Dollars of the purchasing power assumed in the President's Fiscal 1972 Budget.
2/ As of Budget Message of Jan. 29, 1971.
3/ Including education and health services.
4/ Less government share of government employees' retirement contributions.
5/ Including contingencies, civilian and military pay increases, and revenue sharing.
6/ Less interest paid to trust funds.

Chart 4

GOALS FOR A FEDERAL BUDGET, 1972 AND 1980, GEARED TO ECONOMIC GROWTH & PRIORITY NEEDS

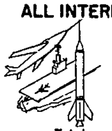
1972, fiscal year; goals for 1972 and 1980, calendar years

All figures in fiscal 1972 dollars [1]

ALL FEDERAL OUTLAYS

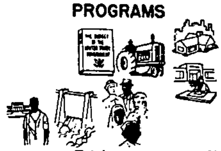
Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	229.232	108.16	20.47
1972	267.300	1270.26	22.78
1980	406.700	1717.47	22.96

NATIONAL DEFENSE, SPACE TECHNOLOGY, & ALL INTERNATIONAL



Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	84.695	399.63	7.56
1972	106.900	507.91	9.11
1980	157.900	666.88	8.92

ALL DOMESTIC PROGRAMS



Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	144.537	682.00	12.91
1972	160.400	762.35	13.67
1980	248.800	1050.59	14.05

RETIREMENT AND SOCIAL INSURANCE

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	49.012	231.26	4.38
1972	50.100	238.14	4.27
1980	90.400	381.95	5.11

HOUSING AND COMMUNITY DEVELOPMENT

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	4.495	21.21	0.40
1972	11.700	55.83	1.00
1980	14.100	59.70	0.80

AGRICULTURE; AND NATURAL RESOURCES

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	10.047	47.41	0.90
1972	11.300	53.85	0.96
1980	20.000	85.17	1.14

EDUCATION

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	6.344	29.93	0.57
1972	6.500	31.13	0.56
1980	12.900	54.44	0.73

HEALTH SERVICES AND RESEARCH

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	16.010	75.54	1.43
1972	17.600	83.50	1.50
1972	26.600	112.39	1.50

MANPOWER PROGRAMS AND WELFARE SERVICES

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1972 [2]	14.191	66.96	1.27
1972	25.800	122.53	2.20
1980	30.400	128.20	1.72

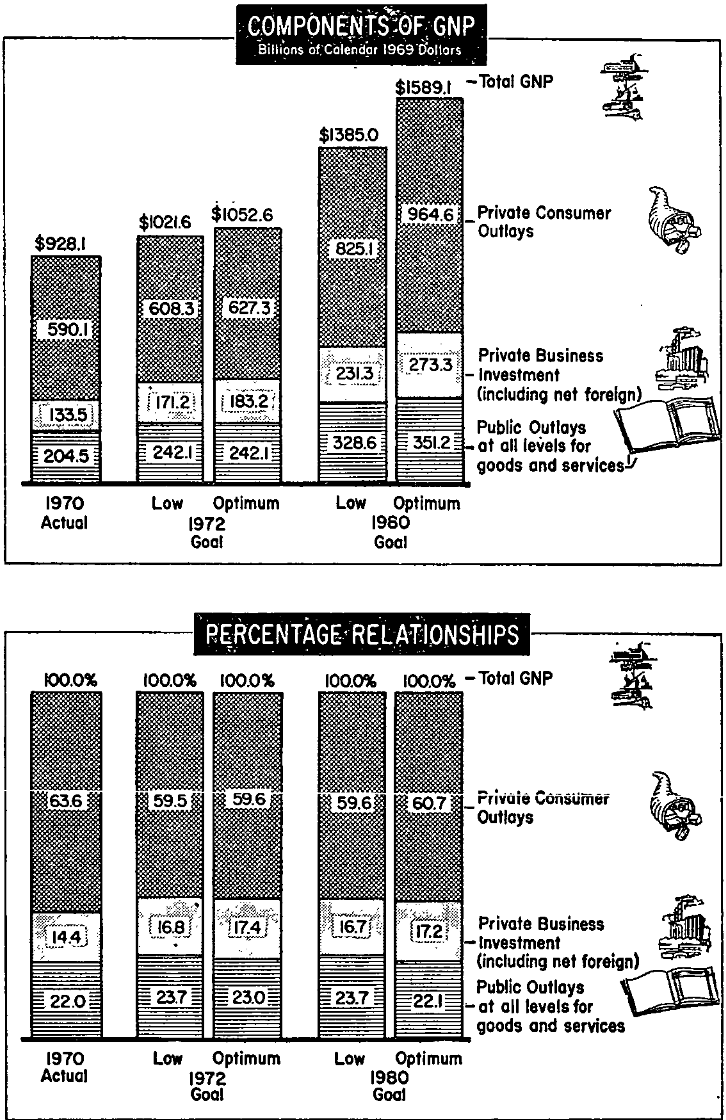
[1] Dollars of purchasing power apparently assumed in President's fiscal 1972 Budget.

[2] Administration's Proposed Budget as of Jan. 29, 1971.

Projections by Leon H. Keyserling.

Chart 5

THE GOALS FOR 1972 AND 1980 MAINTAIN BALANCE OF PUBLIC AND PRIVATE RESPONSIBILITIES



1/ Public outlays are of such high priority that they are projected identically for the lower and higher GNP goals for 1972, with modifications of other goals accordingly.

Chart 6

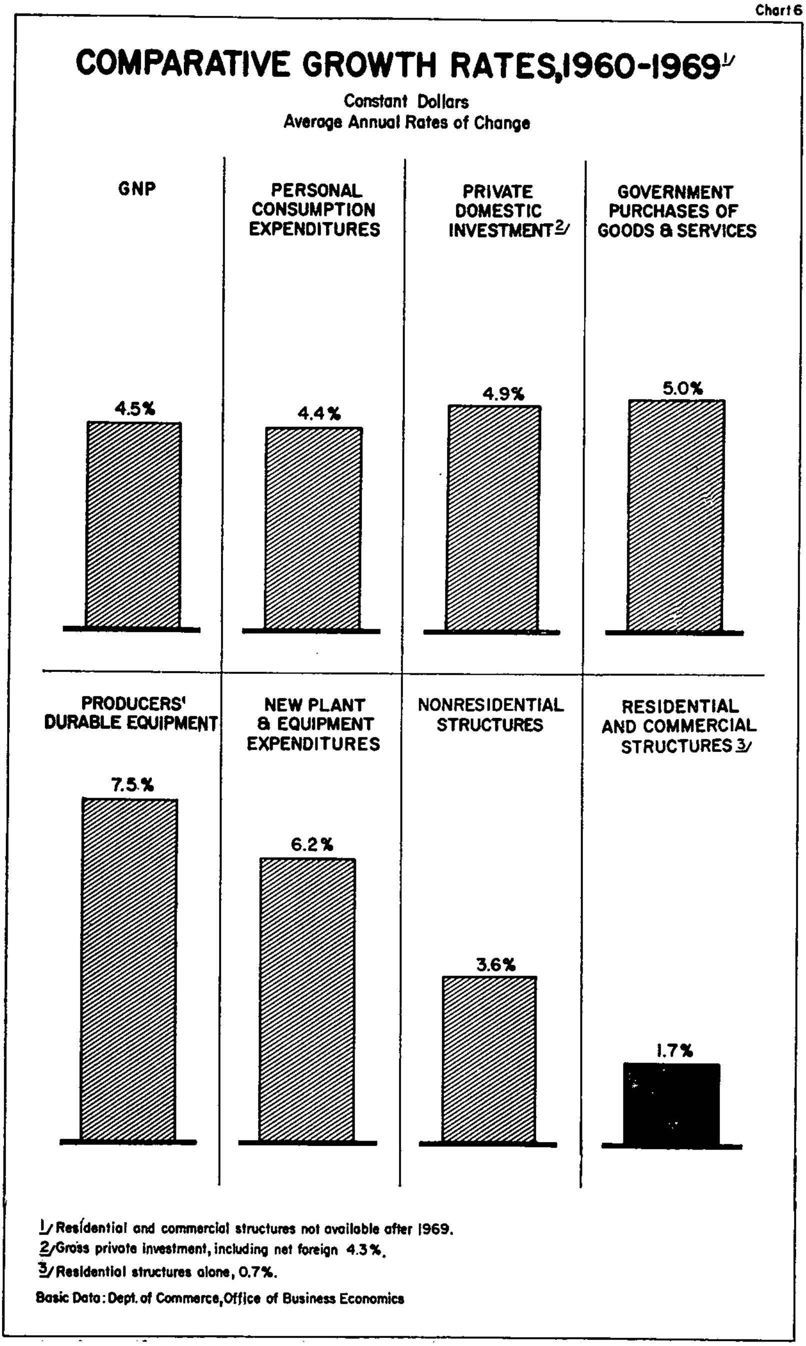

COMPARATIVE GROWTH RATES, 1960-1969 1/
Constant Dollars
Average Annual Rates of Change
GNP
4.5%
PERSONAL CONSUMPTION EXPENDITURES
4.4%
PRIVATE DOMESTIC INVESTMENT 2/
4.9%
GOVERNMENT PURCHASES OF GOODS & SERVICES
5.0%
PRODUCERS' DURABLE EQUIPMENT
7.5%
NEW PLANT & EQUIPMENT EXPENDITURES
6.2%
NONRESIDENTIAL STRUCTURES
3.6%
RESIDENTIAL AND COMMERCIAL STRUCTURES 3/
1.7%
1/ Residential and commercial structures not available after 1969.
2/ Gross private investment, including net foreign 4.3%.
3/ Residential structures alone, 0.7%.
Basic Data: Dept. of Commerce, Office of Business Economics

Chart 7

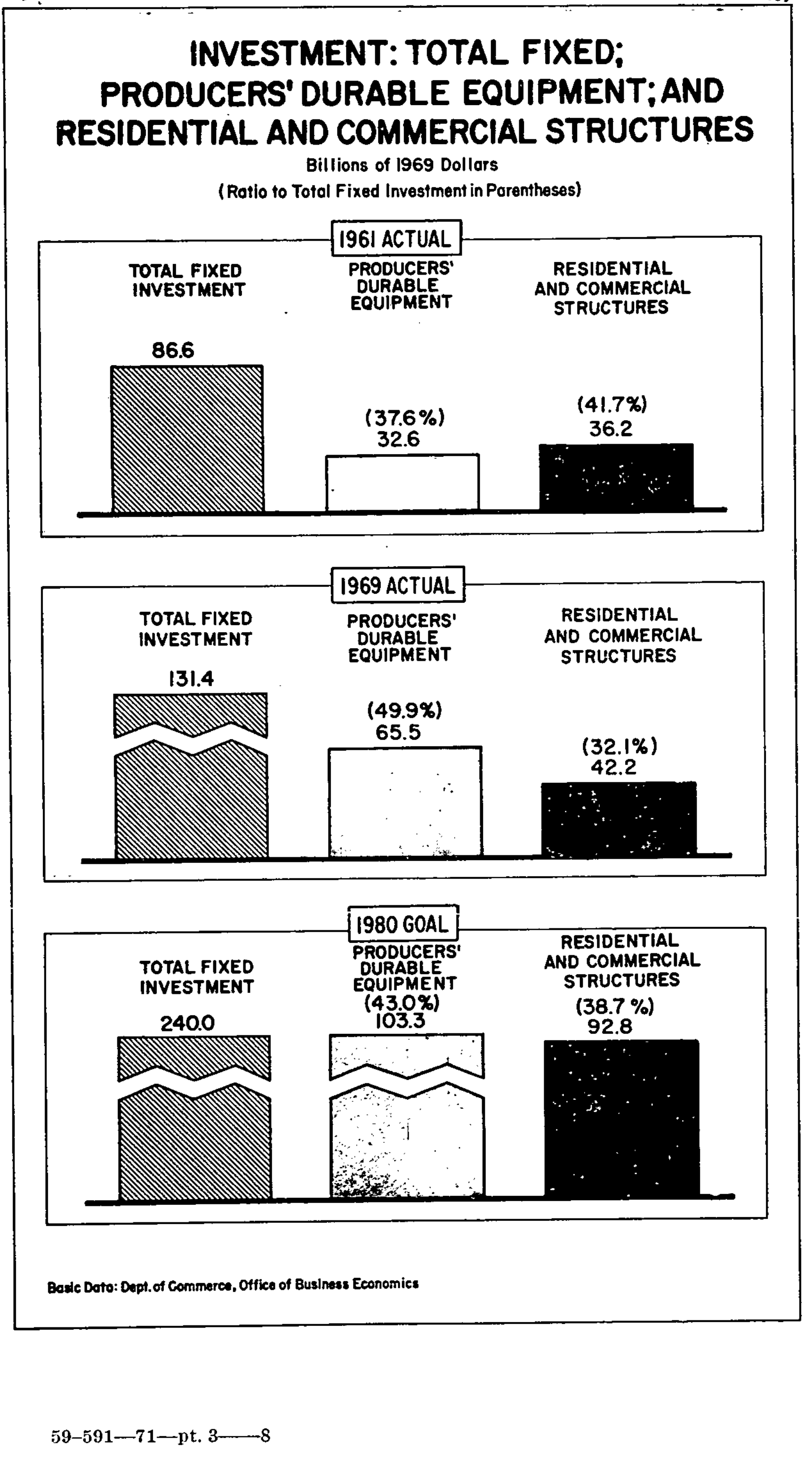
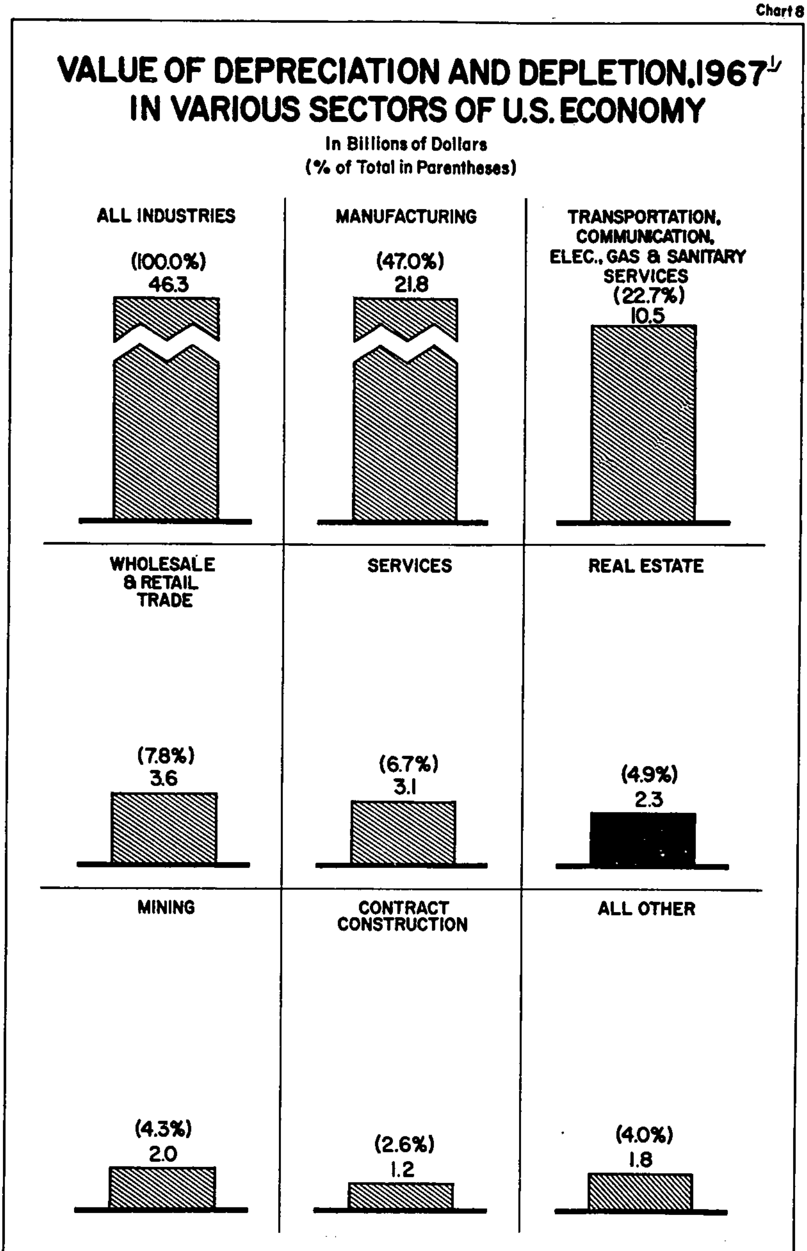

INVESTMENT: TOTAL FIXED; PRODUCERS' DURABLE EQUIPMENT; AND RESIDENTIAL AND COMMERCIAL STRUCTURES
Billions of 1969 Dollars
(Ratio to Total Fixed Investment in Parentheses)
1961 ACTUAL
TOTAL FIXED INVESTMENT
86.6
PRODUCERS' DURABLE EQUIPMENT
(37.6%)
32.6
RESIDENTIAL AND COMMERCIAL STRUCTURES
(41.7%)
36.2
1969 ACTUAL
TOTAL FIXED INVESTMENT
131.4
PRODUCERS' DURABLE EQUIPMENT
(49.9%)
65.5
RESIDENTIAL AND COMMERCIAL STRUCTURES
(32.1%)
42.2
1980 GOAL
TOTAL FIXED INVESTMENT
240.0
PRODUCERS' DURABLE EQUIPMENT
(43.0%)
103.3
RESIDENTIAL AND COMMERCIAL STRUCTURES
(38.7 %)
92.8
Basic Data: Dept. of Commerce, Office of Business Economics

Chart 8



[1] As expressed in corporate income tax returns. 1967 latest available year.

Source: Treasury Dept.

Chart 9

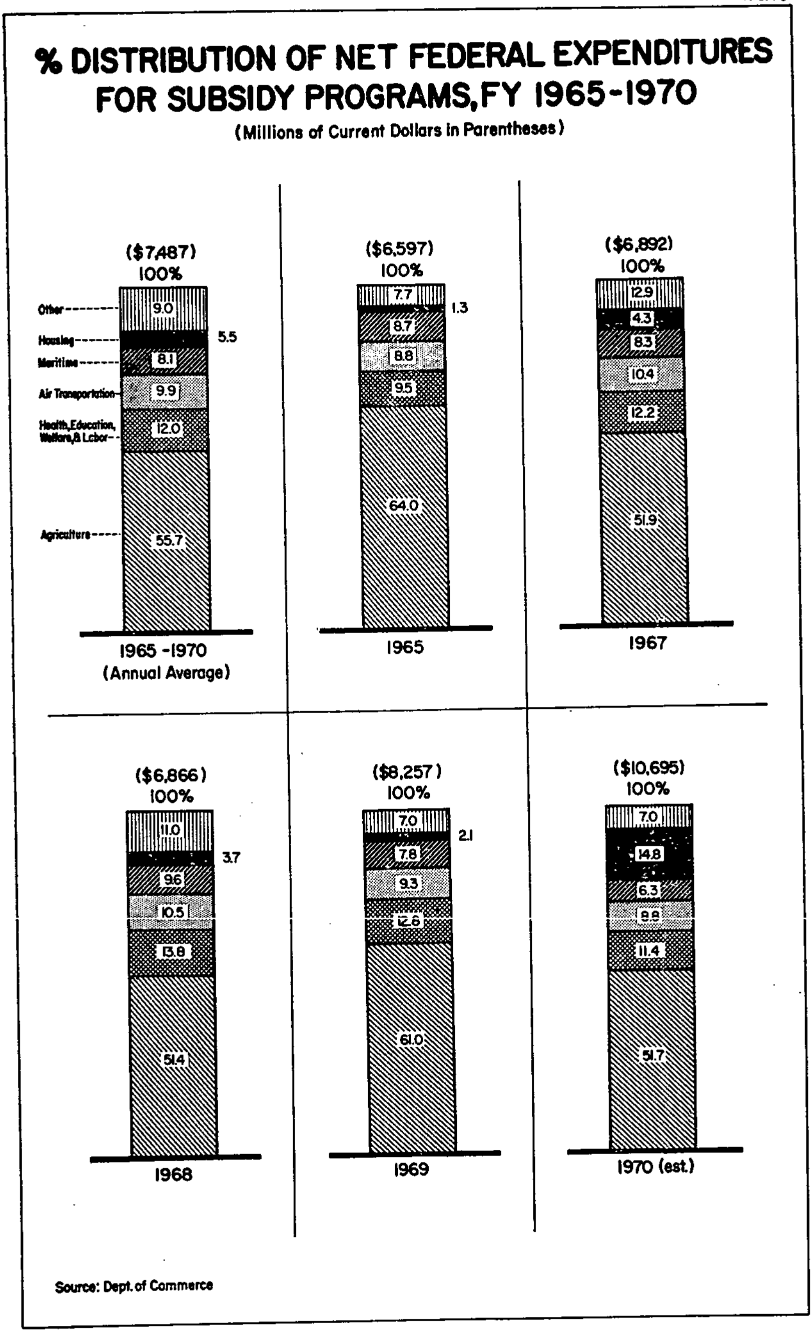
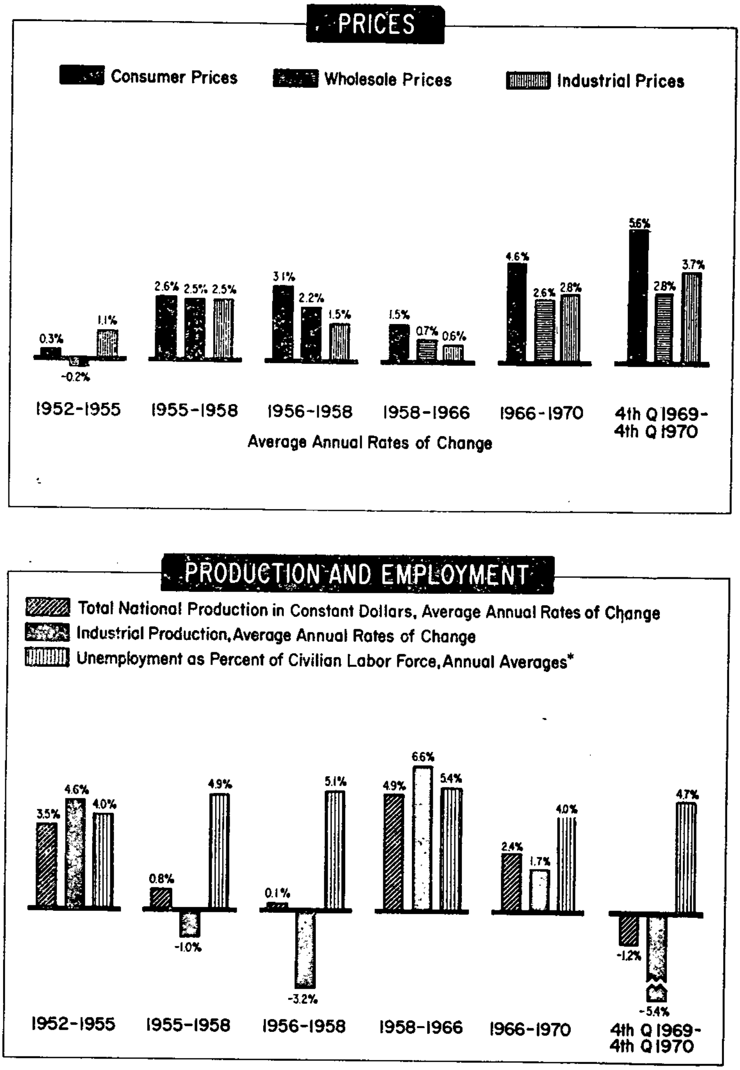

% DISTRIBUTION OF NET FEDERAL EXPENDITURES FOR SUBSIDY PROGRAMS, FY 1965-1970
(Millions of Current Dollars in Parentheses)
($7,487)
100%
Other
Housing
Maritime
Air Transportation
Health, Education, Welfare, & Labor
Agriculture
9.0
5.5
8.1
9.9
12.0
55.7
1965 -1970 (Annual Average)
($6,597)
100%
7.7
1.3
8.7
8.8
9.5
64.0
1965
($6,892)
100%
12.9
4.3
8.3
10.4
12.2
51.9
1967
($6,866)
100%
11.0
3.7
9.6
10.5
13.8
51.4
1968
($8,257)
100%
7.0
2.1
7.8
9.3
12.6
61.0
1969
($10,695)
100%
7.0
14.8
6.3
8.8
11.4
51.7
1970 (est.)
Source: Dept. of Commerce

Chart 10

RELATIVE TRENDS IN ECONOMIC GROWTH UNEMPLOYMENT, & PRICES, 1952-1970

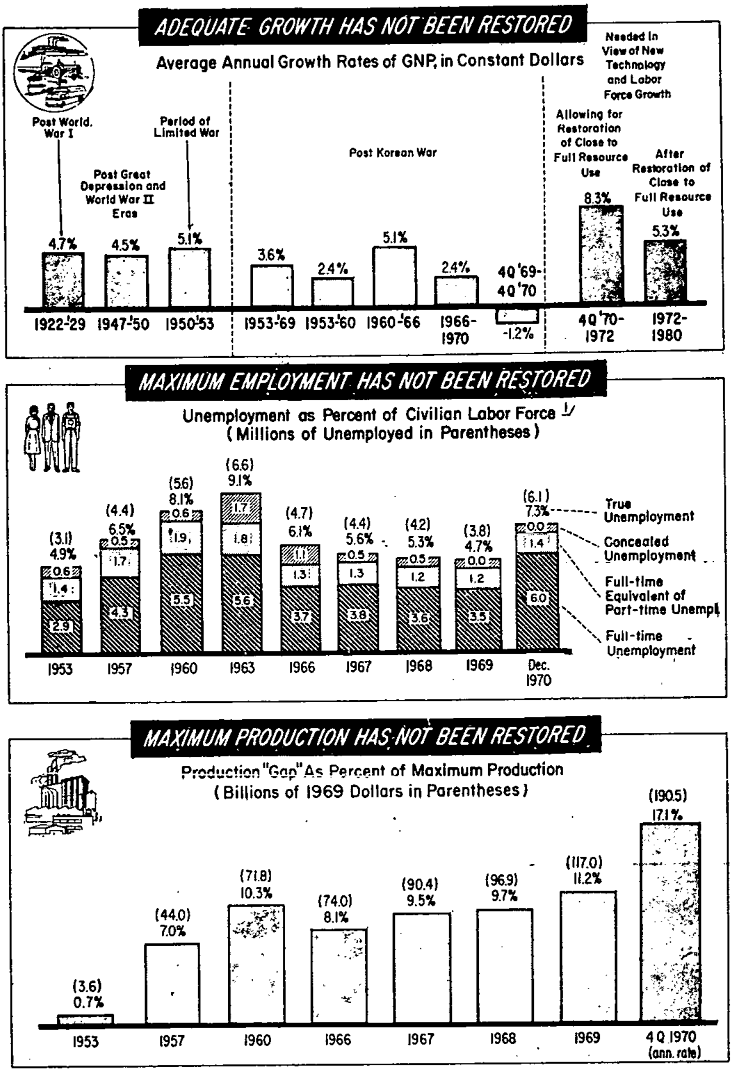


* These annual averages (as differentiated from the annual rates of change) are based on full-time officially reported unemployment measured against the officially reported Civilian Labor Force.

Source: Dept. of Labor, Dept. of Commerce, & Federal Reserve System

Chart 11

BASIC U.S. ECONOMIC TRENDS, 1953- 4th Q 1970



1/ In deriving these percentages, the Civilian Labor Force is estimated as the officially reported Civilian Labor Force augmented by concealed unemployment. Thus, some of the percentage figures on full-time unemployment vary very slightly from the official reports, which do not take account of the augmented labor force. Full-time unemployment of 2.9% and true unemployment of 4.1% would be consistent with maximum employment. All data relate to persons 16 years of age and older. Components may not add to total, owing to rounding.

Basic Data: Dept. of Commerce; Dept. of Labor

Chart 12

COSTS OF DEFICIENT ECONOMIC GROWTH U.S. ECONOMY, 1960-1970 AND 1971-1980

(dollar items in billions of 1969 dollars)

1960-1970 1/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1960-1966: $557.9 1966-1970: 547.1 4 Q 1970: 190.5	1960-1966: 21.1 Million 1966-1970: 6.1 Million 4 Q 1970: 2.5 Million	1960-1966: $285.4 1966-1970: 225.4 4 Q 1970: 78.4	1960-1966: $125.2 1966-1970: 138.1 4 Q 1970: 50.4
Private Business Investment (Incl. Net Foreign)	**Average Family Income**	**Wages and Salaries**	**Unincorporated Business and Professional Income**
1960-1966: $147.3 1966-1970: 183.5 4Q 1970: 61.7	1960-1966: $5,733 1966-1970: 4,604 4Q 1970: 1,395	1960-1966: $361.4 1966-1970: 295.3 4Q 1970: 87.8	1960-1966: $48.5 1966-1970: 35.9 4Q 1970: 11.5

1971-1980 3/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1971-1980: $1,072.1 1980: 204.1	1971-1980: 21.6 Million 1980: 2.6 Million	1971-1980: $697.6 1980: 139.5	1971-1980: $114.7 1980: 22.6
Private Business Investment (Incl. Net Foreign)	**Average Family Income**	**Wages and Salaries**	**Unincorporated Business and Professional Income**
1971-1980: $259.8 1980: 42.0	1971-1980: $12,330 1980: 2,267	1971-1980: $576.0 1980: 109.9	1971-1980: $50.2 1980: 9.0

1/ All deficits are calculated from a 1953 base, in that growth rates since then have average far too low. Quarterly deficits are shown at annual rates.

2/ Based upon true level of unemployment, including full-time unemployment, full-time equivalent of part-time unemployment, and concealed unemployment (nonparticipation in civilian labor force) due to scarcity of job opportunity.

3/ These deficits are projected from a 1970 base, writing off the cumulative deficits 1953-1970.

Basic Data: Dept. of Commerce; Dept. of Labor

Chart 13

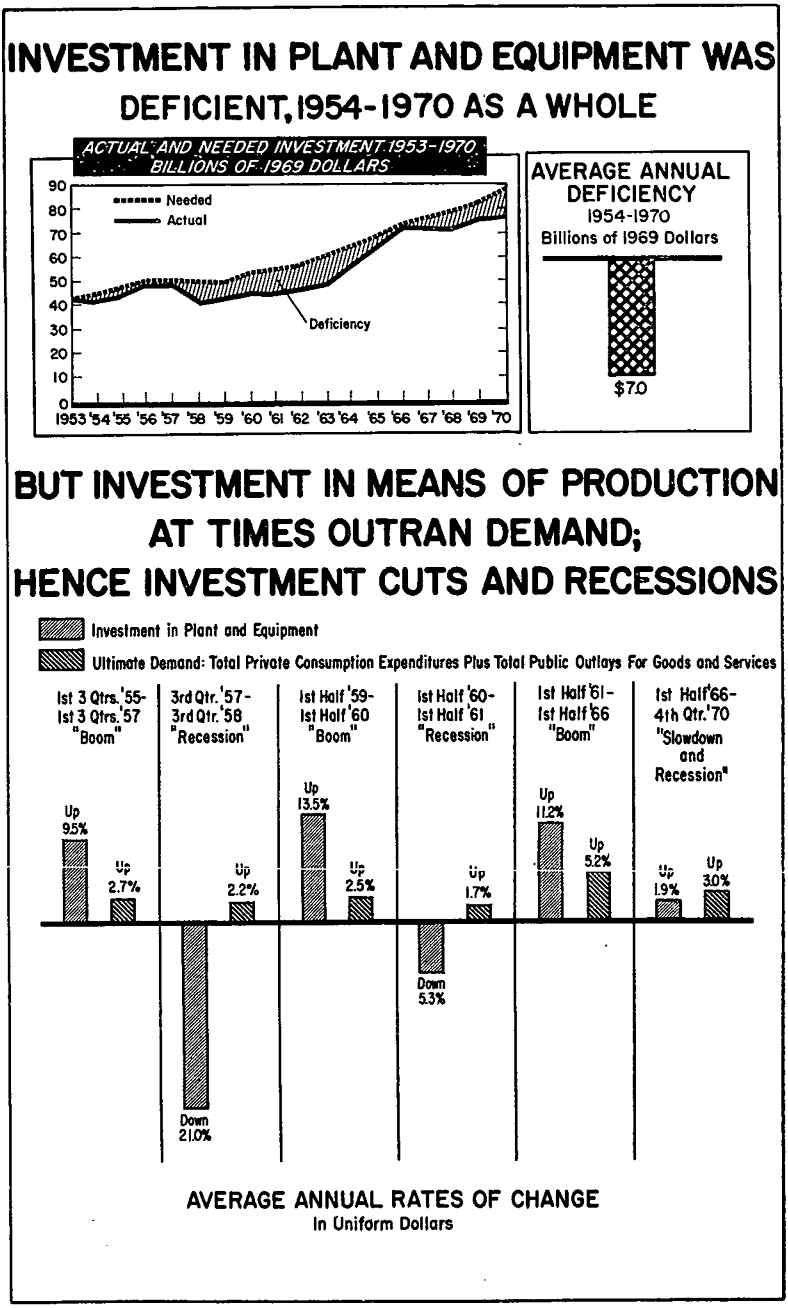
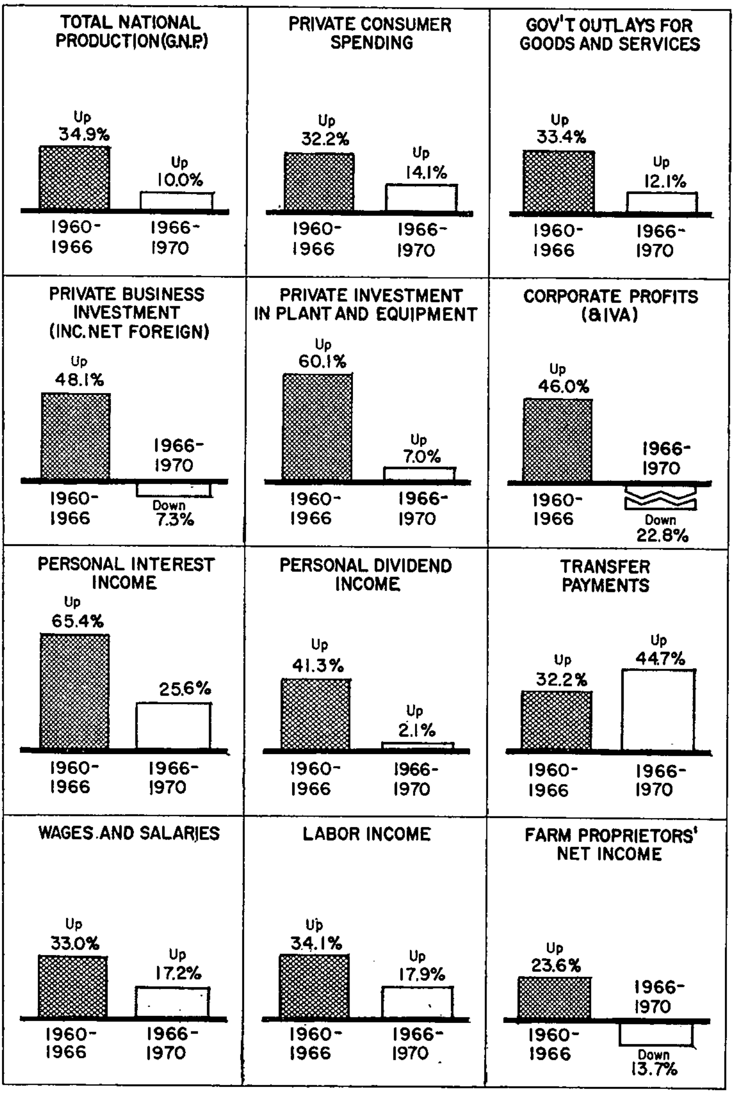

INVESTMENT IN PLANT AND EQUIPMENT WAS DEFICIENT, 1954-1970 AS A WHOLE
ACTUAL AND NEEDED INVESTMENT 1953-1970 BILLIONS OF 1969 DOLLARS
Needed
Actual
Deficiency
90
80
70
60
50
40
30
20
10
0
1953 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70
AVERAGE ANNUAL DEFICIENCY 1954-1970 Billions of 1969 Dollars
$70
BUT INVESTMENT IN MEANS OF PRODUCTION AT TIMES OUTRAN DEMAND; HENCE INVESTMENT CUTS AND RECESSIONS
Investment in Plant and Equipment
Ultimate Demand: Total Private Consumption Expenditures Plus Total Public Outlays For Goods and Services
1st 3 Qtrs.'55-1st 3 Qtrs.'57 "Boom"
3rd Qtr.'57-3rd Qtr.'58 "Recession"
1st Half '59-1st Half '60 "Boom"
1st Half '60-1st Half '61 "Recession"
1st Half '61-1st Half '66 "Boom"
1st Half '66-4th Qtr.'70 "Slowdown and Recession"
Up 9.5%
Up 2.7%
Down 21.0%
Up 2.2%
Up 13.5%
Up 2.5%
Down 5.3%
Up 1.7%
Up 11.2%
Up 5.2%
Up 1.9%
Up 3.0%
AVERAGE ANNUAL RATES OF CHANGE
In Uniform Dollars

Chart 14

COMPARATIVE GROWTH IN VARIOUS ASPECTS OF U.S. ECONOMY 1960-1970

Total Percentage Changes, in Constant Dollars

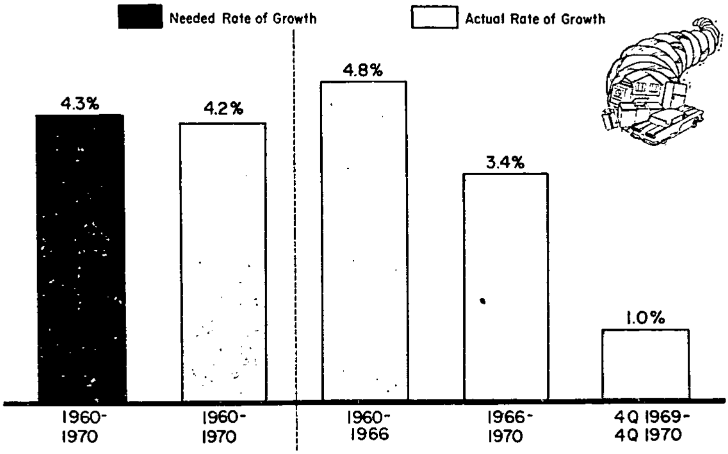


Source: Dept. of Commerce, Office of Business Economics

Chart 15

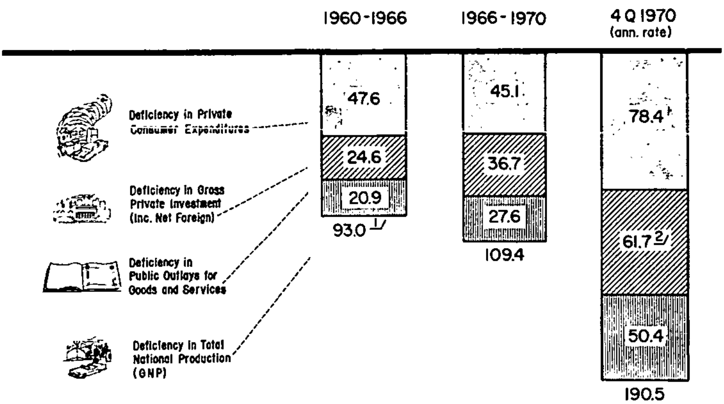
THE GROWTH IN CONSUMER SPENDING HAS BEEN MUCH TOO SLOW, 1960-1970

(Average Annual Rates of Change, Constant Dollars)



AND THE LAG IN CONSUMER SPENDING DOMINATES THE TOTAL GAP IN GNP

(Average Annual Deficiency in Billions of 1969 Dollars)



1/ Components do not add to total due to rounding.

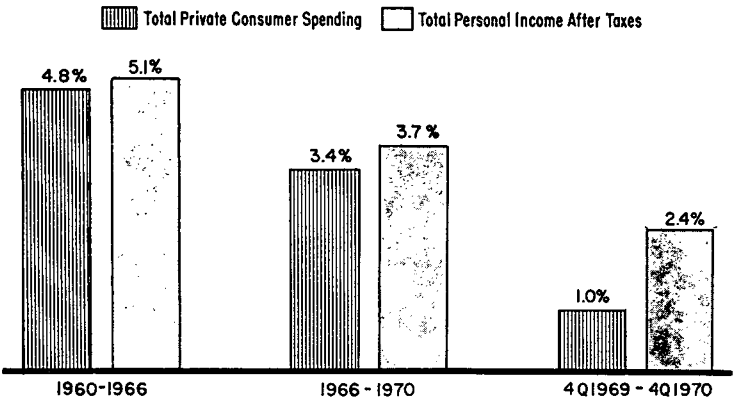
2/ More than half the investment deficiency in recent years has been due to inadequate residential construction.

Basic Data: Dept. of Commerce, Office of Business Economics

Chart 16

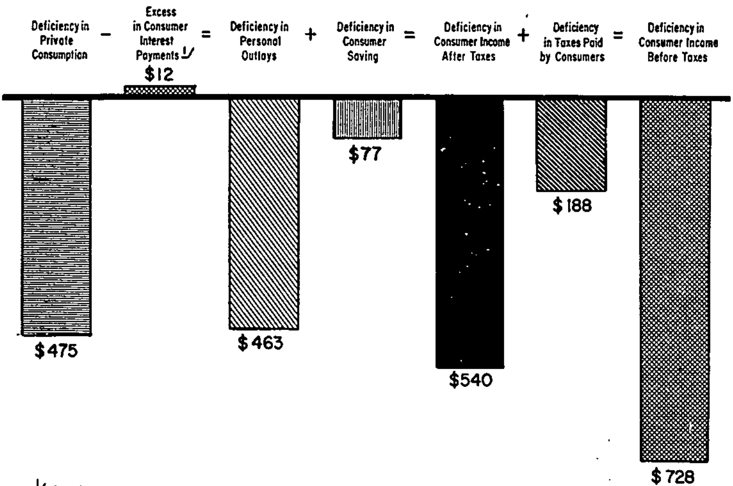
INADEQUATE CONSUMPTION GROWTH STEMS FROM INADEQUATE INCOME GROWTH

Average Annual Rates of Change in Constant Dollars



THE PRIVATE CONSUMPTION DEFICIENCY OF $475 BILLION, 1960-1970, REFLECTED A $728 BILLION INCOME DEFICIENCY

Billions of 1969 Dollars



1/ Also includes personal transfer payments to foreigners, which is a minimal amount.

Chart 17

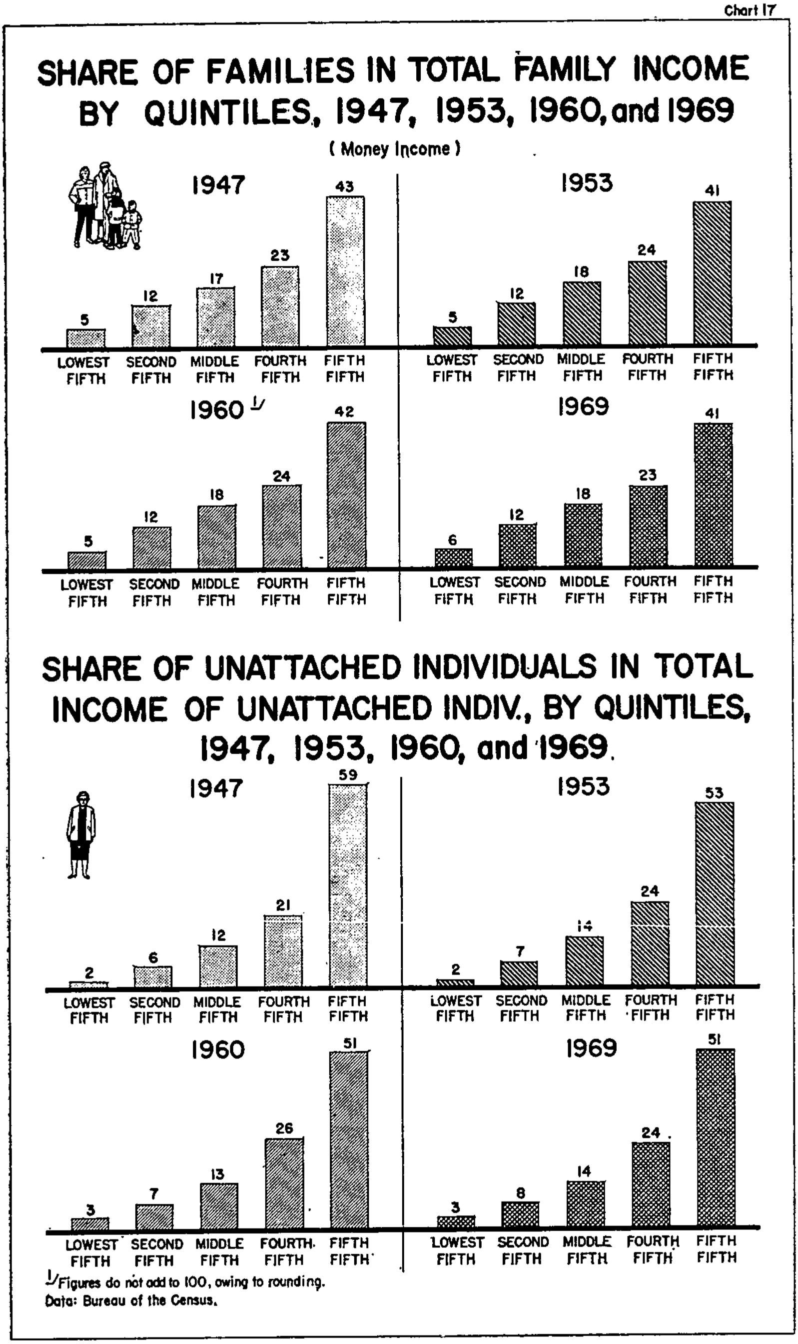
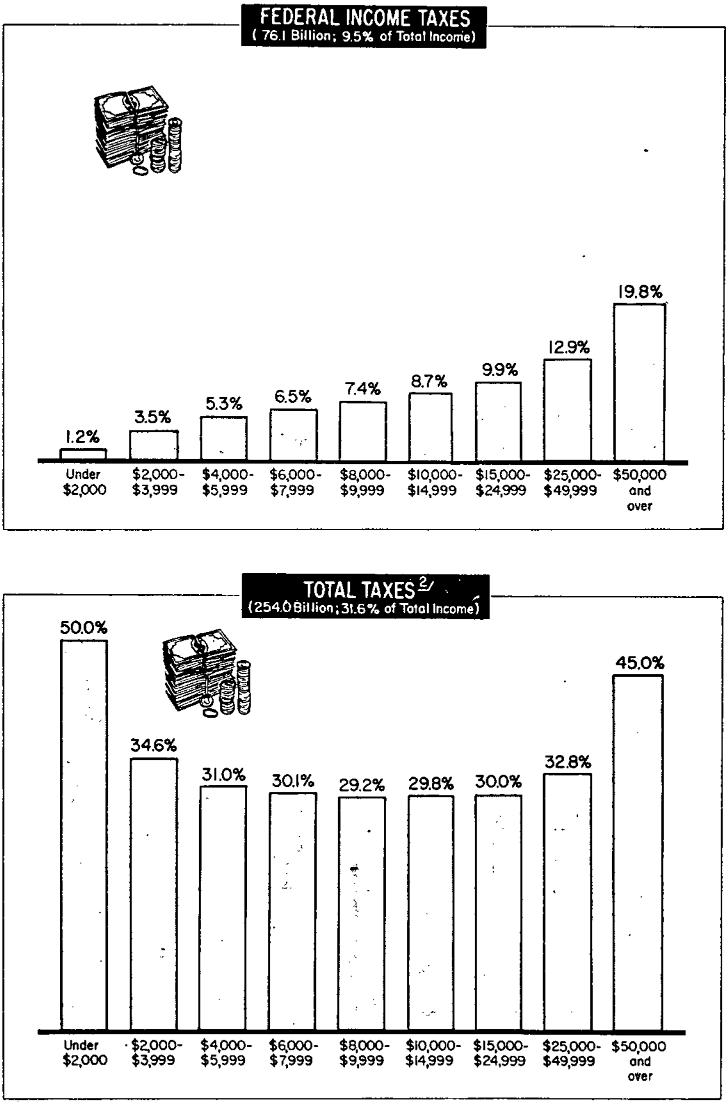

SHARE OF FAMILIES IN TOTAL FAMILY INCOME BY QUINTILES, 1947, 1953, 1960, and 1969
(Money Income)
1947
5
12
17
23
43
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
1953
5
12
18
24
41
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
1960 1/
5
12
18
24
42
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
1969
6
12
18
23
41
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
SHARE OF UNATTACHED INDIVIDUALS IN TOTAL INCOME OF UNATTACHED INDIV., BY QUINTILES, 1947, 1953, 1960, and 1969.
1947
2
6
12
21
59
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
1953
2
7
14
24
53
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
1960
3
7
13
26
51
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
1969
3
8
14
24
51
LOWEST FIFTH
SECOND FIFTH
MIDDLE FIFTH
FOURTH FIFTH
FIFTH FIFTH
1/Figures do not add to 100, owing to rounding.
Data: Bureau of the Census.

Chart 18

TAXES PAID AS % OF INCOME, U.S. 1968[1]



[1] Income relates to total income of all persons in the adjusted money income classes shown. Total income is adjusted money income, plus imputed income, less direct taxes, plus retained corporate earnings, plus taxes minus transfer payments, plus realized capital gains.

[2] Includes the following Federal and State and Local taxes: Individual income, estate and gift, corporate profits, and social security. Also includes Federal excise and customs taxes, and State and Local sales taxes, motor vehicle licenses, property taxes, and miscellaneous other taxes.

Basic Data: Dept. of Commerce, Bureau of the Census

Chart 19

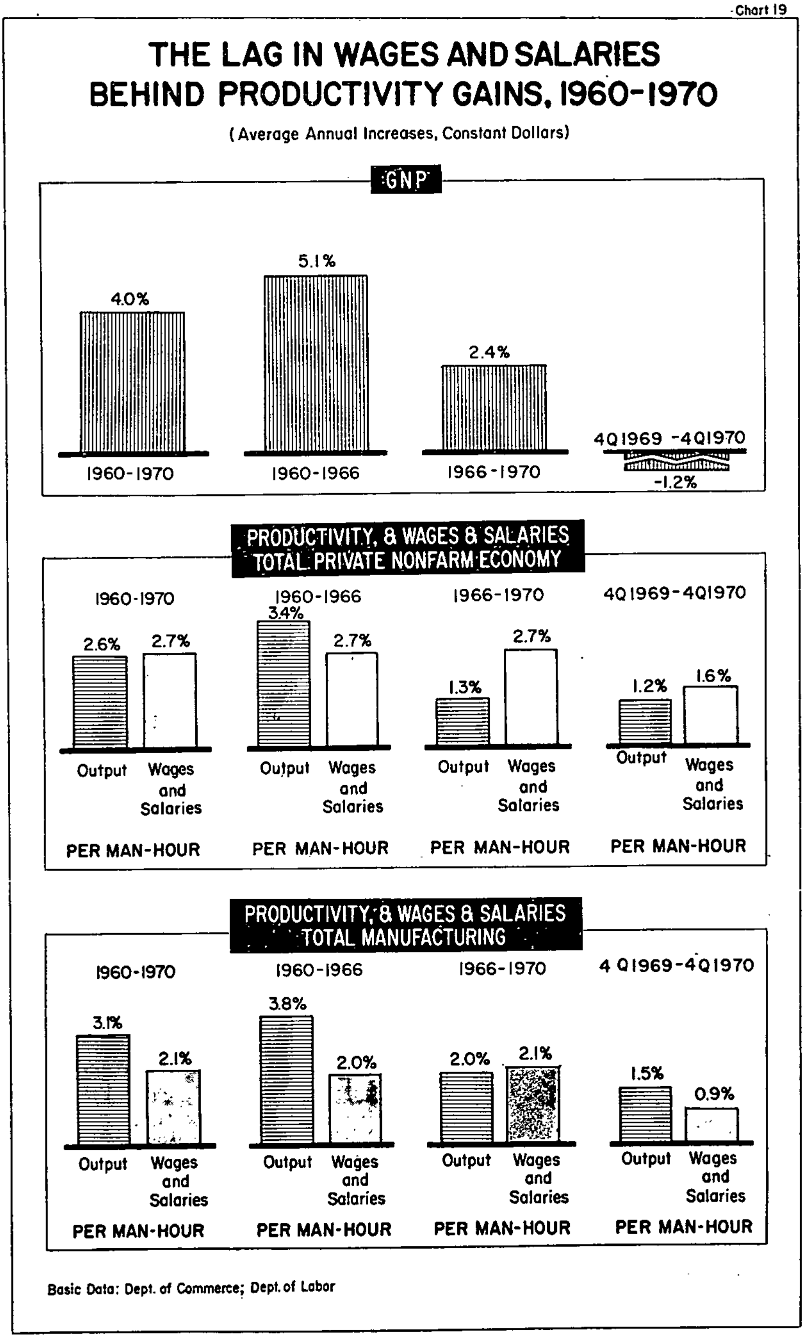
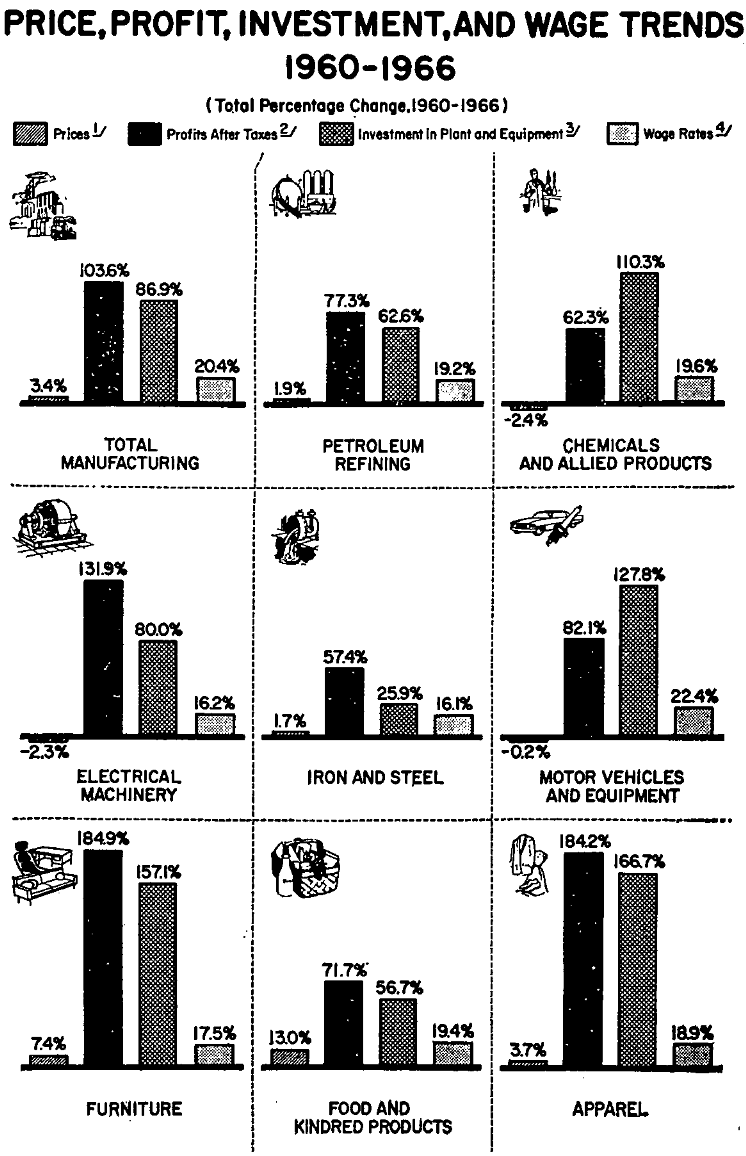

THE LAG IN WAGES AND SALARIES BEHIND PRODUCTIVITY GAINS, 1960-1970
(Average Annual Increases, Constant Dollars)
GNP
4.0%
1960-1970
5.1%
1960-1966
2.4%
1966-1970
4Q1969 -4Q1970
-1.2%
PRODUCTIVITY, & WAGES & SALARIES TOTAL PRIVATE NONFARM ECONOMY
1960-1970
2.6%
2.7%
Output
Wages and Salaries
PER MAN-HOUR
1960-1966
3.4%
2.7%
Output
Wages and Salaries
PER MAN-HOUR
1966-1970
1.3%
2.7%
Output
Wages and Salaries
PER MAN-HOUR
4Q1969-4Q1970
1.2%
1.6%
Output
Wages and Salaries
PER MAN-HOUR
PRODUCTIVITY, & WAGES & SALARIES TOTAL MANUFACTURING
1960-1970
3.1%
2.1%
Output
Wages and Salaries
PER MAN-HOUR
1960-1966
3.8%
2.0%
Output
Wages and Salaries
PER MAN-HOUR
1966-1970
2.0%
2.1%
Output
Wages and Salaries
PER MAN-HOUR
4 Q1969-4Q1970
1.5%
0.9%
Output
Wages and Salaries
PER MAN-HOUR
Basic Data: Dept. of Commerce; Dept. of Labor

Chart 20

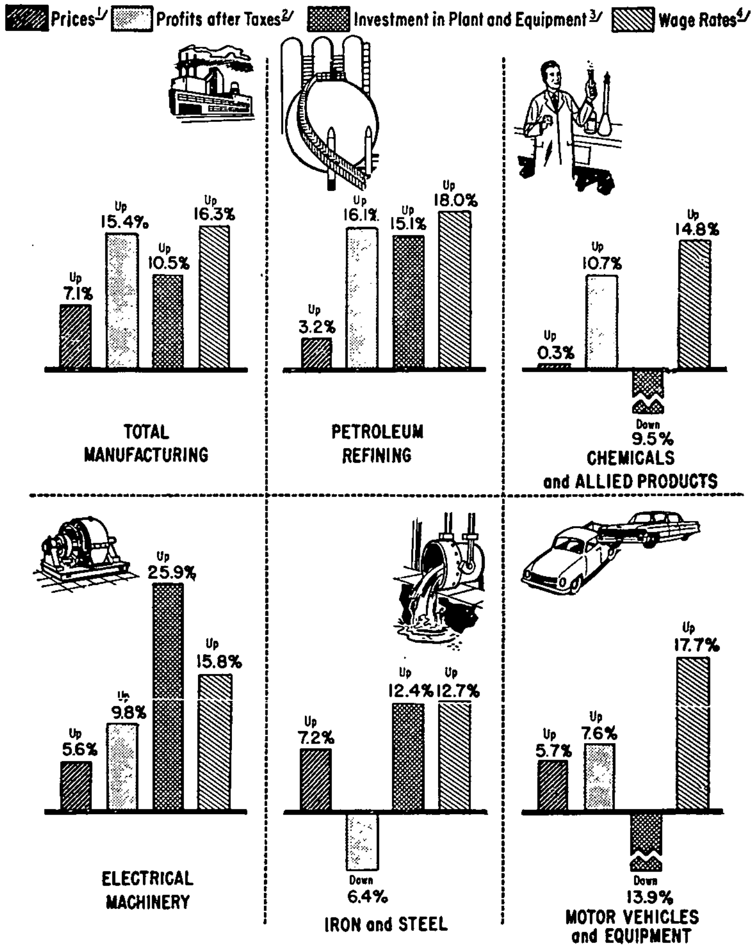


1/ Data: U.S. Dept. of Labor, wholesale commodity price indexes.
2/ Data: Federal Trade Commission-Securities and Exchange Commission.
3/ Data: U.S. Dept. of Commerce.
4/ Data: U.S. Dept. of Labor; Bureau of Statistics; Average hourly earnings of production workers.

Chart 2'I

PRICE, PROFIT, INVESTMENT, AND WAGE TRENDS, 1966-2nd Q 1969

(Total Percentage Change, 1966 - 2nd Q 1969)



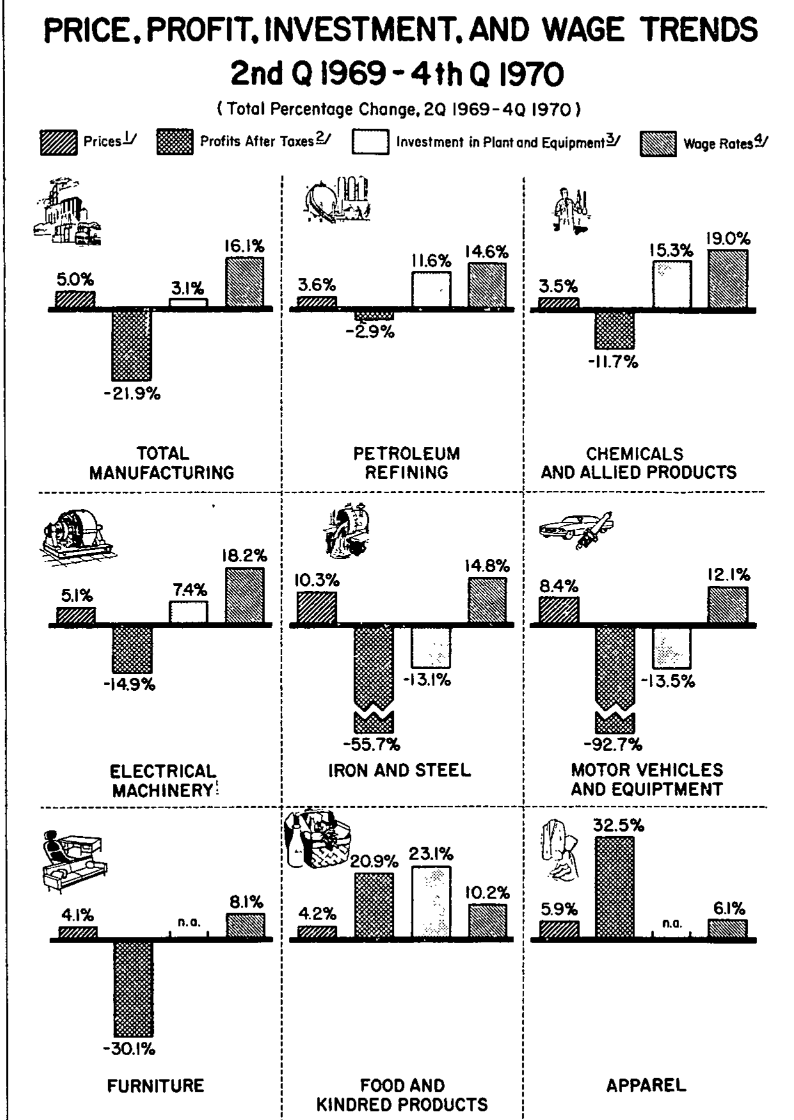
1/ Data: U.S. Dept. of Labor, wholesale commodity price indexes.

2/ Data: Federal Trade Commission-Securities and Exchange Commission. 2nd Q 1969 figures are at an annual rate.

3/ Data: U.S. Dept. of Commerce.

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

Chart 22



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

2/ Data: Federal Trade Commission-Securities and Exchange Commission. Profits available only through 3Q 1970.

3/ Data: U.S. Dept. of Commerce.

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

Chart 23

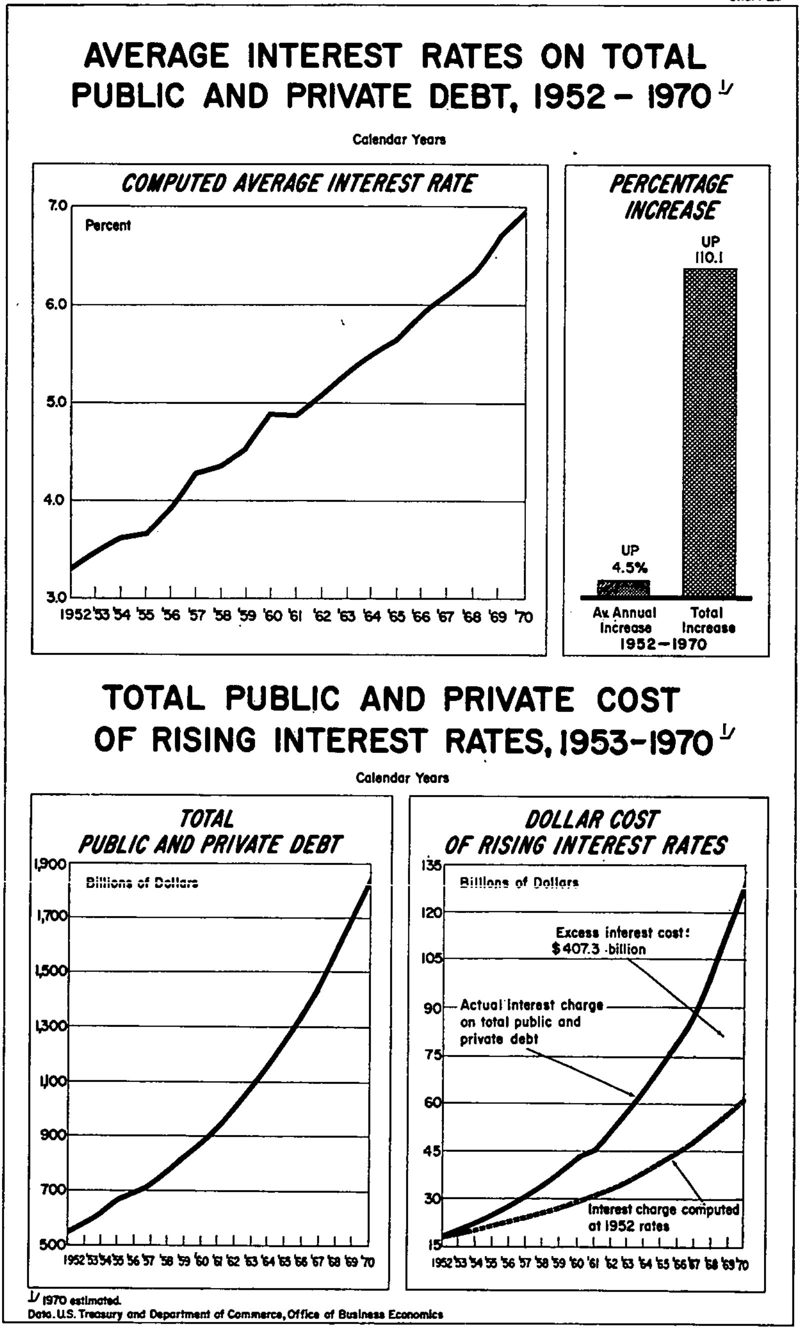

AVERAGE INTEREST RATES ON TOTAL PUBLIC AND PRIVATE DEBT, 1952 - 1970 1/
Calendar Years
COMPUTED AVERAGE INTEREST RATE
Percent
7.0
6.0
5.0
4.0
3.0
1952 '53 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70
PERCENTAGE INCREASE
UP 110.1
UP 4.5%
Av. Annual Increase
Total Increase
1952—1970
TOTAL PUBLIC AND PRIVATE COST OF RISING INTEREST RATES, 1953-1970 1/
Calendar Years
TOTAL PUBLIC AND PRIVATE DEBT
Billions of Dollars
1,900
1,700
1,500
1,300
1,100
900
700
500
1952 '53 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70
DOLLAR COST OF RISING INTEREST RATES
Billions of Dollars
135
120
105
90
75
60
45
30
15
Excess interest cost: $407.3 billion
Actual interest charge on total public and private debt
Interest charge computed at 1952 rates
1952 '53 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70
1/ 1970 estimated.
Data. U.S. Treasury and Department of Commerce, Office of Business Economics

Chart 24

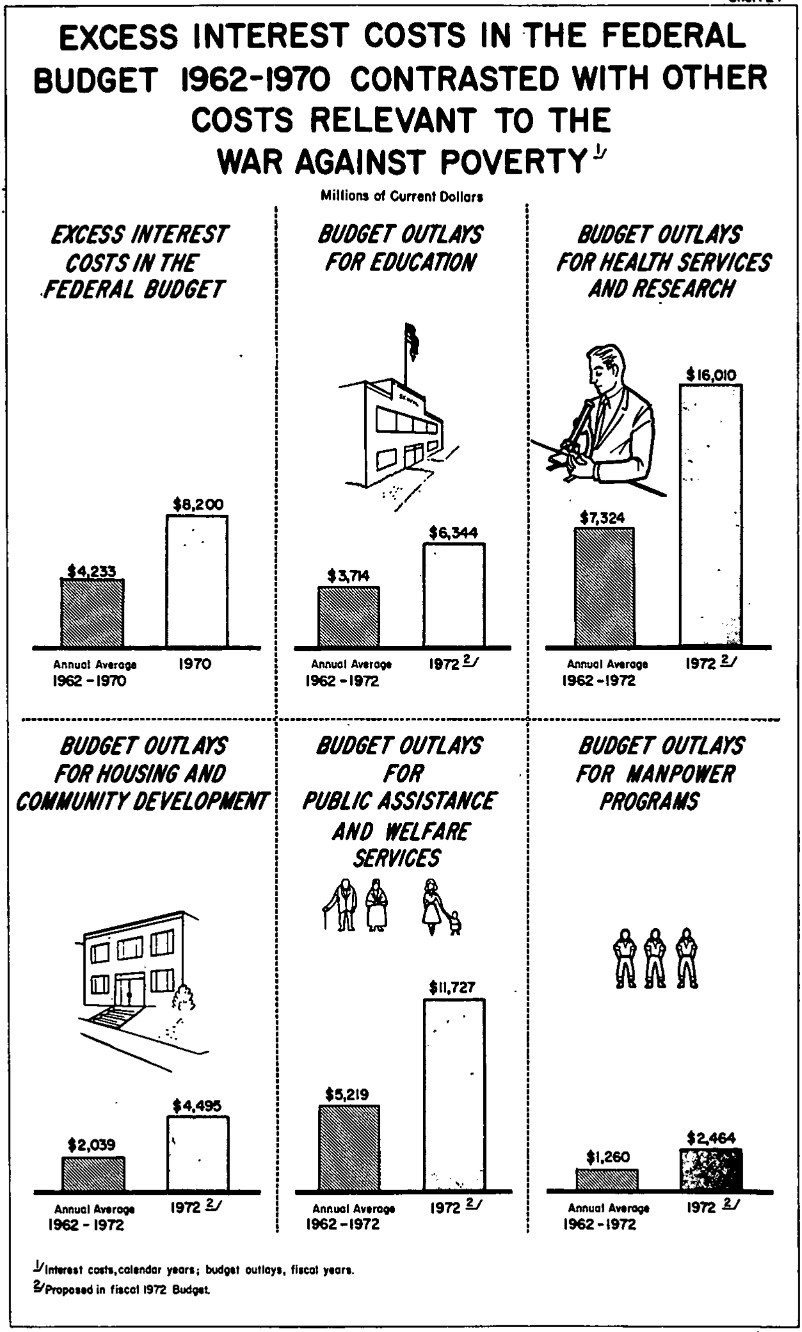
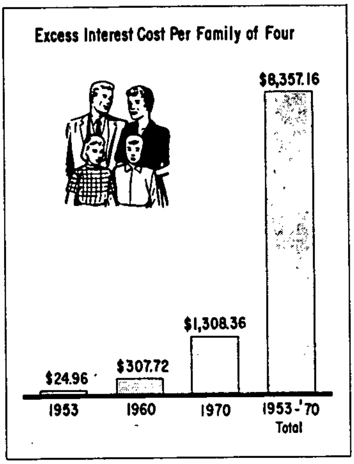
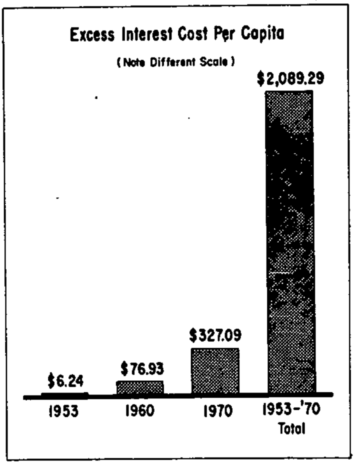

EXCESS INTEREST COSTS IN THE FEDERAL BUDGET 1962-1970 CONTRASTED WITH OTHER COSTS RELEVANT TO THE WAR AGAINST POVERTY 1/
Millions of Current Dollars
EXCESS INTEREST COSTS IN THE FEDERAL BUDGET
$4,233
$8,200
Annual Average 1962-1970
1970
BUDGET OUTLAYS FOR EDUCATION
$3,714
$6,344
Annual Average 1962-1972
1972 2/
BUDGET OUTLAYS FOR HEALTH SERVICES AND RESEARCH
$7,324
$16,010
Annual Average 1962-1972
1972 2/
BUDGET OUTLAYS FOR HOUSING AND COMMUNITY DEVELOPMENT
$2,039
$4,495
Annual Average 1962-1972
1972 2/
BUDGET OUTLAYS FOR PUBLIC ASSISTANCE AND WELFARE SERVICES
$5,219
$11,727
Annual Average 1962-1972
1972 2/
BUDGET OUTLAYS FOR MANPOWER PROGRAMS
$1,260
$2,464
Annual Average 1962-1972
1972 2/
1/ Interest costs, calendar years; budget outlays, fiscal years.
2/ Proposed in fiscal 1972 Budget.

Chart 25

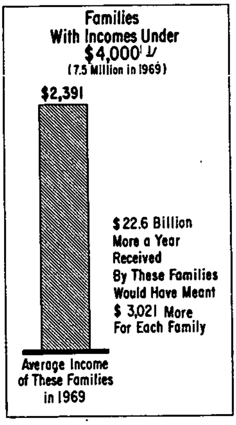
THE BURDEN OF $407.3 BILLION IN EXCESS INTEREST COSTS, 1953-1970 UPON THE AMERICAN PEOPLE

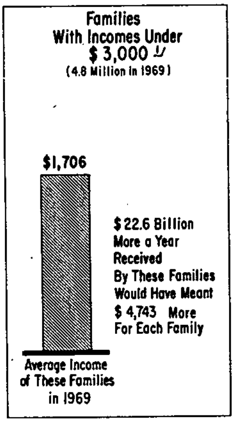
Calendar Years

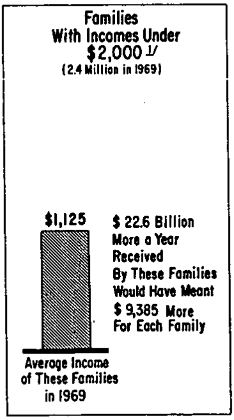




HOW $22.6 BILLION A YEAR, 1953-1970 -EQUAL TO ANNUAL EXCESS INTEREST- MIGHT HAVE RELIEVED POVERTY





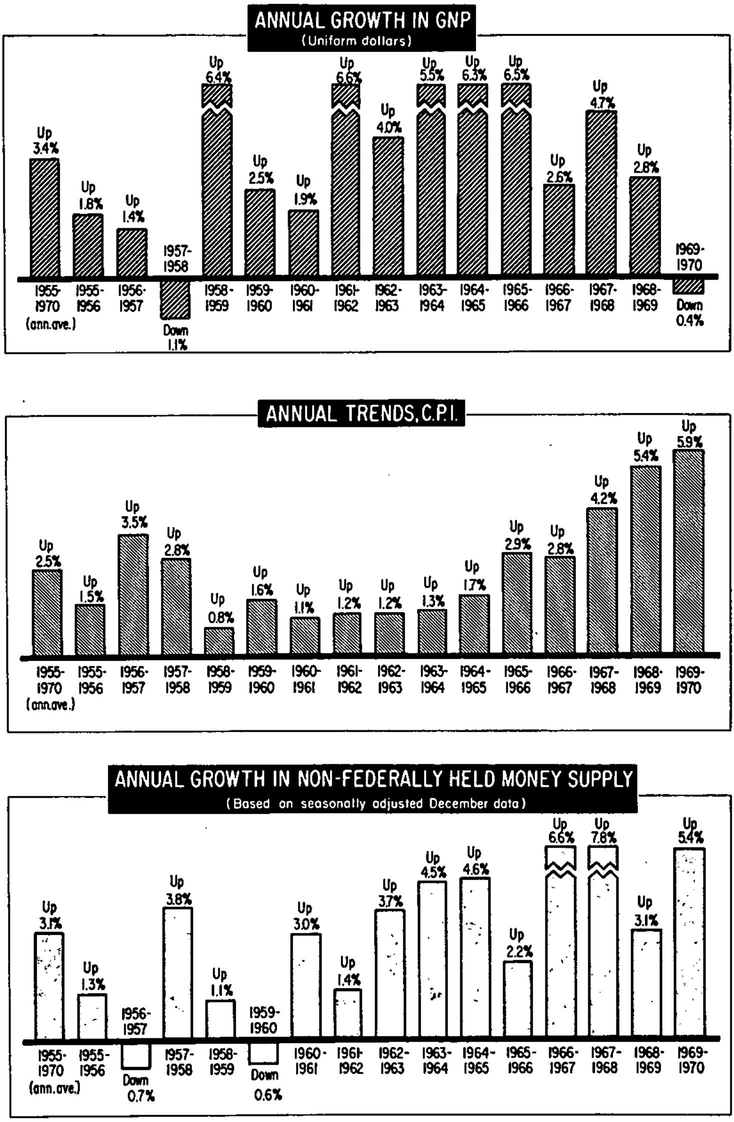


1/ Includes families with no income and income loss.

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

Chart 26

COMPARATIVE TRENDS IN GNP, PRICES, AND NON-FEDERALLY HELD MONEY SUPPLY, 1955-1970



Data: Dept. of Commerce; Dept of Labor; Federal Reserve System

CONSUMER FEDERATION OF AMERICA

We appreciate the opportunity to comment on economic issues that concern the Nation and our federation of consumer organizations.

Consumer Federation of America is, of course, concerned with the safety and quality of goods and services, with advertising and packaging and merchandising, with trade practices of specific industries, with the adequacy of consumer information, with Federal regulatory agencies' efforts to protect the consumer's interest, and with many other matters that have a significant economic impact. However, in this statement we confine our comments to those macro-economic issues that are the special concern of your committee.

First, we urge Congress to establish a wage-price review board so that consumers may be fully informed about the justification for wage or price increases and thus be able to exercise intelligent public pressure to preserve the consumer's interest.

Second, we are deeply concerned about the escalating level of interest rates. The Nation's social needs for housing, schools, hospitals, natural resource development, transportation, pollution abatement, and public facilities will not be met if the high interest rate crisis persists.

The Federal Reserve System and commercial banks exercise the privilege of creating the money of the United States. This power must not be delegated to private interests, and the Governors of the System must use this money-creating power at all times in the public interest. We urge Congress to revise the Federal Reserve Act by requiring the President to appoint at least one consumer representative to the Board of Governors.

To overcome the barrier that high interest rates have erected against construction of desperately needed housing, we urge Congress to enact legislation similar to the Rural Electrification Act and the Federal Housing Act's section 221(h) that permits direct Federal lending or Federal interest subsidies of 1 percent, 2 percent, or 3 percent interest rates, depending on need or circumstances, to individuals and public and nonprofit private agencies, including cooperatives, for massive construction of homes for middle- and low-income families. Such loans should be counted investments, not charges against the current budget.

Lenders enjoy the privilege of lucrative commerce. That privilege carries a responsibility to operate in a quasi-public capacity. If lenders fail to meet this responsibility, Federal programs—whether direct low-interest loans, Government insurance of private loans, or industry rationing—must be enacted to meet the inelastic availability of credit.

To make credit available to low-income consumers, CFA asks Congress to encourage Government deposits in credit unions and to help by providing them, where needed, security, management, and technical assistance.

Third, CFA believes gas and electric consumers are entitled to low-cost abundant, reliable energy, consistent with proper use of natural resources. We believe the Nation can meet these goals through active competition-by-example of consumer-owned utilities, public and private, through effective regulation, through proper attention to land use and environmental protection, through research into more efficient production of gas and electricity, and through the initiative of consumer-owned utilities.

Consumers bear the economic and social costs of energy development. We spend 7 cents of every dollar for gas and electricity and pay for all commercial and industrial use of gas and electricity as purchasers of goods and services. We believe the energy and fuels situation has reached a crisis. To meet this crisis, CFA urges—

That Congress insist the President use his powers under the Defense Production Act to allocate fuels in accordance with public health, public safety, and national defense;

That Congress initiate Federal development of fuels on Federal lands, including oil shale and Outer Continental Shelf oil and gas, having due regard for environmental considerations, as a cost-of-production yardstick;

That Congress prohibit the States from setting unnecessarily low production quotas of oil and gas from Federal lands;

That Congress investigate oil company acquisition of competing fuels;

That Congress insist the President use his powers to impose emergency price controls on oil and coal;

That Congress retain Federal ownership of nuclear fuel production and maintain present pricing policies that reflect actual production costs; and

That Congress revoke present oil import quotas and guarantee unrestricted importation of oil.

Beyond the energy crisis itself, CFA believes it is essential to continue the effective yardstick principle of competition by comparison in the electric industry. We urge Congress—

To enact legislation, patterned after the Rural Electrification Act, that will assist urban consumers in forming consumer-owned electric utilities where rates are excessive or service inadequate;

To guarantee all utilities—public, private, and cooperative—the opportunity to take part in joint generation and transmission ventures;

To remove the ceiling on Tennessee Valley Authority bonds so the Authority may plan power facilities economically;

To establish a national high and ultra-high voltage transmission grid to help prevent power shortages, assure reliability, and enable all utilities to share in economies realized through the diversities of time and season;

To appropriate funds for Rural Electrification Administration adequate to serve the needs of rural America, including its generation and transmission needs;

To develop hydro-electric resources and to build transmission systems connecting Federal generating plants;

To create, as an independent office, a utility consumers counsel to represent the public interest before Federal, State, and local regulatory agencies and in the courts;

To separate Atomic Energy Commission's responsibilities for promoting commercial development of nuclear reactors and for licensing such reactors; and

To require Federal Power Commission to order electric and gas utilities to pass on to their consumers tax savings realized through Federal legislation.

Fourth, CFA emphasizes the rising cost of medical care as one of the most significant factors in the continuing inflation that robs consumers of their buying power. As central to the reduction of medical costs, we urge Congress to create a National Health Insurance Plan that provides free access to comprehensive medical care to all people, that rigidly controls the cost of delivering medical care, and that modifies the unlimited "fee for service" system. In addition, we urge Congress—

To meet the critical shortage of physicians through Federal aid to medical schools and to economically disadvantaged students who wish to enroll there;

To provide inducements to medical school graduates to locate in areas areas now denied adequate medical care;

To encourage group-practice (prepaid) community health centers;

To eliminate the coinsurance and deductible features of medicare and extend medicare to include outpatient drugs, eye care and the cost of eye glasses, dental care and dentures, and hearing aides; and

To establish a drug compendium.

Fifth, CFA believes that a guaranteed annual income of $5,500 per family of four is essential to the economic health of this Nation. We also urge Congress—

To support community programs providing low-cost food and homemaker services to shut-ins, the elderly, and others with special needs; and

To extend the food stamp and school breakfast and lunch programs.

Sixth, CFA believes that Congress should give the highest possible priority to public transportation so as to produce a convenient, economical, and safe system of moving people within cities and between cities, based no longer on the assumption that passengers alone must absorb the total costs. In addition, CFA urges Congress to establish and enforce nationwide, minimum standards of operation for auto insurance companies.

Finally, CFA believes that the consumer stands at the center of the Nation's economic life. Satisfying the needs of consumers is the whole purpose of economic effort. To assure that the consumer is clothed with those rights essential to his central position CFA urges Congress—

To enact legislation permitting consumers to maintain class actions against a supplier without depending on prior Federal conviction of that supplier for restraint of trade; and

To create an independent consumer protection agency with full powers of advocacy and capable of representing the interests of consumers before all governmental agencies and the courts.

These CFA policies were fully debated and accepted by vote of the delegates at their 1970 annual meeting and reaffirmed January 27, 1971. The preamble of our policy statements sets, I believe, the general tone for CFA's economic concerns:

PREAMBLE

We believe the consumer has a responsible role in the American economy. To discharge that responsibility he requires more meaningful information and more effective legislation to promote his interests.

Every American is a consumer. His welfare is closely identified with the public interests. His welfare requires a careful balancing of the right in a free economy to earn profits with other rights that affect decisively the quality of life for everyone.

To achieve this balance requires laws that will establish such conditions as will enable all people—especially those whose needs are least adequately met—to function as efficient, responsible citizens.

Moreover, it requires the adequate funding of programs designed to promote consumer protection and understanding and a new sense of commitment by agencies in fairly and openly promulgating regulations which are sensitive to the realization of the full objectives of consumer legislation. It further requires continued legislative oversight not only by the existing congressional committees but by select committees specially responsible for the promotion of the overall protection of consumers.

If, in the final analysis, effective promotion of the public well-being is to be realized, it is essential that national priorities be re-established in the direction of returning to a peace-time economy which makes full and productive use of all human resources.

CREDIT UNION NATIONAL ASSOCIATION, INC.

This statement is submitted on behalf of the Credit Union National Association, Inc., which represents credit unions in all 50 States, the District of Columbia, and Puerto Rico. These groups represent more than 24 million Americans in the credit union movement. The Credit Union National Association appreciates this opportunity to discuss some of the problems outlined in the Economic Report of the President, transmitted to Congress in February, 1971.

Like other savings institutions in 1970, credit unions by the end of the year had received much more in savings than their members required in the form of new loans. In less than 24 months, a liquidity poll of nearly $1.7 billion has been built up within the credit union movement. Yet the Economic Report of the President raises a series of questions which affect the future of the institution and perhaps threaten its very survival.

Credit unions are not the prime savings institutions of families in the United States, nor are they likely to become so in the future. However, there are more than 23,000 credit unions in this country. Their members represent nearly 20 percent of all the families in the United States. They have grown into a significant factor in the economy.

Credit unions are unique among savings institutions for three reasons:

(1) Credit unions are nonprofit institutions chartered by State or Federal law to serve their members only. Each credit union is operated entirely by its members as a self-help enterprise, in order to meet their own personal needs. Any money left over after expenses is returned to the members in the form of dividends on their savings.

(2) By law, the elected officials of the credit union must be volunteers, who serve without pay. An estimated 250,000 men and women are serving in such positions without financial reward. Credit union leaders consider credit unions to be not a financial institution, but a "movement"—a movement with the goal of bringing credit union benefits to more and more families in the Nation. To overlook this concept of a movement is to overlook a fundamental fact above credit unions.

(3) Credit unions are shaped by their member-owners to serve their specialized needs. Each member must purchase at least one share (usually $5) of ownership in the credit union. Above this sum, members may add to savings in any amount. The credit union then lends money from these funds, giving first consideration to the character and need of the borrower. Operating this way, credit unions have attracted millions of dollars in savings in the 1960's, and put the money into productive use.

The motto of the credit union movement remains "not for profit, not for charity, but for service." This means more than accepting savings and making loans.

Today it means providing to members a faster, more convenient, and more complete service, reflecting their changing attitudes and conditions of life. It means a diversified and evolving service mix, including, whenever possible, new services which members want, all in a framework of maximum security for the member and the credit union. Not to change with the times could lead to disaster for the credit union movement in the 1970's or 1980's.

In search for more meaningful service, these propositions remain basic:

Service to members is the sole purpose of the credit union movement. There are countless incidents to show how the availability of low-cost credit union service has meant the difference between despair and peace of mind for the family. Credit union history is an intensely human story.

It is the member who decides what services he needs and wants. In the 1960's the jet airplane increased the demand for loans for overseas travel. The camping fad brought a demand for more boat and trailer loans.

Finally, the member determines whether or not the credit union will grow, by adding to or withholding his savings. No credit union can continue to increase its service without a growth in savings dollars.

These observations illustrate how credit unions have multiplied in the postwar period, and why they may face many grave problems during the 1970's and 1980's.

Among the reasons why credit unions have grown are:

(1) There has been a continual rise in personal income. Today the average weekly wage of an industrial worker is over $110. Many more family members are employed. Even with this added income, it may be difficult to achieve the living standard the family wants.

(2) Savings have increased. Because of rising personal income and full employment, more people have been able to save. In the 1930's, when credit unions were new, savings was sometimes a matter of survival. In the 1960's it became a matter of more sophisticated and flexible decisionmaking. Credit unions were only one choice among savings institutions.

(3) There is growing urbanization of the population. U.S. credit unions have grown most rapidly in the metropolitan areas, particularly among industrial employee groups. A recent survey by the Credit Union National Association shows that out of more than 23,000 credit unions in the United States, less than 1,000 may be considered rural credit unions. As the rural population moves to jobs in the city, it tends to enter the field of membership served by an industrial credit union.

(4) Educational levels are rising. Credit unions apparently benefit from an increasing awareness of the advantages of saving in one financial institution, compared to another. More than one-fifth of credit union families, according to a recent survey, are headed by person with some college education.

(5) Personnel departments have helped. The increasingly sophisticated professionals who run the personnel offices for industry today view the credit union as a useful way to avoid the annoyance and problems of garnishments. Many have helped to establish a credit union in their plant or office.

These same factors may have a different effect in the years ahead.

According to projected data, the huge growth in the labor force during the 1970's will be among people who are net borrowers. Credit union leaders fear that this new group may not have the same attitude toward saving by purchase of shares, on which credit unions have always relied. The economic basis of saving in credit unions may have to change to include more than one class of shareholders. Some members may prefer a guaranteed fixed return, rather than a variable dividend paid out of earnings.

The changes are substantial. In the 1950's, credit unions were a net savings institution, partly due to the fact that credit unions were able to obtain funds through payroll deduction. Many banks were slow to promote smaller savings accounts during this period. Credit unions, in fact, were able to provide funds for other savings institutions. Huge sums of savings were placed by credit unions in savings and loan shares and ultimately in Government securities.

All this changed during the 1960's. Members began to demand more installment credit, while adding to their savings at a slower rate than in the past. In the last half of the decade, credit unions were losing their liquidity at the rate of nearly $200 to $300 million each year. In some States, the trend seems to be that credit unions may not be able to cover their increase in loans in future years with the increase in savings.

Credit unions were drawing heavily on liquidity pools built up in the 1950's and early 1960's. The recession of 1969–70 may well have saved credit unions from a liquidity crisis.

The credit union movement as a whole has begun to see signs of illiquidity arising out of prosperity. If the statements in the Economic Report of the President prove to be correct, these patterns may be expected to return for the credit union movement during periods of high prosperity in the 1970's.

This is the first time in the 20th century without a fairly large increase in the net saving group. During the great depression of the 1930's, families tended to be smaller. Immigration was reduced at the same time. As a consequence, in the 1970's we have an era marked by a smaller than usual growth in the net saving group, but a larger growth in the net borrowing group.

The new members of credit unions are the new employees. These are generally 20 to 30 years old, young families at the stage of setting up households and acquiring possessions. They are predominantly net borrowers. As more and more of these young people (the result of the "baby boom" of the Korean War period) enter the labor market—and as the group that has provided the savings reaches retirement or dies—the problem of meeting the loan demand of the future is a major worry for the credit union movement.

The test of any financial institution is its capacity to change. It must have the ability to reorganize itself to meet the changing needs it is intended to serve. If credit unions are to continue to grow in the

1970's, they must find ways to adapt themselves to these changes in the environment in which they must operate:

(1) Credit unions will face more aggressive competition. During the 1960's, banks succeeded in increasing their savings at the expense of savings and loan associations and credit unions. In order to attract these savings, banks paid higher rates. They shifted their loan portfolios into areas which produced high profit margins, particularly installment credit. If the data in the Economic Report of the President are correct, we can expect these trends to continue in the prosperous early 1970's.

(2) Bank credit cards will enable banks to provide fast and convenient loans to urban workers, based on preapproved lines of credit. Credit unions have always been closer to members at their place of employment. Now the banks may have the edge with their credit cards.

(3) All financial institutions will face a liquidity problem to some degree. However, such institutions as the banks, the savings and loan associations, and the Farm Credit Administration all have central facilities to provide them with liquidity under the fiscal and monetary polcies of the Government during the 1970's. Credit unions are the only institution without a central facility for direct assistance with liquidity problems. Traditionally, credit unions have looked to each other to have excess funds when needed. But during the prosperity suggested by the Economic Report of the President, these sources are unlikely to be suffcient.

(4) Truth-in-lending legislation should benefit credit unions from a competitive standpoint, but perhaps not enough. Under the State law in Massachusetts, for example, there were no sizable increases in credit union installment loans over several years which could be attributed to knowledge of loan costs by the public. Furthermore, many revolving check credit plans are being offered at the same 12 percent annual percentage rate which credit unions offer, instead of the usual 18 percent annual percentage rate charged on credit card plans.

(5) Credit unions will face more competition where they are concentrated. As more and more employment is concentrated in a relatively few counties in each State, it allows the more affluent institutions, such as banks and savings and loan associations, to utilize television and other mass media more effectively. Increasing competition may well mean that credit union members will be offered lower rates on installment loans and a higher return on savings.

(6) New savings forms are springing up, notably the insurance companies with their mutual funds. Insurance companies have had difficulties in obtaining savings by selling traditional insurance products. With their new techniques, they will attempt to attract savings away from all financial institutions in the 1970's, including credit unions.

(7) More and more labor union contracts include provisions for retirement savings plans. In a typical plan, the trade union member invests his own money in a savings program. The company adds a certain percentage to this savings. When the member terminates, he gets back his savings, accrued interest, and

any vested portion of the company contributions. The spread of such plans may reduce savings flows into credit unions at the place of employment.

(8) We can expect increases in local and State taxes. Probably there will be more payroll deductions for tax purposes. All financial institutions should find it more difficult to obtain savings from a smaller take-home-pay envelope.

(9) The needs of the U.S. Government in refinancing its huge debt will not decline. Even though interest rates will probably not climb back to the level of the early 1960's, Government securities will still be attractive. Large savers will be tempted to draw their money out of financial institutions in favor of a safe and highly liquid investment in Government agency securities.

(10) Another problem is the needs of industrial firms. Employers may offer rates as high as 8 or 8½ percent to their own employees for money to finance their operations. If this trend continues, we may see more and more industrial firms competing against their own employee credit unions for funds.

(11) Large savers discovered the municipal securities market at the end of the 1960's. Once they have acquired the habit, we can expect them to continue to place large savings in these instruments to obtain the combination of rates and tax benefits.

(12) Money transfer systems are changing rapidly. We can expect the banks to offer a wider variety of new services to families, in order to obtain more savings and checking accounts to compensate for this situation: the bank must pay a merchant within 5 to 7 days after the credit slip reaches the bank, while the credit card holder may have up to 55 days to pay his charges interest-free. In effect, the banks are permitting their customers to use the bank "float," rather than the other way around. Certainly we can expect banks to try to reverse this situation.

What Can Be Done About These Problems?

The financial system in the United States is changing its structure and scope more rapidly and with more competitive intensity than in any recent time. There is a direct challenge to the credit union movement to adapt and interpret the purposes of credit unions in terms of its membership in the 1970's.

Credit unions want no change in their basic philosophy of aiding society. They wish to remain an expression in the field of economics of high social ideals, of teaching thrift to members, and making loans for provident and productive purposes.

Alphonse Desjardins, founder of the credit union movement in Canada, stated it clearly: "The credit union movement is not an ordinary financial institution seeking to enrich its members at the expense of unfortunates."

Yet credit unions recognize that a member-owned institution must follow the needs and desires of the members who are providing the capital.

Some positive steps have been taken. Through the ICU Services Corp., created by the Credit Union National Association, credit unions do have entry into the Government money market on a systematic basis.

Credit unions may invest their excess funds in short-term Government securities through this channel, and earn income on a daily basis. Previously these funds were kept in checking accounts.

Large credit unions have moved to meet the competition from banks in the area of preapproved credit with similar systems of their own. These systems are offered under such names as "Quik-Cash," "Redi-Cash," "Draft-A-Loan" or "Rite-on-Line." A negotiable order system has been introduced, much like the negotiable order systems offered by credit unions in Canada for nearly two decades.

But other problems still remain, if credit unions are to continue to provide to their members the service which has produced such growth for the movement in the postwar period. The most critical of these problems are these:

(1) To survive the liquidity pressures of the 1970's, credit unions urgently need a central facility or bank to provide liquidity and discount opportunities for the type of consumer paper held by credit unions. This facility would take into account the close relationships between credit unions, and their unique characteristics as financial institutions. It would enable them to perform their historic function with greater ease in a changing economic environment. Like the central institutions created for the Farm Credit Administration, the savings and loan industry, and the commercial banks, the central facility would provide an answer to the unique operating procedures of the member institutions. The credit union movement believes that a central facility is needed to avert a liquidity crisis for credit unions in the 1970's and 1980's.

(2) There is a need for different types of savings instruments in the credit union movement. The basic savings instrument has been the share of ownership in the credit union, but there are sure signs that other instruments are needed to attract a greater savings flow into credit unions in the future. Restrictions on other instruments for credit unions should be reduced.

Some will say that the recent enactment of Federal share insurance for credit unions should provide the needed stimulus. But based on experience in the State of Massachusetts, it is unlikely that share insurance will produce the needed additional savings inflow. While Massachusetts credit unions did record a savings increase after share insurance, neighboring States without share insurance actually had a greater percentage gain.

These two institutional changes, we believe, will make it possible for the credit union to continue its traditional consumer-oriented services to members in the last quarter of the 20th century. Credit unions will be able to meet the competition of other existing and future financial institutions, and continue to provide their useful services to a growing number of families within their membership group.

The Credit Union National Association appreciates your invitation to comment on the economic issues which concern the Nation and our organization. We have tried to outline our problems in the light of the trends described in the Economic Report of the President. It is our hope that these remarks will be the beginning of a continuing discussion of the institutional changes needed for the credit union in the hoped-for prosperity ahead.

FEDERAL STATISTICS USERS' CONFERENCE

The Federal Statistics Users' Conference appreciates the committee's invitation to comment on the economic issues which concern the Nation and on the recommendations made in the administration's economic reports. Because of our specialized area of interest, our views and comments are directed to the economic data which provide much of the information upon which the President's Economic Report and the report of his Council of Economic Advisers is based.

FSUC is an association comprising 190 organizations generally classified as business firms, labor unions, nonprofit research organizations, State and local governments, and trade associations. These members have a common interest in encouraging the development of adequate, timely, and reliable information from Federal statistical programs.

ALLOCATION OF RESOURCES FOR STATISTICS

We commend the Council of Economic Advisers, in its report this year, for emphasizing not only the great need for improvements in economic statistics, but for pointing out the failure to allocate sufficient resources for their development in keeping with the real growth of the economy. We heartily endorse the following statement of the Council:

> Although this country has better statistics than any other country, the appropriate criterion is not whether we rank first but whether our data are doing the job that has to be done. There is some evidence of a lag. For example, *if we take account of the Federal resources that have been devoted to the development of economic statistics since 1963 we find that the level of support has remained the same while the real economy has increased by almost one-third.* Furthermore, we find we are asking much more of our data than formerly. If policy is aimed at achieving specific responses in economic activity, we must have more accurate statistical tools for measuring such changes. Better statistics are the surest way we now have of improving our economic knowledge. [Italic supplied.]

In accord with a recommendation of the Joint Economic Committee, the Federal budget each year contains a special analysis of the Federal Government's programs in the field of statistics. In addition to provisions for ongoing programs in the budget includes requests for funds for improvements in certain statistical areas which are considered of high priority. These requests represent a considered attempt to see that resources for statistics are allocated in accordance with the Government's most urgent needs for information in the light of the prevailing budget constraints. As we have pointed out in previous statements to your committee, the Congress is more often inclined to assign a low priority to statistical programs when it comes to the appropriation of funds.

However, we wish to commend the Congress for its actions with regard to the overall budget for statistical programs in fiscal 1971. The 1971 budget proposal asked for a 14-percent increase in statistical programs and the Congress approved an 11-percent increase. As was the case in 1971, the programs proposed for 1972 represent a carefully designed, selective schedule of improvements in a wide range of statistical areas, particularly regarding our current economic statistics. The board of trustees of FSUC has thoroughly reviewed these programs and concluded that the proposed 1972 programs represent a minimum that is both necessary and essential in a year of fiscal stringency. We hope the Congress will make a conscientious examination of the needs to be served by the recommended improvements, and will be convinced of the necessity for adequate funding.

The fiscal 1972 statistical budget includes an increase for economic statistics of $6.2 million over fiscal 1971. This is roughly a 7.5-percent increase. Of the $6.2 million increase, however, only $4.2 million represents program increases and the remaining $2 million represents nonprogram increases, such as pay raises, et cetera.

In our statement to your committee last year we pointed out that in the past 8 years there have been virtually no increases in the funds available for many of our major economic statistical series, notably price statistics, construction and housing statistics, national income and business accounts, and labor statistics. The 1972 budget calls for the following increases in these areas:

	Millions
Labor statistics	$8.7
Production and distribution statistics	2.7
Construction and housing statistics	2.4
Prices and price indexes	.6
National income and business financial accounts	.5

The crucial problems for public policy affecting the construction industry are focused on issues relating to wages, industrial relations, productivity employment patterns, prices, and work injuries. New and expanded programs for essential statistics on construction are proposed to implement recommendations of the President's Cabinet Committee on Construction. Although it is gratifying to note these new and expanded statistical programs relating to the consruction industry, we hasten to point out that the funding suggested by the Cabinet committee for the Bureau of Labor Statistics items has been pared down by more than half in view of the extremely tight budget situation. Consequently, the programs of BLS for improvements in this area will be on a much more limited scale than that proposed by the Cabinet committee.

FSUC is well aware of the necessity for the prevailing budget constraints and the need for economy at all times. Our organization does not advocate massive, wide-scale increases in budgets for statistical programs. We do believe, however, that some more adequate criteria or rationale should be developed to insure that a reasonable and orderly expansion of our statistical programs through adequate funding can be effected to meet our current and emerging needs.

The Need for More Timely and Accurate Economic Data

In calling for improvements in economic data, the obvious, most commonplace and most repeated statement made is that such data should be more accurate and more timely. This is easier said than done. Priorities must be established, funding provided, and programs initiated and carried to completion. Thus, there is a lag in bringing about needed improvement.

Nevertheless, this oft-emphasized need has not gone unheeded because considerable improvements have been made in the accuracy and timeliness of economic data. But the ultimate is yet to be reached. We should continue to emphasize that our economic statistics can be, and must be, further improved. We should be unrelenting in underscoring the reasons for the importance of greater accuracy and timeliness.

The 1968 Report of the Council of Economic Advisers stated:

Sustaining expansion close to the economy's potential growth path is a more difficult task than that of merely attempting to moderate wide swings in output. In a slack economy, it was often sufficient for the indicators merely to point in the right direction. Now more accurate information about the speed of the movement and the distance from full employment is called for. The need for early and careful diagnosis of the extent and location of inflationary dangers also requires comprehensive information about the price, cost, and productivity performance of various sectors of the economy.

The 1969 report of your committee said that the task of maintaining full employment and steady economic growth at all times without inflation "places burdens on both public and private policymakers that can only be met if they have very accurate information in a timely manner to tell them the speed of economic change and the precise relationships between the various components. Early and careful diagnosis of inflationary dangers, or the likelihood of recession, requires comprehensive information about price costs, profits, and productivity performance in various sectors and industries."

Although the foregoing statements were made in 1968 and 1969 the needs mentioned have not disappeared in 1971. The requirement for both accuracy and speed are much greater now than they ever were in the past.

In an address to the Federal Statistics Users' Conference in November, 1969, Julius Shiskin, Chief Statistician in the Office of Management and Budget, said:

The principal use of current economic indicators is to interpret the current economic situation and to forecast underlying short term trends. For these purposes the figures must not only be very accurate, but also must come out very promptly. Tardy or faulty statistics put the forecasters—and the policymakers who use their forecasts—in double jeopardy. They are subject both to forecasting errors, and to errors arising from uncertainty about the forecasting base.

As your committee is well aware, there is considerable division of opinion among economists and forecasters with the President's forecast of a $1,065 billion 1971 GNP, with all that it implies for reducing unemployment and improving real growth by mid-1972. Although nearly everyone agrees that the direction of the economy in 1971 will be upward and that this year will be better than last year, there is a very wide disparity of views with respect to the rate of economic expansion, the rate of real growth, and the rate of inflation that may be expected in 1971. While there always will be room for important variations in interpretation, we must make sure that deficiencies in the statistical base for the forecasts be held to a minimum. There is a constant need for an examination of the economic data that make up the forecasting base and for identifying areas where improvements are needed.

Much attention is being given to monetary policy in 1971 and its role in stimulating the economy sufficiently to reach the goals being sought this year. In this area, we stress again the importance of high-quality information as an aid to analysis and policy formation. There are some major gaps in financial reporting and efforts are being made to eliminate them. Nevertheless, the question remains as to how much progress is being made and what gaps still exist that need priority attention. We respectfully suggest that this might be an area for examination by the subcommittee on statistics of your committee.

Because there is such widespread interest in monetary and financial statistics, FSUC is planning to hold a special meeting in midyear which will focus attention on the collection and use of these important data.

In our statement to your committee last year we commended the administration for its attention and efforts to speed up the release of major economic data through the publication of a "Schedule of Release Dates for Prinicipal Federal Economic Indicators," which appear each month in the Statistical Reporter. We are pleased to note that the release of more than half the principal economic indicators has been speeded up since this program was initiated. The schedule is of such great value to many of our members that we now mail them reprints of it as soon as it is available to us. This fact indicates the importance which users place upon being informed at the earliest possible date of the availability of significant economic indicators.

We have previously mentioned the recommendations of the Cabinet Committee on Construction for improvements in construction statistics. Such efforts are indeed necessary and helpful in identifying problem areas where improvements are needed in our statistical output. Recommendations of such bodies should not go unheeded. In this connection, we are looking forward to the report and recommendations of the President's Commission on Federal Statistics and to recommendations relating to improvements in statistics that might be forthcoming from the President's Commission on Productivity.

In conclusion, we wish to thank the chairman and the committee for inviting our comments and views. The committee has played a leading role in urging and defending adequate and proper economic statistics and we pledge our continued support and cooperation to the work of your committee.

INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S UNION

STATEMENT OF POLICY ON UNEMPLOYMENT

The level of unemployment in the United States and Canada has reached crisis proportions. While the immediate problem emerges as a direct result of White House economic policies, we must recognize that high levels of unemployment are built into the capitalist system. In order to limit unemployment, we need a combination of aggressive collective bargaining by unions and progressive legislation by Congress.

The key to economic recovery and the creation of more jobs is more consumer spending, and the key to consumer spending is that workers have more money to spend. Higher levels of consumer spending create a demand for goods and services not now being provided. The obvious and most immediate ways to increase consumer spending are higher wages, and lower prices and taxes.

Steps to be taken to reduce unemployment include:

(1) Workers must be protected against the job-reducing effects of technological change and speedup. Only through its economic muscle and the power to bargain collectively can the working class protect itself against these threats.

(2) The shorter workweek is often being talked about in union circles as a means of dividing available work among more people. Any attempts to cut pay at the same time must be opposed by the trade union movement.

(3) Minority groups are the first to be fired and the last to be hired, and when working are often denied the rights to upgrading and promotion. Racist employment practices must be fought both inside and outside the trade union movement. We demand that current laws protecting minority hiring rights be obeyed and strengthened.

(4) It is the joint responsibility of government and private employers to provide needed training and retraining programs, and remedial education for those without sufficient skills to compete effectively on the job market.

(5) The economy must lessen its dependence on defense spending as a source of employment, and begin providing usable services and products for which there will be a long-term public demand. Defense spending is, in the long run, dependent on political factors in the relations among nations which are far removed from more immediate public needs. Economically, the country cannot afford to continue the sharp hikes in defense spending experienced in recent years. Workers ought not to have their jobs depend on wars—hot or cold—and the insecurity that results.

(6) The Government must take steps to curtail the growth of American business abroad. Hundreds of products are now being produced abroad by U.S. companies that are either later imported back into the United States, or exported to other foreign countries. Foreign workers, working at a fraction of the wages paid American workers on comparable jobs and under dramatically inferior conditions, are being given jobs which would otherwise be available in the United States. American companies operating abroad reap tremendous profits while American workers lose jobs in an aleady tight labor market.

In December 1970 the Congress passed a $9.5 billion bill to provide an estimated 200,000 public service jobs over the next 4 years—jobs in health services, transportation, public safety, education, recreation, and neighborhood and environmental improvement. Although 200,000 jobs would be but a small dent in terms of total unemployment, those qualifying for such work would no doubt come from the chronically unemployed. The President vetoed the bill on December 16, 1970, and Republican opposition blocked any attempt to override the veto.

Commenting on the President's veto, Representative O'Hara (Democrat of Michigan) a leading sponsor of the bill, said:

> The veto shows a calloused disregard by Mr. Nixon and his associates for the problems of those who have lost their jobs due to this administration's policy which is deliberately designed to create more unemployment.

With organized labor among their major supporters, congressional liberals have promised to reintroduce the public service jobs bill at an early date.

All in all, the ultimate solution to the unemployment problem rests on there being fundamental changes in White House economic policies, and basic changes as to how this economic system is going to function—in whose interest it will serve. Organized labor should be at the vanguard in the fight for such changes.

Statement of Policy on Reorder Priorities

American business has used its economic and political influence to perpetuate an enormous defense budget, a budget which accounts for about 60 cents of every tax dollar. In varying degrees, defense expenditures affect almost every major industry and local economic conditions through the country, are an important source of employment, and return high, relatively risk-free profits to defense contractors.

Defense expenditures have also directly led to the longest inflationary spiral in our country's history, and blocked efforts to spend tax dollars to meet community needs. They have created an unstable base of employment for millions of workers, employment in the defense and aerospace industries rising and falling with the country's ability to continue to pay for essentially useless projects, and Congress' willingness to fund them.

Administration press releases notwithstanding, the President has not shown any intention whatsoever of attempting to meet the long overdue and widely held demand for a reordering of priorities. Branding those who have called for reordering "new isolationists," he seems intent on pursuing hot and cold wars abroad while building an even stronger defense establishment at home.

Unmet social and community needs are many. Housing, education, medical care, urban deterioration, public transportation, and recreational facilities are only some of the important areas where a job needs to be done. Defense spending in the amounts recommended by the President for the up-coming fiscal year simply preclude our being able even to begin tackling domestic needs in an orderly and meaningful manner.

We call on the President and Congress to order a reordering of priorities—to spend more on domestic programs of use and benefit to working people, and less on the weapons of war. In the long run, it must be a primary national objective to lessen our economic dependency on defense spending, and convert the economy to a peacetime footing.

Statement of Policy on Wage-Price Controls

With continued high rates of inflation, talk of wage and price controls has become more common. Support for controls can be found on both sides of the aisle in Congress, in several sections of the business and financial communities, among professional economists, and even in unions. Various opinion polls indicate that the public might willingly accept such drastic measures.

Wage and price controls are a bad prescription for national economic ills. Support for them proceeds from fallacious assumptions about how in fact the economy operates.

It is obvious that the prices we pay for goods and services reflect in part the wages paid to workers who produce them. But wages alone are not the sole cause of inflation, nor are they in most industries the most important cause.

As the ILWU has noted in the past, Government spending for war and defense is the major reason for inflation. Looking back over the term of the present spiral, we note that prices were well on their way up before wages began to try to keep pace. The largest price hikes have come for goods and services in industries where organized labor is not an important factor in costs. Interest rate hikes engineered by major financial institutions have been passed on to consumers as higher prices.

Wage-price controls hit the working class hardest in that they do not provide for a redistribution of income between wages and profits. Prices do not have to go up every time there is a wage increase. The fact is that business seizes every and any excuse to raise prices whenever it can.

Wage and price controls, even if they include dividends, profits, rents and interest rates, would have only a short-term effect in that they would not come to grips with these basic economic facts. When such controls were lifted we would be right back where we find ourselves at the moment.

The ILWU is opposed to the imposition of wage-price controls. Economic recovery is dependent on increased consumer spending which in turn is dependent on higher wages and full employment. Higher wages are the only way the working class can protect and improve its standard of living. We will continue to fight for higher wages and oppose those forces in the economy which would attempt to limit the gains of the working class.

INVESTMENT BANKERS ASSOCIATION OF AMERICA

Thank you for your letter of February 9, 1971, inviting comment on the economic issues which concern the nation and our association.

We heartily agree that (1) the underutilization of resources (unemployment) and (2) the existence of strong inflationary forces are the primary and most serious problems facing our nation's economy during 1971. We fully appreciate the dilemma inherent in a joint solution to the dual problems of unemployment-inflation.

Recognizing the real loss associated with unemployed resources as well as the personal effects upon the unemployed, the IBA supports the need for expansionary fiscal policy as exhibited in the proposed $11.6 billion deficit for the 1972 budget. We recognize that if economic expansion falls short of the 9-percent rate implicit in the administration's revenue estimates, as many observers feel that it will, the actual deficit may be even larger. Nonetheless, it is our firm desire that the path toward full employment be ascended. Thus we fully support the proposal of a "full employment budget."

However, we recognize that excessive inflation also involves real economic losses. Perhaps no single force so distorts the orderly functioning of a market-economy as does inflation of the magnitude present in our economy during the past 2 years. The investment banking community, given our position as intermediaries (middlemen) in the savings-investment process, particularly recognizes the distorting forces of inflation upon the resource allocating function of capital markets. We continue to feel very strongly that savings and real investment decisions should be made on the basis of expected real gain, not upon the expectation of continued price increases. Consequently, we feel that monetary and fiscal policy should be directed at reducing inflation, as measured by the GNP deflator, below the 3 percent range by mid-1972.

As a practical means to meeting the goals of full employment of national resources and moderation of the strong uptrend of prices, we suggest that the Federal Government focus on several broad areas of economic improvement:

(1) Federal taxes on personal incomes should be lowered for the purpose of encouraging consumer expenditures and at the same time, expanding the opportunities for State and local governments to raise revenues for much-needed projects.

(2) In conjunction with a decline in Federal income tax rates, we recommend a lowering of the tax on capital gain. This would foster greater participation in security markets, encourage the flow of funds for new capital investment, and help to accomplish the same goals as might be derived from a lowering of personal income taxes.

(3) The liberalization of depreciation allowances announced in January is to be commended for the favorable impact this mea-

sure should have in sustaining plant and equipment expenditures and improving the internal cash flow of businesses.

(4) Finally, we applaud efforts to make Federal expenditures more efficient through reorganization of the Government to combine overlapping programs and continual reevaluations of priorities and the distribution of resources.

The Investment Bankers Association is particularly sensitive to the massive financial problems facing our State and local governments. An enhanced quality of life can only be accomplished if State and local levels of government can effectively respond to these demands. Consequently, we support, as a matter of principle, the concept of Federal revenue sharing as one method to relieve partially the rapidly growing financial burdens upon State and local governments. However, we do feel that the nature of these burdens has not been adequately analyzed. In particular, the distinction between the need for rent or operating funds and for capital or long-term funds has not been examined in the necessary depth. Therefore, we would urge a comprehensive effort to identify those functional areas of State and local expenditure that most clearly present a need for more adequate financing and proceed with further intergovernmental programs on that basis. It follows that we are strongly opposed to the continued proliferation of the growing number of Federal agencies designed for unique borrowing and relending purposes. This approach not only reduces the efficacy of fiscal policy, but is more expensive than direct borrowing by the Federal Government.

In response to any question on the ability of the investment banking mechanism to handle, and the markets to absorb, an expanding volume of financing to provide capital for corporations and local governments, we believe that the answer is demonstrated in the impressive record of sales of new issues of underwritten corporate securities and State and local government bonds in 1970 compared with the preceding 10 years:

[In billions]

	Corporate securities	State and local government bonds		Corporate securities	State and local government bonds
1970	$31.1	$18.1	1964	$5.9	$10.6
1969	22.6	11.7	1963	6.7	10.3
1968	18.5	16.3	1962	6.9	8.7
1967	19.8	14.4	1961	8.2	8.5
1966	12.3	11.1	1960	7.1	7.2
1965	9.5	11.2			

MACHINERY AND ALLIED PRODUCTS INSTITUTE

It is always a privilege to be extended the opportunity to submit a statement to the Joint Economic Committee of the Congress at the time the committee reviews the Economic Report of the President.

Rather than undertake a broad commentary on the President's Econamic Report, we are submitting for consideration by the committee and its staff the following materials which deal with selective but, in our judgment, critical issues:

1. "Making the Future Creditable"—an advance draft of a memorandum prepared by the MAPI staff.
2. An advance copy of MAPI Capital Goods Review No. 85 entitled "Trends in Real Spendable Earnings: 'Correcting' the Record."
3. A copy of the MAPI letter presented on March 16 to the chairman, Subcommittee on International Finance of the Committee on Banking, Housing, and Urban Affairs, in connection with the subcommittee's hearings on S. 19 and S. 581, bills to amend the Export-Import Bank Act.

In our judgment, these three documents speak for themselves, but let me refer to certain points which deserve emphasis. In the memorandum entitled "Making the Future Creditable," we are concerned with capital investment, the need for a high level for such investment, the present picture regarding capital expenditures, limitations on the capital supply to support such investments, and, finally, a recommendation that the Congress seriously consider reinstatement of the investment tax credit. In suggesting that the Congress actively consider reinstatement of the investment tax credit, we want to acknowledge, as the memorandum states, that the liberalization of depreciation policy retroactive to January 1, 1971, represents a sizable step in the right direction, and the administration is deserving of high commendation for this new program on which regulatory implementation is now in the process of being developed. But further action is timely and justified.

In the research project entitled "Trends in Real Spendable Earnings: 'Correcting' the Record," we call to the special attention of the committee the conclusion, the first paragraph of which reads as follows:

> The monthly BLS series on real spendable earnings, to the extent that it is considered an accurate measure of the increase in living standards of the typical production or nonsupervisory worker, is highly misleading. By measuring the percentage increase in the average earnings of all workers in the production or nonsupervisory category combined instead of the average of the percentage increases in each worker's earnings, the series has substantially understated the improvement in the living standard of the average worker. The former measure has fallen well short of the latter, because the average earnings of all workers have been substantially reduced below what they would have been by the increased importance in the labor force of lower paid part-time women and younger workers.

Finally, we have taken the liberty of submitting to your committee as a part of our statement the text of our presentation to the Subcommittee on International Finance of the Senate Committee on Banking, Housing, and Urban Affairs which, in addition to dealing with pending legislation relating to the Export-Import Bank, emphasizes the need for congressional review of: (1) the operations of the voluntary foreign credit restraint program administered by the Federal Reserve Board to determine the extent to which it may be inhibiting export finance, (2) the relationship between the lending operations of the Export-Import Bank and the international financing institutions, and (3) the administration's restrictions on the Export-Import Bank's activities with respect to exports destined to South Africa.

Your attention should also be drawn to the fact that in the statement to the Senate subcommittee, we recommended that appropriate committees in the Congress undertake a comprehensive review of the foreign direct investment program in terms of its adverse impact on exports and the international competitive position of U.S. companies. Finally, with respect to the last of these three presentations, special mention should be made of the table showing import-export ratios by major machinery categories for the period 1961–70—first three quarters—which is an attachment to the full statement.

(The three documents referred to in the text follow:)

[Machinery and Allied Products Institute, advance draft,[1] Mar. 17, 1971]

MAKING THE FUTURE CREDITABLE

INTRODUCTION

In the short period of time since the Eoconomic Report of the President has issued, there has been a plethora of terms employed to describe the widely discussed $1,065 billion figure for GNP in 1971; namely, target, goal, objective, prediction, forecast, etc. Here we will consider it to be both a goal and a forecast.

As a goal the figure is laudable and appropriate to the times. If realized it could put us well on the road toward increasing production and employment and a decelerating rate of inflation. As a forecast, we think it is attainable—but not without further steps on the part of the Government. Much has already been said at these hearings held by the Joint Economic Committee about the proper course for monetary policy. We have nothing new to add here. Rather, we direct our atention to the further role that could be played by fiscal policy; specifically, by the reinstatement of the investment tax credit. This is not to imply that other means of increasing investment—and saving—do not merit consideration, for the present Federal tax system is strongly biased against capital formation. It is simply that we are limiting our discussion at this time to one step particularly suited to help solve a current and long-run problem.

THE PROBLEM—AS WE SEE IT

While there are of course other contributing factors, both sustained economic expansion and continued moderation in inflation are dependent upon increased productivity. The major source of productivity growth, in turn, is capital investment. It is not only a positive factor in and of itself, but is the catalyst for such other sources of improved productivity as educational attainment, upgraded skills, etc.

The Need for Capital Investment

To spell this out, we will briefly look at a few of the major areas of our difficulties and relate them to the need for capital investment.

[1] At this time the position expressed in this paper is not a formal policy position of MAPI. The paper has been prepared especially for the congressional Joint Economic Committee in connection with its current hearings.

1. *Economic growth.*—The argument here is not one of growth for the sake of growth. Rather, it is that if we are to meet the many new demands on the economy, a prerequisite is an expansion of our productive capability in the form of more and improved machinery, equipment, and plant.
2. *Goods and services in the public sector.*—Too frequently the proposals for more and larger governmental social and economic programs, i.e., public investment ,are presented in the guise of an alternative to investment in the private sector of the economy. This is too great an oversimplification. The substitution is politically and economically feasible over a period of time only to the extent that our productive capability grows at a rate that is sufficient to enable us to meet the increasing demands of the private sector of the economy. In other words, if met, the new demands for the public sector will result in a net increase rather than a complete substitution. This argument, then, is equivalent to that for greater economic growth.
3. *Increase in the real incomes of workers.*—If we are to afford the demands for increases in the buying power of workers' wages and salaries—and certainly reasonably demands should be met—we must invest in the machinery, equipment, and plant necessary to provide the required productivity of labor.
4. *Balance-of-payments considerations.*—The overall balance-of-payments deficits continue to be too large. Further, our trade balance is deteriorating as imports are rising rapidly. We must become more competitive in world markets if we are to avoid further stultifying controls and to provide the necessary employment opportunities. One of the root causes of our deteriorating trade balance is the slower rate of productivity gains we have been experiencing. It is also notable that our export strength in manufactured goods lies in "technology-intensive" products.

   Against this need for larger capital expenditure it is significant that a recent McGraw-Hill survey, "How Modern Is American Industry," showed that the percentage of productive facilities 10 years of age or younger had actually decreased—65 perecnt to 56 percent—over the past 4 years. When compared to other leading industrial nations our "obsolescence gap" is not only showing, it is growing. There is also a gap in terms of the percentage of GNP accounted for by capital investment.

One can only conclude that it is fundamental that the United States achieve and maintain the most modern technology and industrial plant in the world. It is only in this way that we can conserve the progress we have made, protect our national security and our international competitive position, and insure the highest level of job opportunities.

Where Are We Now?

While there are some early indicators which presage a resumption of growth in aggregate economic activity in 1971, this is not true for capital expenditures. The most recent—and among the more optimistic—expectations for business capital outlays were those reported in the March Department of Commerce-Securities and Exhange Commission survey; namely, an increase for 1971 of 4.3 percent (from $79.7 billion to $83.1 billion). In real terms this would mean no incerase at all. Further, even the gain in money terms is entirely attributable to the nonmanufacturing sector of the economy. Manufacturing anticipates a slight decline in outlays (—.3 percent), following only a small rise in 1970. Broken down still further and looked at from the point of view of orders for individual industries producing capital goods, new orders in 1970 for machine tools, to take one case, were off 47 perecnt compared with 1969. Certain other capital goods industries also have experienced a significant downturn. These include steel mill equipment, textile machinery, railroad equipment, and aerospace, which affects not only end-product manufacturers but a broad range and substantial number of capital equipment suppliers, large and small.

Capital Outlays Versus Internal Funds

Assuming the need for capital investment is evident, the obvious question is, Where will the money from? Let us look first at internally generated funds.

CAPITAL EXPENDITURES OF NONFINANCIAL CORPORATIONS AS A PERCENTAGE OF THEIR INTERNAL FUNDS

	Fixed investment	Internal funds	(1)÷(2)		Fixed investment	Internal funds	(1)÷(2)
1947	16.0	12.6	127.0	1959	32.8	35.0	93.7
1948	18.2	18.7	97.3	1960	36.0	34.4	104.6
1949	17.0	19.1	89.0	1961	35.1	35.6	98.6
1950	19.3	17.9	107.8	1962	39.3	41.8	94.0
1951	21.4	19.9	107.5	1963	41.2	43.9	93.8
1952	22.2	21.2	104.7	1964	46.2	50.5	91.5
1953	23.8	21.1	112.8	1965	54.9	56.6	97.0
1954	23.6	23.3	101.3	1966	62.7	61.2	102.4
1955	26.6	29.2	91.1	1967	64.7	61.5	105.2
1956	31.0	28.9	107.3	1968	69.8	62.5	111.7
1957	34.1	30.6	111.4	1969	79.4	62.5	127.0
1958	29.8	29.5	101.0	1970	82.8	62.0	133.5

Note: From the Flow of Funds Accounts of the Board of Governors of the Federal Reserve System.

These data are most revealing. The surge in capital expenditures which began in 1965 was accompanied for that year, and for 1966 as well, by such a rapid increase in internal funds that the ratio of the expenditures to those funds rose only moderately. The rise was moderate also for 1967 and 1968, though for different reasons: a slowdown in the growth of expenditures in the face of a sidewise movement of internal funds. Only in 1969 did the ratio soar beyond the previous range of variation, here because of soaring expenditures and a continuance of this sidewise movement. In 1969 it spurted to 127.0 percent. In 1970 it advanced still further to 133.5 percent.

It is clear that if corporate capital investment is to be higher relative to corporate output than in the pre-1965 period, internal corporate funds will also have to be relatively larger, since, for a number of reasons, a greater degree of dependence on outside capital—even if available at reasonable rates—is not likely to occur.[2]

WHERE DO WE GO FROM HERE?

It seems clear that we must both provide an incentive for capital investment and augment the supply of capital funds. As to the latter, with the liberalization of depreciation policy which is to be retroactive to January 1, 1971, the administration has taken a sizable step in the right direction and is deserving of high commendation. However, this still does not offset the effects of inflation on allowances based on historical cost,[3] and it still leaves us behind most industrial countries in the degree of acceleration of the writeoffs. For this reason we recommend that the Congress seriously consider reinstating the investment tax credit.[4] First, there is ample precedent for this in the suspension and reinstatement of the credit in 1966–1967. Second, and more importantly, not only will this go a long way toward expanding the financial capacity of corporations to meet the increasing needs for capital investment, but it will provide an incentive to continued growth of the Nation's productive capacity and to the modernization and replacement of the existing equipment, and it will enable us to come closer to meeting our national economic goals in the short run.

[2] For a fuller discussion of this subject, see "New Norms for Business Capital Investment?", George Terborgh, MAPI, May 1970.

[3] See "Underdepreciation From Inflation—A Ghost Returns," George Terborgh, MAPI, November 1969.

[4] It is not appropriate in this brief context to deal with such technical points as the credit percentage, the cut-in date, whether timing of the credit eligibility would be based on order or installation date, etc.

Capital Goods Review

MACHINERY and ALLIED PRODUCTS INSTITUTE

NO. 85 1200 EIGHTEENTH STREET, N.W., WASHINGTON, D.C. MARCH 1971

TRENDS IN REAL SPENDABLE EARNINGS: "CORRECTING" THE RECORD

A widely published economic series which has gained growing attention is that purporting to show real spendable average weekly earnings of production or nonsupervisory workers in the private nonfarm economy.[1] This series indicates that at the end of last year such earnings were no higher than they had been six years earlier in December 1964.

This startling finding is difficult to reconcile with industry's experience which has been one of rapidly rising costs, particularly wage costs, accompanied by a severe profit squeeze. Indeed, real pre-tax corporate profits last year were at their lowest level since 1963. It is also difficult to reconcile with the fact that total real national income, although declining slightly last year, was still almost 17 percent greater than in 1965.

The series has taken on particular importance because of several of the uses to which it has been put. It has, for example, been used to support union demands for substantially higher wages at a time of rising prices and high unemployment. Further, it appears to have attracted the attention of the U.S. Congress. In this connection, the Joint Economic Committee just recently held hearings, one of the announced purposes of which was to consider "the disturbing decline in the real weekly earnings of the average worker."

The apparent inconsistency between this series and the related data referred to above can be explained by the entrance into the work force of large numbers of women and younger workers who are lower paid and many of whom work part-time. The increased relative importance of these groups has lowered the average earnings of all production or nonsupervisory workers below what they would have been otherwise, thereby reducing substantially the percentage increase in such earnings. Thus, by measuring the percentage increase in the average earnings of *all* workers instead of the average of the percentage increases in each worker's earnings, the series has substantially understated the improvement in the living standard of the average worker.

A more detailed discussion of these developments is undertaken on the following pages.

The Series

The first obvious step in our examination is to look at the earnings data themselves. These are shown in Chart 1.[2] The top curve shows gross average weekly earnings (seasonally adjusted) of production or nonsupervisory workers in the private nonfarm economy. The middle curve shows the same series adjusted for changes in consumer prices (using a 1957-59 base)—and the bottom curve shows real spendable earnings of workers with three dependents.

Impact of inflation and taxes.—What particularly stands out in Chart 1 is the dramatic impact of rising consumer prices on real purchasing power. Thus, while current dollar earnings showed an increase of 31 percent between December 1964 and December 1970, real earnings rose by only 3 percent. In addition, when federal income taxes and social security payments are deducted, real *spendable* earnings actually showed a slight net *decline* over this period.[3]

[1] Defined as production workers in mining and manufacturing; construction workers in contract construction; and nonsupervisory workers in transportation and public utilities; wholesale and retail trade; finance, insurance, and real estate (except for out-of-office salesmen); and services.

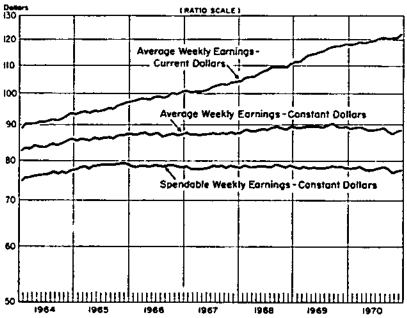
[2] A mimeographed description of sources and methods used in the development of the data underlying this and the other charts in the *Review* as well as other data referred to in the text is available upon request.

[3] Major factors in the increased taxes were the 10 percent personal income tax surcharge, which went into effect on April 1, 1968 and expired during 1970, and payroll tax increases throughout the period. Also of unquestionable importance has been the tax effect of sharply rising current dollar incomes due to our progressive income tax structure.

It can be said, therefore, that the proximate cause of the net reduction in spendable earnings since December 1964 is the rise in the federal government's share of workers' gross earnings. We cannot leave it at that, however, for the unbelievably small increase of 3 percent in real earnings before tax and payroll deductions leaves unsolved the problem of reconciliation with a rise of 17 percent in real national income and a decline in pre-tax corporate profits.

CHART 1

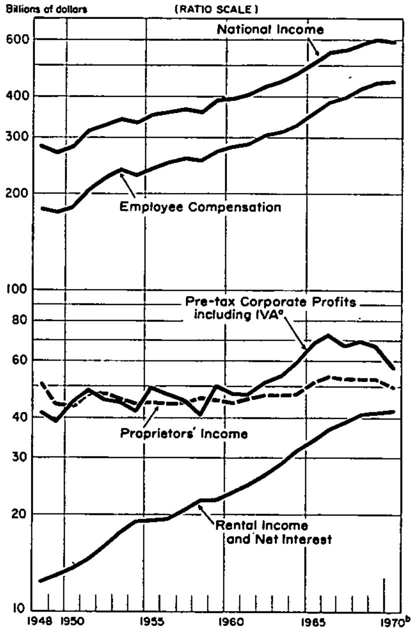
Average Weekly Earnings for All Production or Nonsupervisory Workers, and Spendable Weekly Earnings for Workers With Three Dependents, Private Nonfarm Economy, 1964-1970 (Monthly, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics.

CHART 2

Real National Income and Its Major Components, 1948-1970



[a] IVA=Inventory valuation adjustment.
[b] Corporate profits for 1970 are preliminary.

Source: U.S. Office of Business Economics.

Trends in Real National Income and Its Major Components

By way of exploring this question further, we turn to Chart 2 which shows trends in real national income and its major components during the postwar period (1948-70). The so-called GNP implicit price deflator (1958=100) is used in adjusting the current dollar national income, since the deflator provides the broadest measure of price changes in the overall economy and is therefore appropriate when reviewing all components of the national income.

It will be seen that there has been a notable reduction in the growth of real national income from 1966 through 1969 and a slight decline last year. Nonetheless, it was well above its 1965 level, exceeding that year by almost 17 percent. At the same time, pre-tax corporate profits, after peaking in 1966, began to decline and by 1970 reached their lowest level in seven years. Proprietors' income also peaked in 1966 and by 1970 had fallen below its 1965 level. Only employee compensation and rental income and net interest have shown a net increase since 1965, more than accounting for the rise in total national income. Further, employee compensation accounted for the lion's share of the combined increase of these two groups, since rental income and net interest, although rising at a faster rate, is less than one-tenth as great.[4]

As in the case of aggregate national income, employee compensation showed a slower rate of growth after 1966 but, unlike national income, it continued upward through 1970, exceeding 1965 by 24 percent.

Trends in Real Wages and Salaries in the Private Nonfarm Economy

Since Chart 2 shows *aggregate compensation* of *all* employees in the *entire* economy and we are concerned with *average earnings* of the *production or nonsupervisory* worker in the *private nonfarm* economy, further adjustments must be made.

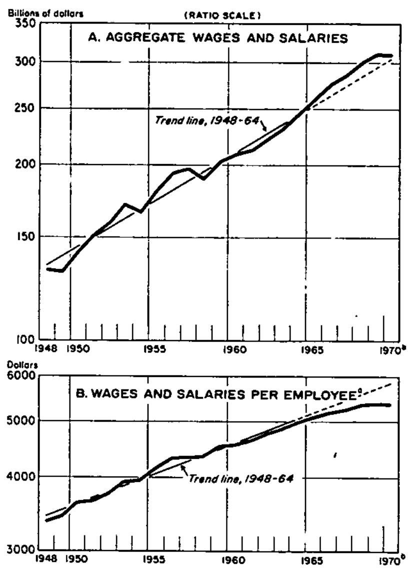
Panel A of Chart 3 shows aggregate *wages and salaries* (i.e., earnings, as defined in the BLS series) of all employees in the *private nonfarm* sector, adjusted for consumer price changes. The government and farm sectors have been excluded [5] and supplements to wages and salaries [6] have been eliminated.[7] To arrive at wages and salaries on a per-employee basis, aggregate wages and salaries must, of course, be divided by the number of employees. The result is shown in Panel B. The only significant difference now remaining between that curve and the real average weekly earnings series of Chart 1 is that the former includes all employees, while the latter includes only production or nonsupervisory workers.

Earnings of Production or Nonsupervisory Workers and All Employees Compared

The two series are compared directly in Chart 4 which shows the data on a quarterly basis (at seasonally adjusted annual rates) from the first quarter of 1964 (the earliest period for which the production or

CHART 3

Aggregate Wages and Salaries and Wages and Salaries Per Employee in Constant (1957-1959) Dollars—All Employees, Private Nonfarm Economy, 1948-1970



[a] Includes both full-time and part-time employees.

[b] The 1970 wages and salaries data are based on unpublished figures which have been adjusted to make them comparable, in terms of industry coverage, with earlier years.

Sources: U.S. Office of Business Economics and U.S. Bureau of Labor Statistics.

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[4] Since the data underlying the charts have been plotted on ratio scales in order to show changes in rates of growth, the components do not add visually to the total.

[5] Private households are also excluded as they are not covered in the BLS series.

[6] E.g., employer payments under social security, Federal and State unemployment insurance, and other social insurance programs; employer contributions to private pension, health, unemployment, and welfare funds; compensation for injuries; directors' fees; and pay of the military reserve.

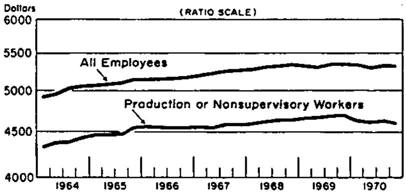
[7] The top curve in Chart 3 shows a significantly slower rise over the period under review than the second curve in Chart 2. When the consumer price index is used to convert the latter to real terms, it shows an increase of 149.3 percent from 1948 to 1970, which compares with an increase of 132.9 percent in the former. This is due in a major degree to the sharp rise in supplements to wages and salaries. Supplements to wages and salaries for the entire economy in 1970 were 6½ times their 1948 level. Their impact on the total combined series was limited, however, because they still represented a relatively small 10 percent of the total in 1970.

nonsupervisory worker figures are available) through the fourth quarter of last year. While the two curves have shown only a limited growth since the first quarter of 1964 and have moved in a closely similar manner, the "all employee" series does show a significantly greater percentage increase over the period as a whole (8.0 percent as compared with 5.8 percent).

CHART 4

Average Wages and Salaries Per Worker in Constant (1957-1959) Dollars, All Employees and Production or Nonsupervisory Workers, Private Nonfarm Economy, 1964-1970

(Quarterly, at seasonally adjusted annual rates)[1]



[1] The quarterly wages and salaries data underlying the "all employees" curve are based on unpublished data which have been adjusted slightly to make them comparable, in terms of industry coverage, with the data for production or nonsupervisory workers.

Sources: U.S. Office of Business Economics and U.S. Bureau of Labor Statistics.

Factors underlying the slower growth in production or nonsupervisory worker earnings.—The differential growth rate implies that the average production or nonsupervisory worker has experienced a slower percentage growth in earnings than has the average supervisory (or nonproduction) worker.[8] However, as we shall see, the slower growth in the production or nonsupervisory worker series can be accounted for at least in part and perhaps entirely by the entrance into the work force of large numbers of women and younger workers who are lower paid and many of whom work part-time. Their increased relative importance within the production or nonsupervisory category has lowered the average earnings of all workers in that group below what they would have been otherwise, thereby reducing substantially the percentage increase in such earnings. A detailed examination will explain more fully the impact of these developments on the earnings trend.

A Detailed Examination of the Data

Rapid expansion in employment.—Turning again to Chart 3, the most conspicuous feature is the *accelerated* growth in *aggregate* wages and salaries (Panel A) and the *reduced* rate of growth in wages and salaries *per employee* (Panel B) beginning in the early 1960s. Both phenomena were more marked in the latter half of the 1960s. An accelerated growth in aggregate real wages and salaries, combined with a decelerated expansion in wages and salaries per employee, can be explained, of course, by the sharply accelerated increase in the number of workers. This can be seen in Chart 5 which shows total employment and employment of production or nonsupervisory workers in the private nonfarm economy during 1948-70. It will be seen that employment grew at an accelerated rate in the early 1960s and the rise became particularly sharp in the second half of the decade as the growth rate substantially exceeded the growth trend of the 1948-64 period.

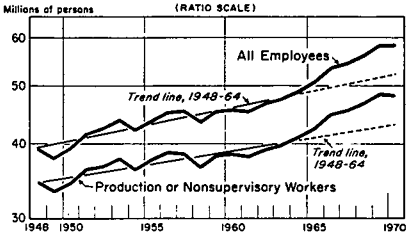
Increased importance of women and younger workers.—The large increase in employment over the past several years, as noted above, has been accounted for in a major degree by the entry of women and younger workers into the labor force. While total civilian employment rose by 10.6 percent between 1965 and 1970, the increase in female workers was 19.9 percent or some 3½ times as great as the growth of male workers (5.7 percent). At the same time, male workers aged 16-24 years rose by 15.2 percent over this period while male workers aged 25 or over rose by only 3.8 percent. As a consequence, the percentage of total employees represented by women rose from 34.8 to 37.7 percent and that represented by males aged 16-24 from 10.6 to 11.0 percent.[9]

[8] It should be noted, in this regard, that the differential rates of growth are especially wide over the particular time span covered by these series. In part, this reflects the fact that we have been in a downturn since mid-1969 and the production or nonsupervisory worker series, being somewhat more volatile than the all employee series, has been declining more rapidly. The greater volatility reflects primarily the impact on production worker wages of changes in overtime pay.

[9] Comparable data by age group are not available for the private nonfarm economy separately. However, published data do show that the percentage of women on private nonfarm payrolls increased from 32.4 percent to 35.2 percent, a roughly comparable shift in composition to that described above.

CHART 5

Total Employment and Employment of Production or Nonsupervisory Workers, Private Nonfarm Economy, 1948-1970[a]



[a] Includes both full-time and part-time workers.

Source: U.S. Bureau of Labor Statistics.

Lower pay and shorter hours of women and youths.—It is recognized that women receive lower pay rates than men. While comprehensive data are not available showing average hourly earnings for each sex separately, surveys of 17 selected industries [10] undertaken between March 1967 and January 1969 reveal that average hourly earnings for females are exceeded by male earnings in 14 of the 17 industries surveyed,[11] covering 99 percent of the female employees in these industries.[12] The adverse differentials ranged from 6 to 28 percent.

Unfortunately, no data are available showing hourly earnings broken down by age groups. It is only logical to conclude, however, that younger workers are also drawing considerably less hourly pay than their older prime age counterparts as a result of their youth, inexperience, lesser skills, and lack of seniority.

Furthermore, both female and younger workers work shorter hours than prime age males, widening further the earnings differentials between themselves and the prime age male workers. In this connection, while only 2.8 percent of male employees aged 25 or over worked on a voluntary part-time basis in 1970, the percentage was 19.6 percent for all women aged 18 and over and 22.0 percent for men aged 16-24.[13]

It may be noted, parenthetically, that many of these workers represented additional workers in the family unit, thereby supplementing the basic family income. In this connection, Census Bureau data show that the percentage of single-earner families declined from 43.1 percent to 37.6 percent of total U.S. families between 1965 and 1969, while families with two or more earners rose from 48.4 to 54.0 percent.[14]

Impact of Changing Employment Composition on the Real Earnings Series

Data are not available to permit a reasonably accurate measure of the extent to which this shift in the composition of employment served to depress average real earnings for the labor force as a whole below what they would otherwise have been. However, the data that are available are sufficient to permit some speculation concerning the order of magnitude of this impact.

Effect of the increased relative importance of working women.—Available data indicate, for example, that the combined impact of shorter hours and lower hourly pay rates of female workers has resulted in annual wage or salary incomes less than half those of male workers. In 1969 the indicated ratio was 46.6 percent.[15] Based on this information, let us assume the

[10] Conducted by the U.S. Bureau of Labor Statistics. The 17 industries include 14 in manufacturing and 3 in nonmanufacturing. We have not included industries for which only regional data are shown. Production workers are covered in the manufacturing industries and nonsupervisory employees in nonmanufacturing. Within manufacturing the data relate to straight-time hourly earnings. In nonmanufacturing they relate to hourly wages, excluding tips, payments in kind (i.e., free meals, room, etc.), and premium pay for overtime or for work on weekends or holidays.

[11] The exceptions are women's, men's, and children's hosiery mills where women's hourly earnings exceed men's by 12 to 17 percent.

[12] The industries surveyed covered 2,083,251 women. The manufacturing sector included 556,878 women and the hosiery group 17,864 women.

[13] U.S. Bureau of Labor Statistics. Data for *all* part-time workers by sex and age are not available.

The above percentages are somewhat understated since they exclude part-time workers who had a job but were not at work when the surveys were made. The percentage of *all* such workers (part-time and full-time) was some 12½ percent in 1969.

[14] Families with no earners were 8.4 percent of the total in 1965 and 8.5 percent in 1969.

[15] U.S. Bureau of the Census. This is based on *median* rather than *mean* or *average* income figures.

ratio of female earnings to those of male workers in the *entire* economy in 1969 also applied to *production or nonsupervisory* workers in the *private nonfarm* economy in both 1965 and 1969 and that the increase in the relative importance of women in the entire economy was the same for production or nonsupervisory workers in the private nonfarm sector over this period. We will further accept the indicated increase of 3.8 percent in real average weekly earnings of *all* production or nonsupervisory workers between these same two years.[16] On the basis of these assumptions, one can readily derive separate estimates of male and female earnings for both 1965 and 1969. These estimates imply that average real earnings of each group increased by 5.6 percent over this period. The smaller increase of 3.8 percent in the average real earnings of both groups combined results from the growing relative importance of the lower paid part-time female workers.

Impact of younger workers.—Beyond that, it is possible to derive a crude estimate of the impact of the increase in the relative importance of younger male workers on the change in average real earnings of *all* male workers over this same period. Available data indicate the ratio of the average *income* of 16-19 year old males to that of males 25 years and older to have been 15.5 percent in 1969. The ratio was 49.2 percent in the case of 20-24 year olds.[17]

Again, let us assume that these ratios were the same for *earnings* of *production or nonsupervisory* workers in the *private nonfarm* economy in 1965 and 1969, and that the increase in the relative importance of the two younger age groups in the entire economy was the same for production or nonsupervisory workers in the private nonfarm sector between these two years. On the basis of these assumptions, the data imply that the increase in real earnings of the three age groups considered separately was 6.5 percent between 1965 and 1969. Again, the slower growth in the average real earnings of all male production or nonsupervisory workers combined reflects the growing relative importance of the lower paid part-time younger workers.

Other factors.—The series could be subjected to further analysis along the above lines. For example, age groups within the female category could be analyzed separately. Also, available data indicate that there was a decline in the ratio of female to male earnings and in the ratio of younger age group incomes to those of older groups between 1965 and 1969. This would imply an even faster percentage growth in real earnings of prime age male workers on this account.[18] Further, no attempt has been made to assess the impact of other marginal workers entering the economy during this period of rapid expansion in employment.[19]

Impact on the Supervisory or Nonproduction Worker Group

Finally, we refer again to our earlier observation that the failure of average production or nonsupervisory worker earnings to grow as fast as all-employee earnings has been due to this increased impact of women and younger workers in depressing the average earnings of the former group, taken in the aggregate, below what they would otherwise have been. It should be stressed, in this connection, that the impact of this development on the supervisory or nonproduction worker group could hardly have been nearly as great. It is no doubt true that new entry into the latter group has come in part from inexperienced salaried workers in the manufacturing, mining, and contract construction sectors, which include *all* nonproduction workers. The other industry sectors, however, comprise almost entirely supervisory workers and, hence, new entrants can be expected to have represented, for the most part, experienced, higher salaried workers, many of whom have been promoted out of the production or nonsupervisory worker group. It follows that the impact on average earnings from the entry of less experienced workers was limited.

Accordingly, we may well find that when appropriate corrections are made, the real facts are the exact opposite of those inferred from the two series. Earn-

[16] Based on the data underlying the middle curve of Chart 1.

[17] U.S. Bureau of the Census. The ratio would probably be somewhat higher if *earnings* were compared since the higher income groups presumably receive proportionately more income from sources other than wages and salaries.

[18] By the same token, it would indicate a slower growth in earnings of women and younger workers. However, this appears attributable, at least in part, to a relative increase in the number of voluntary part-time workers in these categories. Also, as indicated earlier, their incomes in a growing proportion of cases represented supplements to the basic family income. To this extent the decline in these ratios would seem to reflect more our growing affluence than economic hardship. Further, this suggests, parenthetically, that *hourly* earnings increased faster than *weekly* earnings for these groups.

[19] This factor, together with the increase in women and younger workers, helps to account for the sharp reduction in the growth of labor productivity to 1.8 percent per annum during 1965-70 which compares with an average annual growth of 2.9 percent during 1948-65 and 3.4 percent during 1960-65.

ings of the typical production or nonsupervisory worker may well have been growing at a *faster* rate than those of the typical employee in the supervisory or nonproduction worker group. However, final conclusions concerning this relationship must await the development of data which can make possible a more refined analysis.

Conclusion

The monthly BLS series on real spendable earnings, to the extent that it is considered an accurate measure of the increase in living standards of the typical production or nonsupervisory worker, is highly misleading. By measuring the percentage increase in the average earnings of all workers in the production or nonsupervisory category combined instead of the average of the percentage increases in each worker's earnings, the series has substantially understated the improvement in the living standard of the average worker. The former measure has fallen well short of the latter, because the average earnings of *all* workers have been substantially reduced below what they would have been by the increased importance in the labor force of lower paid part-time women and younger workers.

While we want to stress that a description of this series is readily available from the U.S. Bureau of Labor Statistics and that it in no way misrepresents what the series does or does not convey, the fact remains that the series is subject to wide misinterpretation. It has been used to support union demands for substantially higher wages in the face of declining profits and rising unemployment on the basis that the workers who remain employed have enjoyed no increase in real living standards for six years. Yet, while 1970 real earnings have probably declined on the basis of any realistic measure, real earnings of the average worker were surely well in excess of what they were six years ago. Hence, the series has, in this sense, served only to exacerbate our present problem of rising prices combined with high unemployment. Further, it could lead to a misapplication of economic policy by government. In the latter regard the Joint Economic Committee of the U.S. Congress just recently held hearings to consider, among other things, "the disturbing decline in the real weekly earnings of the average worker," suggesting that policy steps could be recommended based on an erroneous interpretation of the BLS series.

The elimination of present biases in the series could make a substantial contribution to sound economic policy in helping to assure a more intelligent assessment of the facts in this area, particularly under the present conditions of strong cost-push inflation pressures. For this reason, the development of data which can permit appropriate refinements, taking into account such factors as changes in the composition of employment, should be a matter of high priority.

CAPITAL GOODS REVIEW

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MACHINERY AND ALLIED PRODUCTS INSTITUTE,
Washington, D.C., March 16, 1971.

Senator WALTER F. MONDALE,
Chairman, Subcommittee on International Finance, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Old Senate Office Building, Washington, D.C.

DEAR SENATOR MONDALE: We appreciate the opoprtunity to present our views on S. 19 and S. 581, bills to amend the Export-Import Bank Act.

As you may know, the Machinery and Allied Products Institute is a national organization of capital goods and allied equipment manufacturers, a sector of American industry which has a vital stake in foreign trade. By way of example, these industries' exports in 1970 were about $13.5 billion, 31 percent of total U.S. exports.

SUMMARY OF POSITION

We wholeheartedly support the common objectives of S. 19 and S. 581 to increase the operating authority of the Export-Import Bank and to extend its life. Although there are arguments on both sides of the question as to whether Eximbank's lending operations should be excluded from the unified budget, we believe that decisive action of some kind must be taken very soon to insure continuity in the Bank's support of U.S. exporters and to permit it to have sufficient flexibility to react promptly to changing international competitive conditions. Full exclusion of the Bank's net lending outlays from the budget appears to us to be the simplest and most direct way of accomplishing this objective, but we do not feel sufficiently schooled in the intricacies of government accounting to say there are not other ways to achieve the same objective.

We believe it is timely for the Congress to review the limitations imposed in 1968 on the Bank's operations in support of sales to Eastern Europe and recommend that the present law be amended to permit the Bank to engage in such activities when the President determines it is in the national interest to do so. Here we are not addressing ourselves to trade policy or national security questions. We merely urge that when national policy permits or encourages such trade it be backed up by appropriate financing.

With respect to other export financing matters related to the proposed legislation before the subcommittee, we urge that the subcommitee review (1) the operations of the voluntary foreign credit restraint program administered by the Federal Reserve Board to determine the extent to which it may be inhibiting export finance, (2) the relationship between the lending operations of the Export-Import Bank and the international financing institutions, and (3) the administration's restrictions on the Export-Import Bank's activities with respect to exports destined to South Africa. Beyond these matters which are directly related to the bills before your subcommittee, we hope your subcommittee (or the full Committee on Banking, Housing and Urban Affairs) will undertake a comprehensive review of the foreign direct investment program in terms of its adverse impact on exports and the international competitive position of U.S. companies. In our judgment, this program has been operated much too long without congressional review.

GENERAL COMMENTS

Continued expansion of the activities of the Export-Import Bank, which would be facilitated by this legislation, is essential to improvement in the U.S. balance-of-payments position and the strengthening of the competitive position of U.S. industry.

The U.S. balance-of-payments position

We have just experienced another year with a very substantial balance-of-payments deficit and the prospects are not good for significant improvement this year. While there has been a great deal of discussion recently as to whether the seriousness of a balance-of-payments deficit for the United States has been exaggerated, it is clear that policymakers here and abroad are not willing to assume that such deficits can be treated with "benign neglect." The fact is that our Government has an array of programs designed to improve—or to prevent a worsening of—our balance-of-payments position which, in our opinion, is harmful to the long-range interests of the United States. These include the foreign direct investment program, the interest equalization tax, and the voluntary foreign credit restriction program.

Interestingly, each of the above programs was introduced as a "temporary" measure. The interest equalization tax was first introduced in 1963, has been extended on three occasions, and a request for a further 2-year extension is presently before the Congress. "Voluntary" controls on foreign direct investment and foreign lending by comercial banks and other financial institutions were first introduced in 1965, and the investment controls were made mandatory on January 1, 1968, and are still in effect. Thus, controls on foreign direct investment are now in their seventh year. Moreover, even the modest changes introduced in the foreign direct investment program in 1970 and 1971, seem to be the result of an agonizing process in Government. It is clear therefore that these controls will be with us for years to come unless new approaches are adopted or Government makes a determination to phase out the control program with more imagination and greater speed.

The need to promote exports.—Since the principal hope for early improvement in our balance-of-payments position and thus the elimination—or amelioration—of the burdensome restraints on foreign investment and foreign lending lies in a more favorable balance of trade surplus, it is clear that a vigorous effort to expand exports continues to be necessary. This is borne out by the very unfavorable relationship between exports and imports of individual categories of industrial equipment as shown in the import-export ratio table attached to this presentation.

In our view export financing is the keystone of Government export expansion programs, and a continuously expanding role for the Export-Import Bank is vital. We trust that the Export-Import Bank's enlarged role will be accompanied by strong efforts by private banks. As industry and Government witnesses have testified before this subcommittee, competition in today's international markets is intense. Moreover, because U.S. producers not infrequently are at a price disadvantage with respect to their competitors, fully competitive export finance facilities are of absolutely crucial importance in the international marketplace for exports of industrial equipment which are customarily sold on credit—medium-term and, frequently, longer-term.

COMMENTS CONCERNING PROVISIONS OF S. 19 AND S. 581

Increase in operating authority

Export-Import Bank Chairman Henry Kearns has presented to the subcommittee projections of the Bank's position with respect to its overall operating authority and its authority to issue guarantees and insurance. We support the increase and emphasize the importance of early congressional approval of this request so that the Bank's operations will not be interrupted as has occurred from time to time in the past. Continuity of effort in the international marketplace is essential if we are to maximize export opportunities.

Mr. Kearns and his associates have done an outstanding job in introducing and implementing aggressively a broad range of programs to better meet the needs and problems of U.S. exporters. We are confident that the Bank, if granted adequate operating authority and sufficient leeway within budget considerations, will continue to improve its support of U.S. exports. While the United States has come a long way in improving its export financing and export credit insurance facilities, this is an ever-changing area and still more needs to be done to make our facilities fully competitive with those of our major competitors. In this connection, we encourage a careful reading of a recent study of the Chamber of Commerce of the United States, "Competitive Export Financing for the Seventies," which we understand will be a part of the record of your hearings. This study includes the results of a broad-based survey of the exporting and banking communities and details shortcomings of our export credit and export credit insurance facilities compared to those of our competitors.

Exclusion of the Bank from the budget

It appears to us that the lending operations of the Bank can be excluded from the budget without doing serious harm to budgetary concepts, but at least some means must be found to give the Bank greater flexibility in carrying out its responsibility. Based on the experience of the last year or so, we doubt that the Bank can plan and act aggressively enough when its operations may be contracted in a given year (or years) to fit overall governmental strategy as to the proper budget posture. Since 1969, the Bank has been required, because of the scarcity and cost of money in the United States, to greatly increase its support of U.S. exports. While money conditions have eased domestically in the last few months, it is very difficult to anticipate what changes will take place in domestic money markets and in international competitive conditions.

We note that Mr. Kearns, in his testimony on this subject, placed great importance on having the necessary operating flexibility to enable the Bank to make preliminary commitments to prospective borrowers on transactions for which disbursements must be made years into the future. From the point of view of our membership, this preliminary commitment procedure has been one of the most important additions to the Bank's program introduced by Mr. Kearns' team and one that we had urged for years upon succession of Bank administrations. Credit is an integral part of the sales package on transactions abroad, particularly the larger transactions, and this new program by the Bank has been of great assistance to exporters by enabling them to include a firm financing offer as a part of their sales proposal.

We appreciate the views of those in Government and outside who feel that an exception to general budgetary discipline can pose dangers. However, we believe Mr. Kearns has made a persuasive case for distinguishing the Bank's operations from those of other lending agencies. One further point of difference between the Bank and other Government lending programs which we do not believe was developed in the hearings is that the Bank is operating in the international marketplace where developments are beyond our unilateral control and where the Bank must have flexibility to make rather swift changes in policy to keep U.S. exporters competitive. As a number of witnesses testified before your subcommittee during these hearings, other countries are pursuing export business aggressively and most of our major competitors go further than we in supporting exports by isolating export financing from domestic monetary policy through a rediscount system or other techniques which enable them to provide export financing in adequate amounts at interest rates below those prevailing domestically.

It would appear to us that there are adequate controls on the Bank's activities through the Office of Management and Budget and the Appropriations Committees of the Congress. In this connection we think it is appropriate to note that, in a very important sense, the Bank is not a drain on the budget. On the contrary, it earned over $100 million in both 1969 and 1970, and paid a $50 million dividend to the Treasury in each of those years.

Restrictions on trade with Communist countries

When the Export-Import Bank Act was amended in 1968, provisions were added which, in effect, prohibit the Bank from participating in any way in transactions involving the Communist countries of Eastern Europe except Yugoslavia. While U.S. trade policy toward Communist countries is a controversial matter, it appears to us that it is unwise to encumber the Bank's charter with restrictions of this type. We believe—and no doubt Chairman Kearns would agree—that the matter was well stated by Harold Linder, former Chairman of Eximbank, in a letter to the chairman of this committee in May 1967, after the question of restricting the Bank's operations in Communist countries arose:

> * * * [F]rom the standpoint of the particular interests of Eximbank, of our exporters whom we serve, and of the Nation's balance of payments, we strongly believe that the Bank's charter is not the appropriate place in which to deal with the broad question of this Nation's trade policy with Communist countries. The Bank, as you well know, has a simple, straightforward, broad charter which over the years has permitted us to adapt our policies and actions to the changing needs of the country's economy and world conditions. To introduce a specific limitation of this kind, in order to deal with subject matter which is really far more germane to export policy itself than it is to export credit policy, would open the door to all kinds of additional limitations on other subjects of perhaps only transitory interest * * *.

In addition to the question of propriety of including limitations of this kind in the Bank's charter, the restriction seems particularly inappropriate in view of the changes in export control law made in the Export Administration Act, which was enacted in December 1969. This committee had a very important role in the enactment of that measure which puts a more positive emphasis on trade with the countries of Eastern Europe. Certainly if it is the intent of Congress that trade be increased with the Communist countries of Eastern Europe, we will need to have the credit and insurance facilities to support those sales, particularly in the medium-term field. Credit is no less a sales tool in Eastern Europe than in other areas and the export credit facilities in our major competitor nations support sales to Eastern Europe in the same manner as to non-Communist countries. Since all U.S. sales are governed by the regulations of the Department of Commerce's Office of Export Control, the Bank could not support any transaction which might be considered harmful to the national security of the United States.

OTHER MATTERS RELATING TO EXPORT FINANCING AND EXPORT PROMOTION

We would like to take this opportunity to raise certain matters which are within the cognizance of the Committee on Banking, Housing and Urban Affairs, and are deserving of its attention. Three of these matters—the voluntary foreign credit restraint program, the relationship between the lending operations of the Export-Import Bank and the international financing institutions, and the administration's restrictions on Export-Import Bank support of sales in South Africa—are certainly related to the subcommittee's current deliberations. Since we presume that the foreign direct investment program is within the jurisdiction of the committee, we would also like to point up certain aspects of that program.

The voluntary foreign credit restraint program

Your subcommittee has received recommendations from the exporting and banking communities that export financing be exempted from the Federal Reserve guidelines on overseas lending by commercial banks and other financial institutions on the ground that such limitations are inconsistent with a national effort to expand exports. We agree. We are of course aware that the Federal Reserve recently conducted a survey of financial institutions and concluded that only a relatively insignificant portion of export sales had been lost as a result of the guidelines. We do not believe that "lost sales" tells nearly the whole story. From our contacts with officials of commercial banks, we are under the impression that the existence of the guidelines inhibits the banks from seeking new export business. Such a dampener on the banks establishes a tone in this aspect of bank operations that runs counter to our national export expansion goals. We think it should be recognized that exporting, particularly the payment aspects, appears quite formidable to those companies with limited staff who are inexperienced in foreign trade. The encouragement and assistance of commercial banks in these cases can be of invaluable assistance. We think that a review by your subcommittee of the impact of the Federal Reserve guidelines on export financing by the commercial banks and other financial institutions would be very useful.

There is a larger question related to the commercial banks. It appears to us that, beyond the inhibitions of the guidelines on foreign lending, we still have not developed the right mix of policies to enlist the full participation of commercial banks in our export expansion efforts.

Coordination of Export-Import Bank operations with the international financing institutions

As Assistant Secretary of the Treasury John Petty indicated in his testimony before the subcommittee, the Export-Import Bank and the international financing institutions (notably the International Bank for Reconstruction and Development) are finding themselves, in effect, competing for certain of the more attractive projects in various countries. While Mr. Petty indicated that an effort is underway through the National Advisory Council on International Monetary and Financial Policies to develop a policy with respect to the relationship between the Export-Import Bank and the international agencies, this is certainly a matter which this subcommittee should keep under review. We recognize that in certain situations, because of debt service or other problems in the project country, the longer terms of the World Bank or other international agencies might be more appropriate. However, it appears to us that, as a general rule, commercial projects which can pay their own way should be left to the Export-Import Bank and the national export financing agencies of other exporting countries. It should also be recognized that, to the extent financing is shifted from the Export-Import Bank to the international agencies, export sales will be lost to U.S. firms now and in the future with resulting adverse effects on our balance-of-payments. Given the various restraints under which U.S. industry is burdened at present because of our balance-of-payments difficulties, we do not feel we can afford this additional slippage until there is more substantial improvement in our balance-of-payments position.

Restrictions on Export-Import Bank support of sales in the Republic of South Africa

As was noted above in connection with the present statutory limitations on bank activity in Eastern Europe, it seems to us inappropriate to restrict the Bank's operations in particular markets where there is no policy restricting trade. In this connection it should be noted that for several years the Bank has been prohibited by the executive branch from providing any direct loans to support sales in South Africa. In addition, the Bank will not support commercial bank guarantees or FCIA insurance for transactions in that country over 5 years. While this policy does not adversely affect those small and medium-size transactions customarily covered under the Bank's commercial bank guarantee program and FCIA insurance policies, it is damaging to the U.S. competitive position with respect to larger transactions. In those cases the cost of the financing offered by U.S. exporters generally will be far above that which can be offered by our competitors because the Bank cannot participate directly with its funds in order to bring the effective interest rate on the transaction below that of the U.S. commercial bank rate. For some of these transactions, terms beyond 5 years also may be appropriate and the Bank does not support terms of this length at this time.

Since, to our knowledge, none of the other industrial nations discriminate in the same way with respect to financing sales to South Africa, we wonder what this policy is accomplishing. We believe that there is merit in George Kennan's recent article in Foreign Affairs,[1] in which he infers that this policy—to the extent it may be hampering South Africa's economic progress—may actually be inhibiting the breakdown of apartheid. The policy of restricting the Bank's operations in South Africa should be re-examined.

The foreign direct investment program

While we wish to draw your attention primarily to certain export aspects of the foreign direct investment program, we feel obliged to observe that U.S. business has had to operate under controls over its overseas direct investments since 1965, and this program has been administered with virtually no congressional oversight. A congressional review of the program in terms of its effect on exports and the competitive position of U.S. companies in the international economy, and what actions might be taken to accelerate its dismantling, is long overdue. We assume that the program, which is based on the Trading With the Enemy Act, is within the jurisdiction of the Committee on Banking, Housing and Urban Affairs and hope that the appropriate subcommittee will undertake such a review.

With respect to the export impact of the investment controls, year-to-year increases in open account balances accompanying an increase in exports from a U.S. parent company to its foreign affiliates are considered as direct investment and are chargeable to the company's investment allowables. While the Office of Foreign Direct Investment (OFDI) has established a procedure whereby it normally will grant relief through a specific authorization when the ratio between increased export credit and increased exports is in line with historical experience, this is not very satisfactory from the business point of view. For example, to stay within the investment allowables, some companies must delay year-end shipments until the new year to avoid a technical violation of the regulations. Further, the specific auhorization procedure not only requires a great amount of documentation but also introduces an element of uncertainty into company planning. While we are not able to judge the extent to which these obstacles are hampering exports, there unquestionably is some adverse effect. We think a general authorization procedure should be adopted which would permit companies to increase their open accounts to subsidiaries, automatically and without charge to investment allowables, in the same proportion as its increases in such balances have accompanied increases in exports in the past. OFDI's specific authorization procedure (for case by case review) should still be made available to firms which have a special problem as, for example, in the case of a company whose exports are shifting from products for which prompt payment is appropriate to products for which more extended terms are customary.

In any event we believe that a broad review by Congress of the foreign investment controls is long overdue.

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[1] "Hazardous Courses in Southern Africa," by George F. Kennan, foreign affairs, January 1971.

We appreciate the opportunity to present our views. If there are any questions concerning the matters raised in this letter or if we can be of assistance in any other respect, we hope you will contact us.

Cordially,

CHARLES STEWART, *President.*

Attachment.

IMPORTS AND EXPORTS AND IMPORT-EXPORT RATIOS FOR MAJOR MACHINERY CATEGORIES, 1961–70 (1ST 3 QUARTERS)

[Imports and exports in millions of dollars, ratios in percent]

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1st 3 quarters, 1970
Machinery, total:										
Imports	629	738	834	1,089	1,486	2,202	2,563	3,035	3,565	3,168
Exports	4,694	5,080	5,312	6,121	6,589	7,297	7,803	8,309	9,519	8,169
Ratio	13.4	14.5	15.7	17.8	22.6	30.2	32.8	36.5	37.4	38.8
Engine, turbine, and parts:										
Imports	35	28	49	136	195	331	383	517	603	542
Exports	492	556	560	578	756	855	950	1,057	1,146	1,016
Ratio	7.1	5.0	8.8	23.5	25.8	38.7	40.3	48.9	52.6	53.3
Agricultural machines and tractors:										
Imports	115	152	172	195	249	325	341	322	345	277
Exports	541	558	644	826	860	860	843	873	917	715
Ratio	21.3	27.2	26.7	23.6	29.0	37.8	40.5	36.9	37.6	38.7
Office machines:										
Imports	75	85	98	104	136	191	225	256	372	368
Exports	310	324	362	434	471	557	707	747	1,051	1,105
Ratio	24.2	26.2	27.1	24.0	28.9	34.3	31.8	34.3	35.4	33.3
Metalworking machinery:										
Imports	34	41	48	40	63	135	203	204	183	128
Exports	391	435	347	408	332	338	339	334	343	296
Ratio	8.7	9.4	13.8	9.8	19.0	39.9	59.9	61.1	53.4	43.2
Textile and leather machinery:										
Imports	82	94	93	127	157	221	237	308	305	265
Exports	210	200	190	228	207	227	206	207	239	203
Ratio	39.0	47.0	48.9	55.7	75.8	97.4	115.0	148.8	127.6	130.5
Other nonelectrical machinery:										
Imports	114	140	175	269	360	474	574	673	816	711
Exports	1,798	2,014	2,106	2,386	2,648	2,941	3,136	3,342	3,765	3,099
Ratio	6.3	7.0	8.3	11.3	13.6	16.1	18.3	20.1	21.7	22.9
Power machinery and switchgear:										
Impots	28	25	22	41	67	105	133	168	196	184
Exporrts	255	264	326	356	472	488	510	531	561	462
Ratio	11.0	9.5	6.7	11.5	14.2	21.5	26.1	31.6	34.9	39.8
Other electrical apparatus:										
Imports	146	174	177	177	259	419	467	587	745	693
Exports	696	730	776	905	843	1,031	1,111	1,218	1,498	1,273
Ratio	21.0	23.8	22.8	19.6	30.7	40.6	42.0	48.2	49.7	54.4
Machinery, nonelectrical, total:										
Imports	455	540	635	871	1,160	1,677	1,963	2,280	2,624	2,291
Exports	3,743	4,087	4,209	4,860	5,274	5,778	6,181	6,560	7,461	6,434
Ratio	12.2	13.2	15.1	17.9	22.0	29.0	31.8	34.8	35.2	35.6
Electric apparatus, total:										
Imports	174	199	199	218	326	524	600	755	941	877
Exports	951	994	1,102	1,261	1,315	1,519	1,621	1,749	2,059	1,735
Ratio	18.3	20.0	18.0	17.3	24.8	34.5	37.0	43.2	45.7	50.5

Note: Other electrical apparatus includes domestic electrical equipment. Agricultural machines and tractors includes all types of tractors in addition to farm tractors.

Source: U.S. Department of Commerce.

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

By GROVER W. ENSLEY, *Executive Vice President*

The economic trends and issues analyzed in the President's Economic Report and the annual report of the Council of Economic Advisers have profound implications for the $80 billion mutual savings bank industry. As institutions devoted to the encouragement of thrift, savings banks have a vital stake in efforts to achieve price stability and full employment in the economy. As basically mortgage-oriented institutions, savings banks are major suppliers of housing credit and leading participants in Federal programs to rebuild our Nation's cities. In pursuing their thrift and mortgage functions within their present balance sheet powers, moreover, savings banks are dependent on the maintenance of responsible, balanced fiscal and monetary policies that will reduce wide savings in interest rates and periodic financial market strains. In this regard, the record is clear that savings banks suffer widespread distintermediation in periods of high and rapidly rising interest rates such as 1966 and 1969.

By contrast, in the recent period of easing financial markets and declining interest rates, the posture of savings banking has undergone dramatic improvement. Deposit inflows have increased sharply, liquidity positions have improved, and mortgage funds have become plentiful for credit-starved housing markets on increasingly favorable terms to borrowers.

This is a long overdue and welcome change, but it underscores again the cyclical volatility of mortgage-oriented savings institutions. Without a basic restructuring in assets and liabilities, savings banks will periodically be acutely vulnerable to monetary restraint and rising interest rates, residential mortgage flows will dwindle and Federal aid for housing will need to be enlarged.

Extreme cyclical instability of savings institutions and housing markets must be replaced by more stable, high-level deposit and mortgage flows if long-term housing needs are to be met. Hopefully, the President's Commission on Financial Structure and Regulation will propose sound and realistic solutions to this critical problem.

THE GREAT DEPOSIT TURNAROUND

The change in the savings bank deposit picture since mid-1970 is without parallel. The preceding 12-month period was one of major outflows at savings bank deposit windows. In the climate of unabated inflation and record open-market interest rates, the industry experienced consecutive net deposit outflows (excluding interest credit) from the second quarter of 1969 through the second quarter of 1970. Since then, significant and accelerating deposit gains have been recorded.

The likelihood is that deposit growth (including interest credited) will attain a record level of over $2 billion in the first quarter of 1971, compared with $709 million in the year-ago quarter. The total deposit gain for 1971 is projected at a record $6 billion or so, compared with $4.5 billion in 1970 and the previous record of $5.1 billion in 1967.

The unprecedented turnaround in savings bank deposit flows in recent months has been widespread throughout the industry, including New York City, where deposit behavior is more volatile and sensitive to financial market forces than elsewhere. The change in New York occurred later than in other areas but gained momentum as financial conditions became increasingly favorable for savings banking. The strong industrywide deposit recovery in the past several months has reflected not only the significantly improved relationship between deposit interest rates and rates of return on short-term open-market instruments, but also the sharply increased overall saving rates of individuals.

Since mid-1970, consumers have been accumulating financial assets at a record rate. They have saved a near postwar record share of income. Such records may not be maintained far into 1971, but it is likely that consumer saving will continue larger than usual for a while. In an environment of gradual economic recovery and of high unemployment levels, caution and uncertainty will prevail and heavy spending commitments will not be lightly undertaken. This does not mean that consumer spending will not rise. Expansionary Federal economic policies will clearly provide some spending stimulus. Rising consumer incomes will still permit strong saving flows, however, encompassing record savings bank deposit gains in a climate of reduced open-market interest rates.

The rapidity of the recovery in saving flows at all types of deposit institutions has generated some downward pressure on savings interest rates, as well as on short- and long-term investment yields. Signs of reductions have already become fairly widespread at commercial banks, especially on savings certificates. More scattered across the country have been rate reductions, reduced promotion, or discontinuation of savings certificates at savings and loan associations and mutual savings banks.

The Return to Stimulative Fiscal and Monetary Policies

Efforts to stimulate the depressed economy and reduce unemployment through an expansionary Federal budget and easier monetary policy make good economic sense at this time. Nevertheless, such policies are not without danger.

For one thing, relating Federal spending to revenues which would be generated in a fully employed economy is subject to considerable statistical and projection errors. A projected "full-employment budget," could well be accompanied by much larger actual deficits than presently contemplated. It has not gone unnoticed that Federal revenues in fiscal 1971–72 are based on considerably stronger economic projections than most private economists anticipated. Larger-than-projected actual deficits would have serious implications for a resurgence of inflationary expectations.

For another thing, to embrace a policy of deliberate deficit spending at a time of economic weakness imposes the discipline of a Federal surplus—or at least balance—at a time of economic strength. Such a responsible fiscal posture has not often characterized the Federal budget in recent years, and we are paying a heavy inflationary penalty as a result. Compensatory fiscal policy is not a new concept, but its success has been notoriously one sided—on the stimulative side mainly. It is to be fervently hoped that if the full-employment fiscal 1972 budget achieves its desired expansionary results, it will be followed by a restraining or neutral budget once full employment is achieved.

At the same time, wage and cost pressures are likely to provide stimulus to an unhealthy rate of price increases. Overall fiscal and monetary restraints in the recent past have had less than hoped-for success in halting cost-push inflation. In view of the present expansionary posture of Federal economic policy, increased use of Presidential power and prestige to curb excessive wage and price advances on a selective basis appears necessary.

All things considered, the savings bank industry remains concerned about the dangers of a potentially overstimulative fiscal policy in tandem with a steadily easing monetary policy. As the Council of Economic Advisers has stated in its annual report, "* * * institutions for mobilizing savings in the United States and channeling them into investment depend basically upon reasonable confidence in the value of the dollar." Inflation has been especially rapid in many major metropolitan areas where savings banks are concentrated. Thus, in New York City, where more than two-fifths of total savings bank resources are located, consumer prices increased by 7.1 percent during 1970, compared with 5.5 percent nationally.

Unemployment must clearly be reduced, but the danger of continued, or even accelerated inflation can hardly be discounted. Over the longer run, in fact, the Nation's inflationary bias poses a great threat to our economic and social institutions. Without financial and economic stability, healthy economic growth cannot long be sustained and full employment, when regained, may be only short lived.

Increased Availability of Mortgage Credit

Responsibly pursued Federal economic policies will provide a favorable environment for expanded availability of mortgage credit. Mutual savings banks are gearing up their home mortgage lending programs now that badly depleted liquidity positions have been strengthened. Savings bank mortgage flows surpassed year-earlier levels in recent months. Commitments for future mortgage acquisitions, moreover, are increasing and are typically given at lower rates of interest than in earlier months.

The likelihood is that savings banks will have over $10 billion of funds available for investment in 1971, well above the previous record high of $9.5 billion in 1967 and last year's $8.5 billion. The new high total will include record deposit gains and a rising volume of mortgage repayments generated from increased real estate market activity.

The Need for Greater Long-Run Savings Bank Flexibility

As stressed at the outset, the recent change in savings bank developments underscores the industry's cyclical instability. Operating with restricted balance sheet flexibility, savings banks have been subject to wide swings in deposit and mortgage flows as individuals have shifted funds between savings accounts and marketable securities in response to changing interest rate differentials. This unsettling volatility will continue as long as excessive reliance is placed on Federal Reserve policy to stabilize the economy, and as long as savings bank powers and services remain too narrowly restricted.

Better balanced monetary and fiscal policies will help solve the first problem; broadened balance sheet flexibility for savings banks is essential to solve the latter problem. The savings bank industry has long urged broadened and more flexible powers and services through a Federal charter alternative. The objective of structural change has been supported over the years by independent private and governmental studies. This is the route to improved liquidity and earning power and, hence, to a more viable competitive posture in a free market economy. The study now underway by the President's Commission on Financial Structure and Regulation will hopefully confirm once again this solution.

For consideration by the Commission, as well as by the Congress and Federal agencies, a condensed outline of services and powers which should be encompassed by the ideal family-type banking institution is presented below. The savings bank industry is united behind this general approach.

Services and Powers of the Ideal Family Banking Institution

The package of thrift services:

The widest possible variety of regular and special-type deposit accounts.

Savings bank life insurance.

A form of equity participation by depositors.

The package of credit services:

Home mortgage loans, including loans on mobile homes.

Urban revitalization loans.

Consumer loans.

Education loans.

The convenience and service package:

Money transfer accounts, including checking accounts and credit card services.

Trust services.

Financial counseling.

Broadened branching powers.

The package of investment outlets:

Income property mortgage loans.

Equity investment in real estate.

All major types of corporate and governmental securities and investments.

Because the President's Commission will not present its findings before the end of 1971. Federal legislation for a restructured savings bank industry is not likely to be proposed before 1972. In the immediate months ahead, therefore, savings bankers will be concerned with broadening powers at the State level and with a number of shorter range Federal legislative and regulatory issues which affect the ability of savings banks to attract savings and generate mortgage funds.

NATIONAL FARMERS UNION

By REUBEN L. JOHNSON, *Director of Legislative Services*

At the outset of this statement on the state of the farm economy and the President's Economic Report, I call your attention to exhibit A attached hereto. This exhibit is the expression of delegates to our most recent convention held in Washington, D.C., February 24–27, 1971, on major economic policies—full-employment economy, monetary policy, Federal taxation, control of monopoly, small business, communication, and transportation.

The Economic Report of the President barely gives recognition to the agricultural sector of our Nation. The brief reference in the report is on farm prices and covers little more than one-half page. In the section providing statistcal charts, seven pages are devoted to agriculture. These charts document trends in income, production, population, prices received, prices paid, and selected measures of farm resources and inputs. There is also a comparative balance sheet, 1929–71.

The administration's views in regard to the state of the farm economy are missing from the report.

WHAT IS THE ADMINISTRATION FOR?

The administration seems willing to concede, in speeches at least, that all is not well on our farms and in our rural communities.

In mid-December, for example, the President said:

> The Nation owes American agriculture a very great debt, a very great debt which perhaps has not been adequately reflected in agriculture income.

We, of course, agree with the President and would hope that his Council of Economic Advisors understands the problem of inadequate farm income and diminishing opportunity in rural America.

Just over 2 years ago, when President Nixon was campaigning for the Presidency, he called 74 percent of parity "intolerable" for farmers and said they were "entitled to better." Again, of course, we agree with the President. It is not clear why a more detailed report on the state of the farm economy was excluded from the economic report of the President in view of these comments. But since such a report was left out and since the President has not sent any agricultural message to the Congress since he has been in office, we, in Farmers Union, will make such a report for the hearing record.

To document and to substantiate our findings, we ask that nine tables included in exhibit B, "Farm Statistical Report," be included in the record of these hearings.

Current Levels of Support

The levels of price support announced in 1971 illustrate the economic dilemma of U.S. agriculture. For example, the soybean price support of $2.25 per bushel is 59 percent of parity price; the barley support rate is $0.81 per bushel or 55 percent of parity; the cotton price support is 34½ cents per pound or 68 percent of parity price.

The loan and payment rates for wheat, feed grains including barley, grain sorghum, oats and rye, and cotton are established at low levels which apparently will not be changed during 1971, 1972, and 1973. The increasing cost of production means that if these prices are not related to a parity standard, they will progressively reflect lower percentages of parity price over the 3 years of the 1970 Agricultural Act. For example, a slightly higher 1971 support rate for corn of $1.40 per bushel ($1.08 loan and $0.32 payment on one-half of the base) reflects 75 percent of parity prices: Whereas, $1.38 per bushel support ($1.08 loan and $0.30 payment on one-half of the base) reflected 78 percent of parity price in 1970.

The commodity price support programs of the Department of Agriculture simply must be related to the parity yardstick. Farmers should not be expected to absorb the penalties imposed upon them by inflation.

Farms and Farm Population Decline

There are only about one-half as many farms today as in 1950—2.9 million compared to 5.7 million.

Over this period, farm population has dropped from 23 million to 9.7 million; from 15.2 percent of the total population to 4.7 percent.

Over this period, farm output, or production, has increased 35 percent. In spite of the increase in productivity, net farm return in 1970 of $15.8 million is only $1 billion higher than the average net return for the 5-year period, 1945–49.

Today 70 percent of the citizens of our Nation live on 2 percent of the land. Out-migration from rural areas continues. More than 20 million people have abandoned farms and small towns for the city since World War II. These people were victims of forces far beyond their control. To cite just one example, technological advances in one 6-year period reduced the need for farm harvest labor in the Mississippi Delta from 750,000 man-days down to 95,000. In our generation alone, some 5 million people left the South, most of them for just six States, California, Illinois, Michigan, New York, Ohio, and Pennsylvania.

Prices Received and Prices Paid

In January 1971, the index of prices received by farmers (base period: 1910–14) was 271. The average index of prices received by farmers in the period 1947–49 was 271. No change in more than 20 years occurred in farmer's prices, but retail food prices over the same period were up 56.7 percent.

In January 1971, the index of prices paid by farmers (base period 1910–14) was 399. The average index in 1970 was 390; in 1969, the index was 373; and in the period 1947–49 the index of prices paid was 250. There has been no change in the index of prices received since

1947–49 but the index of prices paid since that period has increased 59.6 percent.

In the 1947–49 period, the parity ratio was 108 (base period: 1910–14). In January 1971 it was 68 unadjusted. Adjusted to include payments, it was only 72. As one can see, the increasing costs of production on farms have not been accompanied by increase in prices received by farmers.

When one considers that production has increased by about 35 percent since 1947–49 but that net return for 1970 and the period (average annual) 1947–49 was $15.6 billion and $15.8 billion, respectively, farmers literally have given to the Nation without any reward this additional production. It was, of course, the result of greater technology—costly technology for which the farmer himself footed the bill.

No other group has been called upon to make such sacrifices. Farmers know what is happening to them but they are simply powerless to do anything about it.

Parity and Farm Income

Parity is a concept designed to compare the prices farmers receive for their products and the prices they pay for goods and services. It is a yardstick for determining how well or how poorly farmers are doing economically.

The 74-percent parity which the President termed "intolerable" a few years ago meant that farmers were earning only 74 percent of their worth; truly, as the President said, an intolerable situation.

Yet, sadly, in the past 2 years, the intolerable situation inherited by the President has been made immeasurably worse.

While parity averaged 77 percent for the 8 years before 1968, it dropped to 74 percent in 1969, and slid to 67 percent by 1970's end, a level unmatched in bleakness since 1933 in the dark days of the Great Depression.

In August of last year, farm prices slid 3 percent, the largest 1-month decline in 22 years. In contrast to that downturn in prices, interest, and taxes on farmland went up 8 percent and farm wages went up 7 percent in the first 6 months of 1970.

In an effort to camouflage this situation, the U.S. Department of Agriculture has been engaging in statistical gimmickry with parity.

In its December issue of "Agricultural Prices," the Department tried to assure us that "no such parity ratio realistically reflects the current status of the income of the welfare of farmers." At that time they also announced that henceforth 1967 would be substituted for 1910–14 as the base year to measure costs and prices for farmers.

So, while under its traditional definition, farm parity stands at 70 percent (Feb. 15, 1971), under the new USDA definition we are supposed to be lulled into believing that parity, and the economic welfare of farmers, is really 95 percent.

The reality of an agricultural depression cannot be covered up by a slick bookkeeping technique. It takes a great deal of effort for those who make their living in agriculture to believe that there is no relationship between the increasing costs which farmers are being required to absorb and the sliding prices they are receiving for their products. Even using the "paper parity" now in vogue at the Department of Agriculture, the index of prices paid by farmers was up 5 percent from January 1970 to January 1971.

Maintaining Farm Income Is Not Enough

In 1970, we were told by USDA officials that their efforts in 1971 would be directed only toward "maintaining" farm income, not increasing it. Now, according to a USDA press release announcing this year's wheat, feed grain, and cotton programs, we are told the effort will be to fight against "depressed prices," although there is a serious question whether we have not reached that point already. Nowhere is there mention of adequate prices, or 100 percent of parity, which would truly bring to our farm population the opportunity to maintain a stable income at a level which would allow a decent standard of living across rural America.

There is only one way to interpret the bleak fact that parity has skidded from 75 to 70 percent in 1-year's time. Farmers are in a tighter squeeze than they were a year ago.

Manufacturing Milk Price Support

While the price support level for milk was 89 percent of parity in 1966, 87 percent in 1967, and 89 percent in 1968, it dropped to 83 percent of parity for the 1969–70 marketing year, and was established at 85 percent of parity by the Secretary of Agriculture for this marketing year—4 percent lower than 4 years ago. Yet, the $4.66 per hundredweight price which was 85 percent of parity last April is only 81 percent of parity today.

Farmers Union has urged that the support be raised to 90 percent of parity or $5.24 per hundredweight, the maximum authorized under the law.

Feed Grain Price Support

When the Senate passed, as part of general farm legislation which came before the Congress late in 1970, a provision pegging the minimum feed grain price support level at 75 percent of parity, the administration made it clear that it was "strongly opposed" and would "continue to be opposed to the Senate provision." The USDA said 68 percent of parity was all it could accept.

Farmers Union fought hard to save the 75 percent of parity floor for feed grains.

ACP and School Milk

There have been other actions by the administration over the past 2 years which reveal less than adequate concern for our farm population and the rural economy it supports.

For example, funds for the ACP program were eliminated by the President from his budget. Even after funds for the program were reinstated by the Congress, strong pressure was required from Congress, from individual farmers, and farm organizations before the administration finally allowed any ACP funds to be spent.

Funds for the special milk program were also eliminated by the President. Congress reinstated them and made the program permanent. Yet strong pressure was needed to persuade the administration to allow a school milk program to function when schools opened last fall.

Advance Payments

The administration also ended advance payments to farmers under the feed grain program. When advance payments were included by the Senate in the 1970 general farm legislation, the administration made known its opposition to this provision and helped defeat it.

Bargaining Power

Among the grossest of oversights was the failure of the administration to propose legislation to increase the bargaining power of farmers to curb the threat of a corporate takeover of agriculture, two subjects that weigh heavily on the mind of the family farmer in America.

Rural Electric Cooperative Loans

Although REA Administrator Dave Hamil, in a speech before the annual meeting of the National Rural Electric Cooperative Association on February 16 said,

> At the beginning of the year we had 181 loan applications for $408 million. At the end of 1970 there were ony 113 applications for $288 million on hand.

This statement does not reflect the heavily increasing need for REA loans.

REA's published list of applications for loans shows a great number of applications which were reduced in the loan approval or which simply vanished from the list. During the first half of fiscal year 1971, loans were made for a total of $9,652,000 less than the amounts of REA's list of applications. During fiscal year 1970, 167 applications were reduced by a total of $69,300,000 when the loan approvals were announced. This does not include 33 applications for $21.5 million which simply disappeared during the 18-month period. NRECA's loan survey, to which 883 systems responded, reports a total expected loan demand exceeding $1.1 billion over the 18 months from January 1, 1971. Figures reported by these systems indicates that the backlog of loan needs as of July 1, 1971, should be about $449 million.

Congressioal Leadership Needed

In conclusion, Mr. Chairman, I would like to comment on the relative roles of the Congress and the administration in providing leadership on farm and rural policies.

During the past 25 years, we have grown accustomed in this country to looking to the Presidency and the Administration to provide leadership in virtually every field of Federal legislative activity. Agricultural policy is no exception. Although the legislative branch has made important amendments and adaptations to the President's recommendations, Congress has tended to wait for the President's initiatives on legislation and then to react to them. The customary process could be characterized by the saying: "The President proposes; the Congress disposes."

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But just as we are now forced to reassess the role and wisdom of Presidential leadership in the area of foreign policy, we must take a fresh look at the relative roles of the President and Congress in domestic fields. Indeed, because the administration currently is trying to paper over the sad economic plight of the American farmer by manipulating the parity index on which the situation of the farmer is measured, the National Farmers Union is now calling upon the Congress to reaffirm the Nation's commitment to meaningful parity for the farmer.

Consistent with this call for a larger congressional role in defining farm parity, we take this opportunity to call upon the Congress to seize the initiative in putting together a comprehensive and coordinated program of legislative action to improve farm income and bring dignity of living to rural America. We think that your great—committee—the Joint Economic Committee—can play a leading role in this effort.

This call for congressional leadership on farm and rural policy, I would add, is not an attempt to replace Presidential leadership on the farm front. We welcome the reassertion of Presidential action to help farmers, and we look forward with anticipation to an adequate farm message from the President in the near future. But for the time being at least, a vacuum of effective legislative leadership on agricultural policy exists, and we urge your committee and the Congress to take the initiative and fill this vacuum.

I call to your attention exihibit C which lists some of the more significant policy decisions made by delegates to our most recent convention. We invite your attention to a complete statement of our policies which will be mailed to your office soon.

(Exhibits A, B, and C, referred to in text, follow:)

Exhibit A

ECONOMIC POLICIES

Full Employment Economy

The Employment Act of 1946, which sets forth the national policy directed toward a goal of a full employment economy, should be implemented and the President's Council of Economic Advisers should utilize existing authority to carry out the purposes of the act.

Monetary Policy

The budgets of farmers, working people, small businessmen, and units of Government are being depleted by the excessively tight money conditions and high interest rates now prevailing.

Without in any way curing the inflationary threat, the tight money policies are draining away purchasing power desperately needed for higher priority uses by the American people.

A concerned national administration and Congress can rectify the situation by taking these actions:

1. Approval of legislation to abolish the Open Market Committee;
2. Reconstitution of the Federal Reserve Board to include representatives of agriculture, small business, and labor;
3. Reconstitution of the law making the Federal Reserve Board responsible to the Congress;
4. Reestablishment of ceilings on interest rates;
5. Designing of fiscal and monetary policies to expand the money supply in proportion to the expansion of the economy to bring about low interest rates and ample credit;

6. Limits and control of credit, including installment buying, by increasing down payments in lieu of raising interest rates;
7. Excess profits tax on corporations; and
8. Wage and price controls, except that such price controls not apply to any farm commodity at less than the full parity price.

Federal Taxation

We urge the Congress to continue the task of tax revision begun in the Tax Reform Act by further actions to close income tax loopholes and assure that the system more accurately reflects ability to pay. These amendments should include:
1. Increasing the tax rate on corporations and wealthy individuals;
2. Tightening of the tax-loss farming provisions to limit this tax advantage for off-farm investors;
3. Further reduction of the oil and mineral depletion allowance percentage;
4. Preventing foundations from escaping taxation when engaging in commercial profit-making activity;
5. In lieu of an individual income exemption (currently $625) the exemption should be in the form of a tax credit. We recommend $240 per person;
6. Reinstating the investment tax credit up to a $25,000 limit for farmers and small businesses;
7. Imposing excess profits taxes upon suppliers of military and defense equipment and materials; and
8. Revenue Sharing. We acknowledge that the system of progressive taxation at the Federal level is superior to the system of taxation in the States. In the effort to adopt at State levels a system of taxation based on income as contrasted to property, Farmers Union is seeking State tax reform. As States adopt tax reform measures, a better alternative to revenue sharing is improved programs of Federal grants-in-aid to State and Federal-State cost-sharing, especially in supplementing property taxes which are increasing due to increasing costs of financing educational programs.
9. Closing of tax loopholes of wealth to minimize the tax load of those in lower income brackets.

Control Monopoly

The concentration of ownership of the Nation's resources and wealth—both vertically and horizontally—threatens family agriculture, small business, and ultimately consumers. Antitrust laws must be strengthened and vigorously enforced.

The Packers and Stockyards Act must be improved to assure farmers freedom from unfair competition and monopolistic oppression. Congress should enact legislation strengthening the authority of the Secretary of Agriculture to enforce the Packers and Stockyards Act, and providing effective penalties for violation and provisions for recovery of damages by farmers. Those responsible for enforcement of the act—in cooperation with the Justice Department and Federal Trade Commission—should expand their efforts to deal with monopolistic control and manipulation of prices, while continuing to deal effectively with deception and fraud.

Under the false label "free enterprise," chain stores and large food processors have rendered inoperative the law of supply and demand controlling 85 percent of food sold at retail. Chain stores are administering prices paid to farmers and ranchers as well as prices charged customers. To stop this destructive trend, we ask vigorous enforcement of the antitrust laws together with mandatory jail sentences and large fines for those convicted.

Encourage Small Business

Farmers have increasingly closer economic and social interrelationships with service and professional people and businessmen in our local marketing centers. Farmers Union supports every legitimate legislative aim of small business to protect itself from the further encroachment of monopolistic big business.

Government contracts should be awarded on the basis of competitive bids and small business should be provided the special services required to be on an equal opportunity basis to bid on such contracts. Unnecessarily detailed specifications which discriminate against bonafide bidders should be dispensed with.

We favor expansion of loan authority and strengthening of the Small Business Administration.

Communication

We urge Congress and the Federal Communications Commission to reject proposals which would decrease, impair or destroy radio and television farm news and other services of importance to farmers and to support the adoption of legislation and FCC policies which encourage sound technical standards which will safeguard and improve radio and television service now available to farmers and residents of rural areas.

Transportation

Expansion and modernization of our entire land, air, and water transportation system should be encouraged to maintain maximum services at reasonable rates. We urge creation of a Transportation Authority to bring about a nationwide transportation plan so that all segments of our national transportation system can be meshed together to the best advantage of the Nation's interests.

We support effective rate regulation of railroads and other common carriers. We urge a detailed investigation of each company in the railroad industry, to determine the exact disposition of capital by individual companies. We support legislation which would permit railroads and other carriers to reduce freight rates on agricultural commodities.

We favor continuation of the bulk exemption for agricultural commodities moving on water. State boundary barriers to interstate transportation should be eliminated. We favor that CCC not transport grain during harvest season, to release transportation facilities, including box cars.

We support a strong American Merchant Marine to assure not only regular and dependable shipping for the Nation, but to provide adequate transportation for American agricultural commodities in international trade to enhance income opportunities for our farm and ranch people. Cost of programs needed to permit the American Merchant Marine to compete for shipping should be borne by the Nation as a whole. We continue to support cargo preference on food for peace shipments. However, we oppose cargo preference on commercial sales.

Exhibit B

FARM STATISTICAL REPORT

NATIONAL AVERAGE SUPPORT PRICES FOR FARM COMMODITIES, 1960, 1968, 1970 AND 1971

Supported commodities and unit	Parity price January 1971	1971 support	1971 support percent of parity	1970 support	1970 support percent of parity July 1, 1970	1968 support	1968 percent of parity	1960 support	1960 percent of parity
Wheat (bushel)	$2.84	(1)		[6] $2.82 [8] 1.25	100 45	$2.36 1.25	100 48	[7] $1.78	75
Corn (No. 2) (bushel)	1.82	(2)		[9] 1.38	78	1.35	77	1.06	65
Sorghum (hundredweight)	3.02	(3)		[9] 2.14	74	2.14	76	1.52	61
Barley (bushel)	1.46	$0.81	55	[9] 1.03	71	.90	68	.77	61
Oats (bushel)	.946	.54	56	.63	66	.63	72	.50	60
Rye (bushel)	1.51	.89	59	1.02	68			.90	60
Rice (hundredweight)	7.85	(5)		4.86	65	4.60	67	4.42	75
Soybeans (No. 1) (bushel)	3.87	2.25	59	2.25	60	2.50	76	1.85	64
Flaxseed (bushel)	4.31	(5)		2.50	58	2.90	72	2.38	62
Cottonseed (ton)	77.80	(5)		37.00	49	48.00	70	38.00	57
Cotton (pound)	.5035	[4] .345	68	[10] .3705	76	.3249	76	.324	75
Peanuts (ton)	352.00	(5)		255.00	75	240.25	77	301.24	79
Dry beans (hundredweight)	11.80	(5)		6.40	55	6.38	61	5.35	61
Milk, manufacturing (hundredweight)	5.73	(5)		4.66	67	4.28	89	[11] 3.22	80
Butterfat (pound)	.982	(5)		.715	74	.616	72	[11] .596	80
Tobacco, flue-cured (pound)	.982	(5)		.638	66			.555	90
Wool (pound)	.986	.72	73	.72	74	.67	78	.62	86

[1] Price support includes the $1.25 per bushel loan and purchase rate applicable to the entire production plus marketing certificates for the 1971 crop equal to the difference between July 1971 parity price and the national average wheat price received by farmers during the 1st 5 months of the marketing year beginning July 1.

[2] The payment rate for corn plus the national average market price received by farmers for corn during the 1st 5 months of the marketing year (beginning Oct. 1) for the crop cannot be less than (a) $1.35 per bushel, or (b) 70 percent parity of corn on Oct. 1, 1971, whichever is greater. Payment is available on 50 percent of corn base times farm yield. The preliminary payment of $0.32 per bushel is contingent on acreage set aside of at least 20 percent of the feed grain base.

[3] Total support for grain sorghum includes loan rate of $1.73 per cwt. plus price support payment of $0.52 per cwt.

[4] Loan rate of $0.195 per lb. plus $0.15 payment.

[5] Not available.

[6] Support for domestic food use—$1.25 loan rate plus certificate on 530,000,000 bushels to equal the parity price.

[7] All wheat.

[8] Support for wheat production not certificated.

[9] Included price-support payment for 1970 on ½ of base acreage as follows: Corn, 30 cents; sorghum 53 cents (hundredweight); barley 20 cents; corn, grain sorghum and barley loan rates were $1.08 (No. 2), $1.61, and $0.83 respectively. 20 percent reduction from feed grains base required to qualify for payment.

[10] Included price-support payment of 16.80 cents per pound to qualifying producers (except 10-acre or under producers—or projected production from allotment of 3,600 pounds or under—received higher price without acreage reduction.)

[11] Support price for period Sept. 17, 1960–Mar. 9, 1961. Support from Apr. 1–Sept. 16, 1960, was $3.06 hundredweight for milk, and $0.566 a pound for butterfat.

TABLE 2.—COMPARISON OF CONGRESSIONAL AUTHORIZED LEVELS OF PRICE SUPPORTS—1965 AND PRIOR ACTS WITH 1970 AGRICULTURE ACT

Supported commodities	Unit	Congressional directed range of support: 1965 and prior agricultural acts (Percent)	1970 Agricultural Act: Loans and payments	1970 Agricultural Act: Percent	1970 support: Dollars	1970 support: Percent
Wheat, domestic certificate	Bushels	100	Domestic certificate [1], 1.25-loan certificate value.	100	2.82	100
Noncertificated	do	0–100	Noncertificate, 1.25	45	1.25	45
Corn (No. 2)	do	[2] 65–90	1.08 loan [3], 0.32 preliminary payment.	75	[9] 1.38	78
Grain Sorghum [11]	Hundred-weight.		1.73 loan [4], 0.52 preliminary payment.	75	[9] 2.14	74
Barley [11]	Bushels		0.81 loan	55	[9] 1.03	71
Oats [11]	do		0.54 loan	56	.63	66
Rye [11]	do		0.89 loan	59	1.02	69
Cotton, upland	Pounds	65–90	0.195 loan [5], 0.15 payment	68	[10] .3705	76
Cottonseed	Tons	0–90	(6)		37.00	49
Rice	Hundred-weight.	65–90	65–90		4.86	65
Soybeans	Bushels	0–90	0–90	59	2.25	60
Flaxseed	do	0–90	0–90		2.50	58
Peanuts	Tons	75–90	75–90		255.00	75
Dry beans	Hundred-weight.	0–90	0–90		6.40	55
Milk, manufacturing	do	75–90	75–90		4.66	67
Tobacco, Flue-cured	Pounds	(6)	(6)		.638	66
Wool	do	(7)	(8)	73	.72	74

[1] (a) Domestic certificate wheat—100 percent of parity as of the beginning of the marketing year (July 1); (b) Non-certificate wheat—at level not in excess of 100 percent of parity as of the beginning of the marketing year, or not less than $1.25 per bushel, and taking into consideration competitive world wheat prices, the feed value of wheat in relation to feed grains, and the level at which price support is made available for feed grains. Price support includes the $1.25 per bushel loan and purchase rate applicable to the entire production plus marketing certificates for the 1971 crop equal to the difference between July 1971 parity price and the national average wheat price received by farmers during the 1st 5 months of the marketing year.

[2] If acreage diversion program was in effect.

[3] The payment rate for corn plus the national average market price received by farmers for corn during the 1st 5 months of the marketing year for the crop cannot be less than (a) $1.35 per bushel, or (b) 70 percent parity of corn on Oct. 1 1971, whichever is greater. Payment is available on 50 percent of corn base times farm yield. The preliminary payment of $0.32 per bushel is contingent on acreage set aside of at least 20 percent of the feed grain base.

[4] Total support for grain sorghum includes loan rate plus price support payment. Preliminary payment will be made available on 50 percent of grain sorghum base times farm yield at a rate comparable to corn preliminary payment.

[5] Loan rate: To cooperators shall be at such level as will reflect for middling 1-inch upland cotton (micronaire 3.5 through 4.9) at average location in the United States, 90 percent of the average world price for such cotton as determined by the Secretary, for the 2-year period ending July 31, in the year in which the loan level is announced. For 1971, the loan rate of 0.1950 cents per pound on a net weight basis is equivalent to 0.1870 cents per pound, gross weight, micronaire 3.5 through 4.9 at average location.

[6] Adjusted annually in accordance with changes between the 1959 parity index and the average parity index for the 3 years preceding the year for which support is being determined.

[7] Adjusted annually by multiplying 62 cents by the ratio of the average parity index for the 3 preceding calendar years to the average parity index for the calendar years 1958, 1959, and 1960.

[8] Price support relationship to parity (see footnote 7) repealed. Price support will be $0.72 per pound in 1971–73.

[9] Included price-support payment in 1970 on ½ of base acreage as follows: Corn, 30 cents; sorghum, 53 cents (hundred-weight); barley, 20 cents; corn, grain sorghum, and barley loan rates are $1.05, $1.61, and $0.83 respectively. 20-percent reduction from feed grains base required to qualify for payment.

[10] Included price-support payment of 16.80 cents per pound earned on the farm's domestic allotment, which was 65 percent of the effective farm allotment. The loan rate was 20.25 cents per pound.

[11] Grain sorghums, barley, oats, and rye are supported at levels determined by the Secretary, taking into consideration feeding value relationships, and which are fair and reasonable in relation to loans and purchases made available for corn, and taking into consideration the feeding value of wheat in relation to feed grains.

[Farm Prices Haven't Increased Since 1947–49 Average but Retail Food Prices Are Up 56.7 Percent]

TABLE 3.—INDEX OF PRICES RECEIVED BY FARMERS, UNITED STATES

[Base period 1910–14=100]

Unit	Average 1947–49	Average 1969	Jan. 15, 1971	Percentage change Jan. 15, 1971, from 1947–49
Parity ratio [1]	108	74	68	
All farm products	271	275	171	0
All crops	247	220	232	−6.4
Food grains	246	154	171	−30.5
Feed grains and hay	230	166	199	−13.5
Cotton	264	173	178	−32.6
Tobacco	384	594	611	+59.1
Oil-bearing crops	318	252	292	−8.2
Feed grains	241	164	199	−17.4
Fruit	183	252	216	+18.0
Fresh market		250	208	
Commercial vegetables	249	298	305	+22.5
Fresh market		358	382	
Potatoes, etc.[2]	232	212	197	−15.1
Livestock and products	292	323	304	+4.1
Meat animals	334	400	357	+6.9
Dairy products	275	331	361	+31.3
Poultry and eggs	229	162	144	−37.1
Wool	259	226	179	−30.9
Retail food prices (1957–59=100)	84.7	[3] 132.8		+56.7

[1] Adjusted parity ratio which includes Government payments averaged 81 for year 1969 and on Jan. 15, 1971, the adjusted ratio was 72.
[2] Includes sweet potatoes and dry edible beans.
[3] December 1970.

Source: Agricultural Prices, USDA, monthly issues; Bureau of Labor Statistics.

[Farm Prices Haven't Changed Since 1947–49 Average but Prices Paid by Farmers Are Up 59.6 Percent]

TABLE 4.—PARITY RATIO AND INDEX OF PRICES PAID BY FARMERS

[Base period 1910–14=100]

Item	Average, 1947–49	Average, 1969	Average, 1970	Jan. 15, 1971	Percentage change, Jan. 15, 1971, from 1947–49
Parity ratio [1]	108	74	72	68	
All items	250	373	390	399	+59.6
Family living	244	351	366	372	+52.5
Food and tobacco	239	344	362	[5] 361	+51.0
Clothing	285	447	475	[5] 488	+71.2
Household operation	178	246	256	[5] 263	+47.8
House furnishings	256	282	291	[5] 294	+14.8
Building materials, house	339	503	498	[5] 504	+48.7
Auto and auto supplies	233	376	392	[5] 407	+74.7
Production items	237	304	314	322	+35.9
Feed	321	205	216	229	−1.0
Feeder livestock	348	436	450	428	+23.0
Motor supplies	140	190	193	[5] 196	+40.0
Motor vehicles, auto, trrucks, and tractors	290	545	567	[5] 590	+103.4
Farm machinery	239	509	573	[5] 553	+131.4
Farm supplies	235	286	292	[5] 296	+26.0
Building and fencing material	296	464	469	[5] 479	+61.8
Fertilizer	143	142	148	[6] 150	+4.9
Seed	242	254	265	[6] 270	+11.6
Interest [2]	79	570	611	639	+708.9
Taxes [3]	270	1,081	1,191	1,298	+380.7
Wage rates [4]	430	1,010	1,083	1,105	+157.0

[1] Adjusted parity ratio which includes Government payments averaged 77 for year 1970 and on Jan. 1, 1971, the adjusted ratio was 72.
[2] Interest payable per acre on farm real estate debt.
[3] Farm real estate taxes payable per acre (levied in preceding year).
[4] Seasonally adjusted.
[5] Dec. 15, 1970.
[6] Sept. 15, 1970.

Source: Agricultural Prices, USDA, monthly issues.

TABLE 5.—AVERAGE PRICES RECEIVED BY FARMERS FOR FARM PRODUCTS UNITED STATES

Commodity and unit	1947–49 crop average	Average 1969	Jan. 15, 1971	Percentage change Jan. 15, 1971, from 1947–49
All wheat (bushel)	$2.05	[1] $1.78	$1.40	−31.7
Rye (bushel)	1.64	1.00	.928	−43.4
Rice (rough) (hundredweight)	4.98	4.95	5.27	+5.8
Corn (bushel)	1.56	[1] 1.28	1.42	−9.0
Oats (bushel)	.804	.586	.66	−16.9
Barley (bushel)	1.32	[1] .927	1.00	−24.4
Sorghum, grain (hundredweight)	2.52	[1] 2.22	2.108	−16.7
Hay, all baled (ton)	22.80	24.70	25.40	−11.4
Cotton, upland (pound)	.293	[1] .370	.210	−18.3
Cottonseed (ton)	65.50	41.10	60.00	−8.4
Soybeans (bushel)	2.59	2.35	2.86	+10.4
Peanuts (pound)	.103	.123	.127	+23.3
Flaxseed (bushel)	5.16	2.64	2.31	−55.2
Potatoes (hundredweight)	2.43	2.23	1.97	−18.9
Beans, dry edible (hundredweight)	8.69	7.61	9.15	+5.3
Hogs (hundredweight)	21.80	22.20	15.20	−30.3
All beef cattle (hundredweight)	20.10	26.20	25.90	+28.9
Calves (hundredweight)	22.50	31.50	33.30	+48.0
Lambs (hundredweight)	21.90	27.20	23.10	+5.5
Milkfat, in cream (pound)	.705	.690	.709	+0.6
Milk, manfacturing grade (hundredweight)	3.63	4.45	5.98	+64.7
Turkey, live (pound)	.395	.224	.217	−45.1
Eggs [2] (dozen)	.459	.400	.360	−21.6
Wool (pound)	.469	.418	.319	−32.0

[1] Includes average value of marketing certificate or price support payment.
[2] Average of all eggs sold by farmers, including hatching and sold at retail.

Source: Field and Seed Crops Production and Value, USDA.

TABLE 6.—AVERAGE RETAIL PRICES OF DIFFERENT FOOD IN GROCERY STORES

Item	Unit	Cents			
		Average 1947–49	Average 1969	Average 1970	December 1970
Cereals and bakery products:					
Flour, wheat (5 pounds)	Pound	9.7	11.6	58.9	59.3
Bread, white	do	13.5	23.0	24.3	24.6
Rice, short grain	do		18.8	19.1	19.3
Dried beans	do	19.9	19.6	19.2	19.7
Meats:					
Beef:					
Rib roast	do	67.8	109.3	111.7	111.6
Round steak	do	83.8	126.7	130.2	127.5
Chuck roast	do	57.1	70.4	72.5	70.9
Hamburger	do	50.4	62.4	66.2	66.0
Pork:					
Chops (center cut)	do	74.5	112.2	116.2	103.0
Bacon, sliced	do	73.7	87.8	94.9	83.2
Ham, whole	do	66.3	72.8	78.6	74.1
Lamb chops	do	69.3	178.3	185.3	187.6
Chickens: Fryers, ready to cook	do		42.2	40.8	40.9
Dairy products:					
Butter	do	79.9	84.6	86.6	87.7
Cheese (American process) (½ pound)	do	20.5	47.0	50.4	51.6
Milk, fresh (delivered) (½ gallon)	Quart	20.8	31.4	65.9	67.0
Milk, evaporated (canned 14½)	Ounce	13.7	17.6	18.7	19.3
Eggs	Dozen	70.5	62.1	61.4	58.4
Fats and oils:					
Lard (shortening) (3 pounds)	Pound	26.8	27.5	88.7	93.0
Margarine, colored	do		27.8	29.8	31.6
Sugar (5 pounds)	do	9.5	12.4	64.8	67.0
Index of retail food prices [1]		84.7	125.5	132.4	132.8
Index of prices received by farmers [2]		271.0	275.0	280.0	265.0
Retail cost of market basket of food		$890.0	$117.3	$1,225.0	$1,213.0
Marketing charges		$449.0	$696.0	$745.0	$776.0
Farmers received		$441.0	$477.0	$480.0	$437.0
Percent of consumer's dollar received by farmers		50	41	39	36

[1] 1957–59=100.
[2] 1910–14=100.

Source: Bureau of Labor Statistics; Marketing and Transportation Situation, USDA.

[Gross National Product Has Increased 320.7 Percent Since 1957 With Nonfarm Groups Sharing Substantially in the Increase in the Nation's Growth. But Farmers' Net Income Has Increased by Only 4.9 Percent Since 1947]

TABLE 7.—FARM ECONOMIC SITUATION COMPARED WITH OTHER GROUPS

[Dollar amounts in billions]

	1947	1965	1967	1968	1969	1970	Percent change, 1947–70
Farmers' total net income [1]	$15.5	$15.0	$14.9	$15.1	$16.5	[2] $16.3	+4.9
Farmers' total gross income	34.0	44.9	49.0	51.0	54.6	[2] 56.2	+65.3
Farmers' production expenses	16.8	30.9	34.8	36.0	38.4	[2] 40.4	+140.0
Interest received by creditors	8.2	38.7	48.0	54.0	59.7	[2] 65.3	+696.3
Dividends received by corporation stockholders	6.5	19.8	21.4	23.3	24.7	[2] 25.2	+287.7
Business and professional income	19.9	42.4	47.3	49.1	50.5	[2] 51.4	+158.3
Rental income of landlords	6.5	19.0	21.1	21.3	22.0	[2] 22.7	+249.3
Average weekly earning of all manufacturing workers [3]	59.92	107.53	114.90	122.51	129.51	[2] 133.73	+123.2
Gross national product	232.2	684.9	793.9	865.0	931.4	[2] 976.8	+320.7
Unemployment (1970): [2]							
Millions			3.0	2.8	2.8	5.0	
Percent of labor force			3.8	3.6	3.5	6.0	

[1] Including net inventory change.
[2] Seasonally adjusted rate, end of 4th quarter or latest information.
[3] Current dollars.

Source: Economic Indicators, published by President's Council of Economic Advisers, January 1971.

TABLE 8.—BALANCE SHEET OF AGRICULTURE, UNITED STATES, SELECTED YEARS, JAN. 1, 1956–71 [1]

[In billions of dollars]

Item	1956	1960	1963	1966	1967	1968	1969	1970	1971
ASSETS									
Physical assets:									
Real estate	102.9	130.2	143.8	172.5	182.5	193.1	202.6	209.0	212.4
Nonreal estate:									
Livestock [2]	10.6	15.2	17.3	17.5	18.9	18.8	20.2	23.5	80.4
Machinery and motor vehicles	19.3	22.2	22.7	27.1	28.9	31.1	33.1	34.3	
Crops stored on and off farms [3]	8.3	7.7	9.3	9.7	10.0	9.6	10.6	10.8	
Household furnishings and equipment	10.5	9.6	9.0	8.6	8.4	8.7	9.6	10.1	
Financial assets:									
Deposits and currency	9.5	9.2	9.2	10.0	10.3	10.9	11.5	11.9	24.4
U.S. savings bonds	5.2	4.7	4.4	4.1	3.9	3.8	3.7	3.7	
Investments in cooperatives	3.3	4.3	5.3	6.5	7.0	7.4	7.8	8.2	
Total [4]	169.6	203.1	221.0	256.0	269.9	283.4	299.1	311.4	317.2
CLAIMS									
Liabilities:									
Real estate debt	9.0	12.1	15.2	21.2	23.3	25.5	27.1	28.4	29.2
Nonreal estate debt to:									
Commodity Credit Corporation [5]	1.9	1.2	2.0	1.4	1.2	1.4	2.7	2.7	1.8
Other reporting institutions [6]	4.4	6.7	8.5	11.1	12.4	13.7	14.5	27.0	29.4
Nonreporting creditors [7]	3.5	4.8	6.0	7.9	8.8	9.8	10.3		
Total liabilities	18.8	24.8	31.7	41.6	45.7	50.4	54.6	58.1	60.4
Proprietor's equities	150.8	178.3	189.3	214.4	224.2	233.0	243.4	253.3	256.8
Total [4]	169.6	203.1	221.0	256.0	269.9	283.4	299.1	311.4	317.2

[1] For 48 States only, 1971 preliminary.
[2] Beginning with 1961, horses and mules are excluded.
[3] Includes all crops held on farms and crops held off farms as security for CCC loans.
[4] Total of rounded data.
[5] Nonrecourse CCC loans secured by crops owned by farmers and included as assets in this balance sheet.
[6] Loans of all operating banks, the production credit associations, and the Farmers Home Administration, and discounts of the Federal intermediate credit bank for agricultural credit corporations and livestock loan companies.
[7] Loans and credits extended by dealers, merchants, finance companies, individuals, and others.

Source: Agricultural Finance Outlook, USDA February, issue.

TABLE 9.—SELECTED STATISTICS ON U.S. AGRICULTURE [1]

Item and unit	1947–49	1950	1954	1960	1961	1962	1963	1964	1966	1967	1968	1969	1970
Total population [2] (millions)	146.6	151.7	161.8	180.0	183.0	186.0	188.7	191.5	196.3	198.6	200.6	202.7	204.8
Index number (percent of 47–49)	100.0	103.0	111.0	123.0	125.0	127.0	129.0	131.0	134.0	136.0	137.0	138.0	140.0
Farm population (millions)	24.8	23.0	19.0	15.6	14.8	14.3	13.4	13.0	11.6	10.9	10.5	10.3	9.7
Percent of total (percent)	16.9	15.2	11.8	8.7	8.1	7.7	7.1	6.8	5.9	5.5	5.2	5.1	4.7
Farm output (percent of 57–59)	85.0	86.0	93.0	106.0	107.0	108.0	112.0	111.0	113.0	118.0	120.0	122.0	121.0
Persons supplied per farmworker (number)	14.5	15.5	18.1	25.8	27.6	28.6	30.7	33.2	39.6	42.1	43.4	45.0	N.A.
Output per man-hour [3] (percent of 57–59)	54.0	61.0	74.0	115.0	122.0	129.0	138.0	144.0	164.0	174.0	182.0	191.0	195.0
Prices received (percent of 10–14)	271.0	258.0	246.0	239.0	240.0	244.0	243.0	237.0	226.0	254.0	261.0	275.0	280.0
Prices paid (percent of 10–14)	250.0	256.0	278.0	300.0	302.0	307.0	312.0	313.0	334.0	342.0	355.0	373.0	390.0
Parity ratio (percent)	108.0	101.0	89.0	80.0	79.0	80.0	78.0	76.0	80.0	74.0	73.0	74.0	72.0
Value of agricultural exports [4] (billions of dollars)	3.4	3.4	3.1	4.5	4.9	5.1	5.1	6.1	6.7	6.8	6.3	5.7	6.6
Farm debt [5] (billions of dollars)	9.2	10.7	16.9	23.6	24.8	26.8	29.7	33.0	40.2	44.5	49.0	51.9	55.4
Market basket:													
Retail cost (dollars)	94.00	920.0	986.0	991.0	997.0	1,006.0	1,013.0	1,013.0	1,095.0	1,080.0	1,118.0	1,180.0	1,225.0
Farm value (dollars)	466.0	432.0	421.0	383.0	380.0	384.0	374.0	374.0	443.0	414.0	435.0	483.0	480.0
Marketing margin (dollars)	474.0	488.0	565.0	608.0	614.0	622.0	639.0	640.0	652.0	668.0	683.0	697.0	745.0
Farmers share (percent)	50.0	47.0	43.0	39.0	38.0	38.0	37.0	37.0	40.0	38.0	39.0	41.0	39.0
Farm income: [3]													
Realized gross (billions of dollars)	33.5	32.3	33.6	38.1	39.8	41.3	42.3	42.6	49.7	49.0	51.0	54.6	56.2
Production expense (billions of dollars)	17.9	19.4	21.6	26.4	27.1	28.6	29.7	29.5	33.4	34.8	36.0	38.4	40.4
Realized net (billions of dollars)	15.6	12.9	12.0	11.7	12.6	12.6	12.6	13.1	16.2	14.2	15.0	16.2	15.8
Realized net per farm (dollars)	2,682.0	2,277.0	2,503.0	2,962.0	3,309.0	3,424.0	3,533.0	3,802.0	5,044.0	4,513.0	4,841.0	5,276.0	5,392.0
Number of farms (thousands)	5,799.0	5,648.0	4,798.0	3,962.0	3,821.0	3,685.0	3,561.0	3,442.0	3,239.0	3,146.0	3,054.0	2,971.0	2,924.0

[1] Preliminary.
[2] Includes 50 States beginning 1960, Apr. 1.
[3] Revised.
[4] Fiscal year ending June 30 of year shown.
[5] Outstanding on Jan. 1, excludes CCC loans.

Exhibit C

Delegates to the Farmers Union 1971 Convention in Washington acted on a wide range of issues. Some of the more significant are as follows:

The delegates rejected the proposal of the Nixon administration to abolish the U.S. Department of Agriculture.

There was rejection of any so-called revenue sharing plan which would deny agencies of the Department of Agriculture funds needed to fulfill their traditional function in behalf of farm families (proposed to be shifted out of the Agriculture Department are funds for the Extension Service and school milk and lunch budgets—$595 million in total).

There was strong support for the concept of parity and opposition to changing the formula for figuring it.

The delegates call for greater marketing and bargaining power for producers. They asked Congress to pass this year, S. 727, Senator Mondale's National Marketing Agreement Act.

The delegates called for renewal of negotiations to negotiate an International Grains Arrangement with a minimum—maximum price range.

The delegates called for a 65 cents per bushel export certificate for wheat and an increase in the price support from $1.25 to $1.50 per bushel. To be consistent, on the basic of feeding value, the delegates called for a loan on corn of $1.30 per bushel with loans on other feed grains adjusted accordingly.

There was call for the support level on manufacturing milk to reflect full 90 percent of parity that the law authorizes.

The delegates called for authority to extend market order coverage to all livestock and to other commodities now excluded.

On non-farm issues—

There was call for a National Medical Training Academy emergency employment legislation, a consumer protection agency and a 15 percent increase in social security benefits and individual payment minimum of at least $100 per month.

There was action opposing funding of the SST at this time.

There was continuing support for a consumer protection reserve.

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

We appreciate your invitation to comment on the President's 1971 Economic Report. Regretfully, we find it difficult to share his confidence, and that of his advisers, in the degree of growth to be expected in 1971. We see nothing in the present position and future prospects of small business—as we understand these from analysis of our continuing economic survey—to support their point of view.

In this connection it must be emphasized that small business plays a most important role in our economy. It accounts for 37 percent of the gross national product, and provides employment for perhaps 60 percent of all who work in private, nonagricultural endeavor. Over past years there has appeared a close correlation between its vigor in job production and our country's rate of employment.

Small firms, however, have been under an increasingly intense financial squeeze which has dangerously sapped their vitality. According to our surveys—see enclosed exhibits 1, 2, and 3—despite the fact that their growth in sales volume has tapered and collections have slowed, their costs of goods and labor have remained inexorably high, and interest charges have plateaued at a high level.

Federal policy has contributed, and continues to contribute to this squeeze. For instance, repeal of the investment credit with no saving feature for small business may be costing small firms as much as $500 million in added costs each year. The recent final step in the minimum wage increases is estimated to add possibly another $300 million. Additional burdens are being caused by the recently enacted changes in unemployment compensation. Yet to come are even more burdens in connection with the financing of proposed health care programs.

What concerns us is that there is nowhere in the Economic Report recognition of these facts, and nowhere are there recommendations for changes for the better—the depreciation revisions of early year should be somewhat helpful, but nowhere near as helpful as would be a renewal of the credit with a $20,000 ceiling—all this despite suggestions we have made to the administration.

For instance, in a December 15, 1970, conference with representatives of the Council of Economic Advisers we reported on the gravity of the forenoted squeeze and proposed steps—including administration commitment to plans for meaningful small business tax reform, and Small Business Administration renewed direct lending for regular business purposes—whereby the Federal Government might move to relieve the squeeze. To date we have not seen any recognition or reaction.

Frankly, it is our conviction that until more meaningful attention is paid to the needs of our small business sector the Nation will not reach the growth rate envisioned by the President, and certainly will not reach its full economic potential.

(The exhibits, referred to in text, follow:)

Exhibit 1

FEDERATION'S LATEST ECONOMIC INDICATORS

Survey respondents—Proportion reporting "Compared with last year"	General averages—				3-month moving-averages		
	1968	1969	1970	1971 to date	Dec. 1969	Nov. 1970	Dec. 1970
Employment higher	53.2	53.8	52.4	51.1	53.7	51.8	51.5
Sales volume higher	66.4	69.1	62.2	61.0	68.1	59.3	59.5
Inventories higher (dollars)	65.7	(1)	72.6	79.6	(1)	73.4	75.8
Receivables higher	63.8	65.3	64.9	71.3	65.7	65.3	67.3
Collections faster	37.6	37.7	33.1	34.2	36.4	32.3	32.7
Goods cost higher	96.0	97.1	97.5	95.8	97.5	98.0	97.3
Labor costs higher	(1)	88.0	88.3	90.4	88.4	88.6	89.6
Prices-fees higher	83.0	84.4	84.9	82.9	84.8	86.7	86.2
Average interest charged (percent) (banks)[2]	(1)	7.7	8.5	8.5	8.5	8.5	8.5

[1] Data not comparable.
[2] Borrowings within past 6 months.

Exhibit 2

SECTION I.—PROPORTIONS OF RESPONDENTS INDICATING, EACH SUBJECT, "HIGHER" OR "FASTER" THAN "LAST YEAR"—EXPRESSED AS A PERCENTAGE OF 100—MONTHS OF 1969–71. (THESE PERCENTAGES CONSTRUCTED AS FOLLOWS: TO ALL "HIGHER" OR "FASTER" RESPONSES TO EACH QUESTION ARE ADDED ONE-HALF OF THE "SAME" RESPONSES; INTO THIS SUM IS DIVIDED THE TOTAL OF ALL "HIGHER" OR "FASTER," "SAME," AND "LOWER" OR "SLOWER" RESPONSES IN EACH QUESTION)

Survey respondents—proportion reporting, compared with last year	January	February	March	April	May	June	July	August	September	October	November	December
1969												
Employment (higher)	54.9	53.4	53.8	53.8	53.3	53.9	54.0	54.5	53.7	53.7	53.5	53.6
Sales volume (higher)	71.6	70.6	70.3	69.3	69.8	68.7	67.9	67.9	69.0	68.3	67.8	67.8
Inventories [1] (higher)	66.1	64.9	65.6	65.7	65.8	66.3	64.6	65.0	65.5	64.8	65.2	64.3
Receivables (higher)	66.1	65.8	65.6	65.0	64.9	65.5	65.4	64.6	65.0	65.2	65.5	65.2
Collections (faster)	39.5	38.7	38.1	38.5	38.2	37.8	37.2	36.9	37.4	37.1	36.7	36.2
Cost of goods (higher)	96.4	96.5	96.7	97.1	97.2	97.2	97.2	97.0	97.4	97.4	97.5	97.7
Cost of labor (higher)	89.7	88.3	87.9	88.2	87.7	88.1	87.4	87.6	87.6	87.3	87.9	88.2
Prices-fees (higher)	82.4	82.7	83.3	83.7	84.4	84.1	84.4	84.9	85.2	85.8	86.1	85.3
1970												
Employment (higher)	54.1	53.4	52.5	52.7	52.2	51.7	52.2	52.6	52.3	52.0	52.1	51.3
Sales volume (higher)	68.5	68.0	65.3	63.6	62.1	59.4	60.6	60.4	60.6	59.4	59.9	58.5
Inventories (higher)	70.0	71.0	72.1	73.1	73.3	71.7	72.9	73.6	73.4	72.4	74.5	73.2
Receivables (higher)	66.3	65.5	65.1	63.8	63.8	64.2	64.0	64.4	65.4	65.3	65.1	65.4
Collections (faster)	36.3	35.2	33.7	33.2	34.1	32.3	32.4	32.4	32.0	32.3	32.8	31.0
Cost of goods (higher)	97.3	97.3	97.2	97.2	97.4	97.4	97.6	97.6	97.5	97.7	98.0	98.2
Cost of labor (higher)	89.0	89.1	88.1	88.1	88.2	87.1	88.5	89.0	87.0	87.6	89.2	89.1
Prices-fees (higher)	83.1	84.9	94.6	83.8	84.4	83.8	84.8	84.9	84.5	84.4	86.6	79.1
1971												
Employment (higher)	51.1											
Sales volume (higher)	61.0											
Inventories (higher)	79.6											
Receivables (higher)	71.3											
Collections (faster)	34.2											
Cost of goods (higher)	95.8											
Cost of labor (higher)	90.4											
Prices-fees (higher)	82.9											

[1] Basis changed from dollar value to units, January 1969, and back to dollar value, January 1970.

Exhibit 3

SECTION II.—3-MONTH MOVING AVERAGES OF PROPORTIONS REPORTED IN SECTION I

Survey respondents—proportion reporting, compared with last year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1968												
Employment (higher)		52.1	52.3	52.3	52.5	53.0	53.3	53.8	53.6	53.9	54.4	54.8
Sales volume (higher)		63.6	64.8	65.3	65.7	65.9	66.2	67.1	68.2	68.9	69.3	70.2
Inventories (higher)		63.5	64.4	65.2	65.5	65.9	66.2	66.5	66.6	67.0	67.2	
Receivables (higher)		62.8	63.1	63.3	63.5	63.6	63.9	64.3	64.8	64.4	64.5	64.9
Collections (faster)		35.8	36.0	36.6	37.1	37.4	37.5	38.0	38.2	38.5	38.4	38.8
Coast of goods (higher)		95.9	95.8	96.0	96.0	96.0	96.1	96.2	96.2	96.2	96.2	96.4
Cost of labor (higher)		91.7	91.9	92.0	91.6	91.8	91.7	92.1	92.1	92.4	92.7	
Prices-fees (higher)		81.4	82.4	83.2	83.3	82.8	82.8	83.4	83.8	84.3	84.1	83.8
1969												
Employment (higher)	54.5	54.0	53.7	53.6	53.3	53.4	54.1	54.1	54.0	53.6	53.6	53.7
Sales volume (higher)	70.6	70.8	70.1	69.8	69.2	68.8	68.2	68.6	68.4	68.4	67.8	68.1
Inventories [1] (higher)		65.6	65.4	65.7	65.9	65.6	65.3	65.4	65.1	65.2	64.8	
Receivables (higher)	65.7	65.8	65.5	65.2	65.1	65.7	65.2	65.0	64.9	65.2	65.3	65.7
Collections (faster)	38.8	38.8	38.4	38.3	38.1	37.7	37.3	37.2	37.1	37.1	36.7	36.4
Cost of goods (higher)	96.4	96.5	96.8	97.0	97.2	97.2	97.1	97.2	97.3	97.4	97.5	97.5
Cost of labor [2] (higher)		88.6	88.1	87.9	88.0	87.7	87.7	87.5	87.5	87.6	87.8	88.4
Prices fees (higher)	83.1	82.8	83.2	83.8	84.0	84.3	84.5	84.8	85.3	85.7	85.7	84.8
1970												
Employment (higher)	53.7	53.3	52.8	52.3	52.2	52.0	52.3	52.4	52.3	52.2	51.8	51.5
Sales volume (higher)	68.1	67.3	65.6	63.7	61.7	60.7	60.1	60.5	60.1	60.0	59.3	59.5
Inventories [1] (higher)		71.1	72.1	72.9	72.7	72.6	72.7	73.3	73.1	73.4	73.4	75.8
Receivables (higher)	65.7	65.6	64.8	64.2	63.9	64.0	64.3	64.9	65.0	65.3	65.3	67.3
Collections (faster)	35.9	35.1	34.0	33.7	33.2	32.9	32.4	32.3	32.2	32.4	32.3	32.7
Cost of goods (higher)	97.4	97.3	97.2	97.3	97.3	97.5	97.5	97.6	97.6	97.7	98.0	97.3
Cost of labor [2] (higher)	88.8	88.7	88.4	88.1	87.8	87.9	88.2	88.2	87.8	87.9	88.6	89.6
Prices-fees (higher)	84.4	84.2	84.4	84.3	84.0	84.3	84.5	84.7	84.6	85.2	86.7	86.2

[1] Basis changed from dollar value to units, January 1969, and back to dollar value, January 1970.
[2] 1968 data does not compare with 1969 and later years, due to rephrasing of question.

NATIONAL FEDERATION OF INDEPENDENT UNIONS

By Roger M. Rettig, *National President*

Speaking on behalf of the unions affiliated with the National Federation of Independent Unions, we are particularly concerned with the high unemployment rate in this country.

One of the prime contributors to the rise in unemployment in 1970, we feel, was the increase in imports caused by unfair foreign competition.

We realize that in speaking out against "free trade" and advocating protective tariffs that we risk being called "protectionist" and "obstructionist," but we will gladly assume these titles if this means protecting the jobs of the working people in this country, and if it means obstructing the importation of materials and products that rob our people of their employment.

We realize that we must have trade between our country and the free nations of the world, but we also believe that we cannot destroy our own economy.

Many of our industries have suffered, some to the point of extinction, because of the present tariffs, or the lack of same. We have witnessed the disruptive effect that certain imports can produce; causing major shifts by some industries in search of cheap labor markets at home and abroad, resulting in the closing of plants and as a result adding to our unemployment.

We do not believe that our country can afford to "baby sit" the whole free world, as we have been doing, and at the same time put our people—the people who are paying the bill—on the unemployment roll.

The industries employing members of our affiliated unions that have been greatly effected are steel, shoe manufacturing, meatpacking, electronics, television, refrigeration and air conditioning, heavy electrical equipment, electric motors, electric tools, porcelain, and watch manufacturing.

Let's look for a moment at the last industry mentioned, watch manufacturing. Twenty-five years ago there were 33 companies in the United States making watches. Today, there are only two. Hamilton, represented by the American Watch Workers Union—NFIU—and Bulova, represented by the Tool & Die Makers Association—NFIU. This is an example of what can happen, and it is happening to other industries in this country.

The American Watch Workers Union—NIFU—and the National Federation of Independent Unions for years tried to convince the Tariff Commission and the Congress that some relief should be given this industry, to no avail.

Now the watch industry in this country is dead—the great names of American watches such as Hamilton, Bulova, Waltham, and Elgin are either manufactured aboard or no longer exist.

What about the skills that we have lost in this highly skilled industry? Where, in time of an all out war, will we find these skilled workers when we have need of them to manufacture the precision work on timing equipment? Other industries are now experiencing the same conditions that have wrecked the watch industry.

Tecumseh Products Co., the world's largest producer of compressors for the refrigeration and air-conditioning industry, and employs 3,500 members of the United Products Workers Union—NFIU—is now experiencing the impact of unfair foreign competition.

Twenty-two companies from 14 countries are now shipping compressors into the United States. The projected losses to foreign competition read like this:

	Compressors
1967	11,000
1968	46,000
1969	325,000
1970	727,000

Where will the jobs of the members of the United Products Workers Union (NFIU) be in a few years? Their jobs will be in Japan, Italy, Denmark, and 10 or more other countries.

Japan, alone, in 1969, produced over $800 million in refrigeration and air-conditioning units.

The competition is unfair, due to countries like Italy and Denmark who reimburse their companies 7 cents on every dollar of exports on compressors to the United States, thus guaranteeing their companies a good profit.

Another industry, vital to this country's defense, and which also is being adversely affected by unfair foreign competition is the heavy electrical equipment industry and namely, electrical power transformers.

The membership of the Electrical Workers Independent Union (NFIU), St. Louis, Mo., employed by the Central-Moloney Transformer Division of Colt Industries has decreased 47 percent in the last 15 years due partially to foreign competition in this field.

Here is another industry where skill and technology will be lost if no relief is given. What commodity is more vital to this country's defense, in peace or war, than electrical power? No industry can operate without it. We would ask how, how in time of war, are we going to get component parts for the repair of these units from England, Japan, Italy, Switzerland, or France?

Several years ago in a statement to the Joint Economic Committee, the National Federation of Independent Unions brought this to the attention of the committee and predicted that it would not be very long before private utilities would adopt the policy of buying from foreign manufacturers. Since that time, this is just what has happened.

Recently, Northeast Utilities placed an order with a Swedish manufacturer for a $775,000 transformer for delivery to Northeast Utilities' Millstone–2 nuclear unit. The Swedish manufacturer's bid was 14 percent below General Electric Co.'s bid, the lowest U.S. bidder. Ironically, this foreign transformer will be put into operation just 120 miles from the big General Electric plant at Pittsfield, Mass.

U.S. Government power agencies purchase substantially more transformers from foreign producers than from U.S. firms.

The fact that such countries as Britain and France have no import restriction as such, the electricity supply industries of both are nationalized and committed to purchasing domestic equipment. Compare this to Tennessee Valley Authority buying 79 percent of their large power units from foreign manufacturers, and in all sizes of transformers. U.S. Federal power agencies buy approximately 70 percent from foreign producers.

Transformers are being sold to American puchasers at prices far below the price levels for such equipment in the foreign manufacturer's home markets which is evidenced by the complaint filed with the U.S. Treasury by Westinghouse. U.S. Government agencies have been taking advantage of these low prices even though they result from international price discrimination, known in international trade law as "dumping" which violates the public policy of this country.

It is true that utilities and Government agencies can buy transformers from foreign manufacturers at lower prices, and it is also a fact that many of these foreign manufacturers are selling their products at substantially below what they are charging the Governments-owned power systems in their own country. But it is also a fact that these foreign manufacturers would go bankrupt if they sold all of the transformers they produce at prices that they now sell to American buyers.

As a direct result of this unfair loss of production by U.S. businesses, a large number of layoffs of the laboring forces in the electrical transformer industry have occurred at many manufacturing plants. Specific instances and figures concerning layoffs can be supplied if this information has not already been furnished to you.

The American laboring people believe that their Government should take the necessary steps to correct this situation. We are informed that the U.S. Army has a policy of granting a 50-percent differential to American manufacturers. TVA, Bonneville, and other agencies give only a 6-percent "Buy American" protection to U.S. manufacturers. We expect American industry and labor to be supported in face of price discrimination by foreign industries.

In this growing country we need an economy that will provide jobs and homes for our rising population. We need Government policies that will encourage international trade on a fair basis, a policy that will not destroy our jobs and our economy.

We petition for such controls and restrictions on imports that will permit our established and economically important industries to pay decent wages and to operate on a sound financial basis to the betterment of all American labor and industry.

Your interest and influence in bringing about the necessary relief will be greatly appreciated by the laboring men and women of this country.

I would like to state several other issues for the record, if I may.

Pension plans.—The National Federation of Independent Unions advocates legislation governing pension plans, providing standards on vesting, funding, reinsurance, and portability which will result in greater benefits and protection for the beneficiaries than those which presently exist.

Tax reforms.—We realize that the Tax Reform Act of 1969 provides relief for the working people of this country, yet the burden of taxes still bears most heavily upon those in the middle and lower income brackets.

Also, that the tax laws are full of loopholes that enable rich corporations and many millionaires to either escape entirely the imposition of any taxes or to minimize them to such an extent as to make the imposts on the majority of our people unfair and discriminatory.

The National Federation of Independent Unions advocates changes in the tax program to correct these intolerable conditions.

Wage controls.—For the record, I would like to state that the National Federation of Independent Unions is opposed to any restriction through wage controls by the Federal Government, thus denying unions the due process of collective bargaining.

Mr. Chairman, I want to thank you and the members of the Joint Economic Committee for inviting me to present the comments of the National Federation of Independent Unions on these economic issues.

NATIONAL GRANGE

The National Grange appreciates the opportunity afforded us to submit a written statement on the economic report of the President.

We would like to make one or two brief comments regarding the economy as it relates to agriculture.

Farm income, although improved in relationship to that of our counterparts in the urban areas, has not improved as it relates to increased efficiency in agricultural production. The urban resident has benefited to a greater degree from increased agricultural efficiency than the farmer. This is still agriculture's number one problem.

The Grange will be looking to the Agricultural Act of 1970 to improve farm income, not only as it relates to the other segments of our economy, but also as it relates to increased agricultural efficiency.

In obtaining improved farm income, the Grange does not believe that domestic farm programs should be subordinated to the interest of international trade. The primary market for agricultural production is the domestic use; therefore, the primary source of farm income must be from the domestic market. We need expanded world trade in agricultural commodities, but because of the fluctuation in the lower world markets (due to export subsidies, preferential treatment of the developing countries, and U.S. political interests) we cannot look to exports alone to provide increased farm income, a purported objective of the Agricultural Act of 1970.

In our efforts to improve farm income and therefore economic conditions in rural America, we dare not be misled by proposals and counterproposals that promise increased farm income, while at the same time a reduction in total cost of farm programs to the Federal treasury. This would mean total reliance upon the market places for farm prices, therefore farm income, an economic situation that is unrealistic as long as the American farmer is called upon to supply an abundance of food and fiber, in excess of that needed to correctly match supply to demand. The amount produced over and above that needed to match supply to demand is a sufficient amount to destroy the market places as the sole source of fair and reasonable prices for the producer; therefore it is the opinion of the Grange that farm programs that supply a proper mix of public and private funds must be continued if we are to have a viable family farm structure in American agriculture.

The Grange has stated time after time that nothing is the matter with rural America that an increase in farm income will not cure. We still believe this today. Greater emphasis must be placed on improving the income and market position of the commercial family farmer, for it is he who spends the dollars that will keep "Main Street, Rural America" a viable part of the community. With increased farm income will come the economic opportunity that will help to keep farm families on the soil and out of our already overcrowded urban areas.

Neither American farmers nor rural residents want to become dependents of Federal motherism through grant-in-aid programs to keep rural America strong. In our judgment, such moneys would be far better spent in the interest of maintaining a strong, healthy, viable family farm structure in American agriculture, a family agriculture that is a vital part of the rural community and is willing to tax itself in maintaining such services and facilities as are necessary to bring it into the mainstream of the Nation's expanding economy. This can only be done, in the long run, by increased profits to the family farm, not by a system of Federal dole that would not be in the best interest of the farmers, the residents of rural America, or the Nation as a whole.

We must keep in mind the grants-in-aid can be taken away as fast as they are given—not so with a sound, economically strong rural America, built around a healthy commercial family farm.

Thank you for allowing us to share with you a few of our thoughts on the future of agriculture and therefore of rural America.

NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS

The National League of Insured Savings Associations is well aware of the myriad of basic problems facing the domestic economy this year. In capsule form they may be characterized by the hope that (1) inflationary forces can be moderated, (2) unemployment progressively reduced, (3) a broad based and sustainable economic expansion can be generated, and (4) a general aura of confidence can be restored in the general public, consumers and business alike, that fiscal and monetary policies of Government will be adopted and pursued that will make attainment of the first three goals possible.

Your committee is well aware of the purposes of the National League and its membership. We are dedicated to the promotion of thrift and home financing. In the last half decade of the 1960's our business and our housing seeking citizenry have been cruelly buffeted by the distortions emanating from the fiscal and monetary policies pursued during that period. It would be redundant in this presentation to restate the fluctuations in housing production resulting from the severe contractions in the availability of housing credit during that 5 year period. Your committee is well aware of the record.

We have repeatedly proposed over a period of several years in presentations to this committee, other committees of the Congress, and the executive departments concerned, the adoption of legislative programs which will provide a long-term solution to the orderly and adequate provision of a recognized national priority—housing and more financing. We do not believe that the Congress or the public will condone a repetition in this decade of the roller-coaster dearth of never near sufficiency of housing credit availability that typified the period 1966 to 1970. It is our considered judgment that a reexposure to such conditions can be avoided by the enactment of legislation designed to induce continuous and increased savings investments in thrift institutions and remove legislative barriers currently existing which prevent savings institutions from competing for pension and other funds currently unavailable to the housing credit conduit.

As we stated to this committee last year:

> The basic thrust of these recommendations has been twofold: (1) to permit savings and loan associations to have access to funds previously and still available only to discretionary lenders which have shown a consistent bias against, or disorientation toward, housing credit, and (2) enable housing, as an industry, to compete for a fair share of market funds in all periods, especially periods of fiscal and monetary restraint.

The necessity for, and the importance of, this basic approach to housing credit availability was unanimously reendorsed by our legislative conference which met in Washington the first week of this month.

The specific recommendations for legislative action designed to assure a less volatile and more adequate flow of funds into home financing are:

1. A tax deduction for savings accounts.—Savers in thrift institutions that invest a substantial part of assets in residential mortgages should be allowed a deduction for Federal income tax purposes on the same tax theory that has long accorded such treatment to equity investments and for a number of years to those eligible for the investment tax credit.

2. General trust powers.—Permit Federal savings and loan associations to exercise trust powers with reference to any trust in an original amount not in excess of $100,000.

3. Authority to attract a greater volume of public unit accounts.—Authorize the Federal Savings and Loan Insurance Corporation to increase the insurance coverage on public unit savings accounts to enlarge the flow of these funds into the housing market.

4. Checking accounts to service both savers and borrowers.—To enable savings and loan customers to have a useful and economic method of having purchases of goods and services paid for out of funds maintained in a thrift institution.

5. General Consumer lending authority.—To authorize savings and loan associations to make consumer loans for any lawful purpose in order that the average consumer will have fuller access to a larger credit reservoir to finance purchases of goods and services necessary to modern day living, and concurrently improve the liquidity of savings and loan associations.

We are fully cognizant of the fact that the augmented savings flows into thrift institutions in the past few months may tend to recreate in some quarters a lethargic aura of nonurgency for the adoption now of these programs. We would remind those so bent that in 1969 savings and loan associations borrowed $4.1 billion from March through December while savings (including interest credited) grew less than $2 billion in order to provide a floor under credit flows to the housing market. Moreover, such borrowings increased another $1.3 billion in 1970, and at the end of last year borrowings by savings and loan associations from the Federal Home Loan Bank System totaled $10.5 billion.

The cost of these borrowings ranged from 7.25 percent to 8 percent during this period, substantially in excess of the Federal Reserve discount rate available on borrowings by other financial institutions, and from 40 percent to 50 percent higher than the average rate paid on savings accounts. It would be patently incongruous to not recognize the fact that the savings and loan business made mortgage loans of approximately $22 billion in each of the years 1967, 1968, 1969 and 1970 under the most difficult of conditions, and extreme fluctuations in net savings flows in particular, while other lenders deserted the scene, and realize that a substantial part of the current favorable savings flows will necessarily be used to repay debt and restructure the liability side of our balance sheets.

It should also be clear that aggregate housing starts of 5,700,000 units during the past 4 years, though substantially short of housing needs, could not have been achieved without the relentless and consistent performance of the Nation's savings and loan associations in providing housing credit to its maximum ability. Our record and the Nation's housing stock nevertheless would have been substantially improved if the programs we urgently recommend had been operative during that period.

It is with great wonderment as well as frustration that the thrift and home financing business views the reticence to date of the Congress to provide a tax incentive to increase the funds available for an undernourished housing market when it is apparent that another round of liberalized depreciation allowances, and possibly even a new investment tax credit, is being offered or prepared to induce another resurgence of business capital investment expansion. There are few members of the economic fraternity who would controvert the fact that the economy has not yet recovered from the business capital investment boom which commenced in 1963 which was substantially incubated by the investment tax credit. As shown in the table on page 240 of the Council's Economic Report, current manufacturing capacity is only being utilized at a rate of 76.6 percent, the lowest since 1958.

Table I attached graphically illustrates the expansionary results produced by the investment tax credit for business investment in new plant and equipment compared to the allocation of investment in housing in the last 8 years.

This illustration is but one indication of the actual priority of housing in the allocation of the Nation's resources, notwithstanding the clear mandate of the Congress, embodied in the Housing Act of 1968, to double the provision of housing units in the decade ending in 1978.

It is difficult to view with other than a jaundiced eye the disparity between carefully considered judgments of national needs in the field of housing and the legislative action required to bring them to fruition. The Council's report emphasizes this disparity, without offering any positive solution for rectifying the imbalance. On page 102 of its 1971 report, the Council recognizes the reduced allocation of the Nation's resources for the provision of housing. In commenting upon the shift of resources since the midfifties, the Council unequivocally states that "the significant shift was from national defense and residential construction to education, health, business capital formation, and general government."

The Council's observation is well taken. The empirical evidence all too well supports it. Table 28, on page 99 of the 1971 report, summarizes the percentage distribution of gross national product (in current prices), by function, for the years 1955, 1966, and 1969. It is distressing to note that from 1955 to 1969, the percentage of GNP allocated to housing decreased by almost 40 percent, and with the exception of net exports and inventory change experienced the most drastic diminution of any of the 10 categories enumerated. Table II attached illustrates the change in relative GNP positions of the 10 categories from 1955 to 1969.

It should be readily apparent from the record of the last decade and one-half that the housing sector cannot be properly nourished creditwise unless those institutions supplying the bulk of the Nation's home financing funds are permitted to compete for the capital that courses through the veins of the country's financial stream. The impenetrable curtain of access to a very substantial volume of such funds which bars savings and loan associations from even competing for them, largely the result of legislative fiat, must be removed.

In a free market society which recognizes the benefits and efficiencies which result from the unhaltered interplay of competitive forces, especially in those areas in which the attainment of national priorities is severely restrained by archaic prohibitions, there can be no further justification for postponement of legislative action which would remove the impediments.

In its landmark action establishing housing goals for this decade the Congress in 1968 clearly established the priority claims of housing upon the Nation's resources. These goals have been repeatedly endorsed by succeeding administrations from the White House to every department and agency of Government involved. As was the case last year, the Council in its report to this committee regarding the role which residential construction is to play in GNP said:

> In real terms this component is estimated to follow a path *that achieves the 26 million housing units explicitly called for in the Housing and Urban Development Act of 1968.*[1]

The Council recognizes the fact that in the short space of 4 years additional residential mortgage credit of some $20 billion will be needed for newly constructed housing alone. This is an increase of 66 and two-thirds percent above the level which has prevailed for the past 2 years. Moreover, this projection of the Council is based upon 1969 prices which makes no allowances for the inflation, especially pronounced in housing construction, which continues to plague the economy.

The Council's projection of residential construction claims upon GNP in 1975,[2] in 1969 prices, amounts to $52 billion. The National League fully endorses the projection, but in all candor must take exception to the probability of its attainment unless the recommendations it makes here are implemented quickly. We would be doing a disservice to this committee and the Congress and to the housing hungry public to state otherwise. The record of housing output during the 1960's, and the last half of that decade in particular, speaks too gravely of the distressing distance between aspiration and achievement, rhetoric and action, and planning and implementation in the housing sector.

The recommendations which we urgently propose are designed to accomplish one objective—the channeling of more funds into the home financing sector of the economy to improve the liquidity posture of the bedrock suppliers of housing credit. These objectives are four square with the legislative enactments of the Congress, the announced policies of the administration, and the expectations of the public. They are in keeping with the spirit of enterprise which has made our economic system a dynamic, viable, and enviable producer of not only the basic necessities of life, but an ever increasing standard of living.

Like all ladders each rung is important, but the recognition that some are missing which prohibits the instrument from accomplishing its purpose and rendering the necessary services required is pro-

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[1] Passage appears on p. 96 of the 1971 report.
[2] This projection appears in table 26, p. 95, of the 1971 report.

gress. It is in this spirit and studied judgment that the National League urgently requests that this committee join with it in installing the missing members of the housing credit arsenal that will translate our known housing requirements from the drawing board to reality.

(The tables referred to in the text follow:)

TABLE I

[Dollar amounts in billions]

Year	Business expenditures for new plant and equipment[1] (1)	Private residential construction[2 3] (2)	Difference, cols. (1) and (2) (3)
1960	$36.75	$21.71	$15.04
1961	35.91	21.68	14.23
1962	38.39	24.29	14.10
1963	40.77	26.19	14.58
1964	46.97	26.26	20.71
1965	54.52	26.27	28.25
1966	63.51	23.97	39.54
1967	65.47	23.74	41.73
1968	67.76	28.82	37.94
1969	75.56	30.60	44.95
1970	80.58	29.04	51.54
1963-70:			
Dollar increase	39.81	2.85	
Percent increase	98.0	13.0	

[1] Source: Table C-39, p. 241, 1971 Report, Council of Economic Advisers.
[2] Source: Table C-40, p. 242, 1971 Report, Council of Economic Advisers.
[3] Housing construction includes additions, alterations, and nonhousekeeping units, as well as new housing units.

TABLE II.—PERCENTAGE DISTRIBUTION OF GNP IN CURRENT PRICES, BY FUNCTION, 1955, 1966, AND 1969

Function	Percentage of total GNP 1955	Percentage of total GNP 1966	Current prices 1969	Percent change, 1955-69
Total GNP	100.0	100.0	100.0	
Basic necessities	45.7	42.3	41.6	−9.0
Education and manpower	3.7	5.7	6.3	+70.0
Health	4.1	5.6	6.4	+56.0
Transportation	10.6	9.9	10.0	−6.0
General government	2.0	2.7	3.1	+55.0
Defense	9.3	7.8	8.3	−17.0
New housing	5.9	3.5	3.7	−37.0
Business fixed investment	9.6	10.9	10.7	+11.0
Net exports and inventory change	2.0	2.7	1.1	−45.0
All others	7.1	9.0	8.8	+24.0

Source: Table 28, page 99, 1971 Report, Council of Economic Advisers.

UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

By LEONARD WOODCOCK, *President*

In previous appearances before this and other committees of the Congress, we in the UAW have stated, frequently in considerable detail, what we have considered to be the major weaknesses of the economy, especially during the past 2 years, and we have suggested what new programs we believed the Government should develop and what priorities it should set in order to restore the economy to health. Those programs and priorities have not very frequently coincided, in recent years, with those put forward by the Economic Reports of the President and the reports of the Council of Economic Advisers. But at least those reports until recently have recognized the problems of the economy and have indicated programs and policies intended to solve them. There was something solid that you could get your teeth into, however much you might disagree with it.

The real difficulty in discussing the 1971 report is that it directs itself so little to the real problems of the economy, and pretends either that they do not exist or that they will soon disappear under the influence of existing policies.

It is true that there is an admission of the need for some change in direction of fiscal policy, but what is proposed is entirely insufficient to meet the pressing problems we face today. For example, in my statement before this committee on January 26 last, I emphasized the necessity for the administration to follow a fiscal policy which would not only be expansionary, but would help to meet many of the unmet needs of our people. Unfortunately, while the budget has moved slightly in an expansionary direction, the change is not nearly sufficient to do more than keep the unemployment rate from rising—if it is enough for that. And defense expenditures are being increased by nearly a billion dollars, while many essential social programs are being cut back and others are barely holding their own.

In view of my earlier, fairly lengthy statement, I intend to deal now only with some highlights of the administration's announced economic goals for 1971, and the policy measures advocated to reach these goals—along with some policy measures which should have been advocated and have not.

The Economic Report of the President and the Council of Economic Advisers project a 1971 GNP of at most $1,065 billion, representing a 9-percent increase over 1970 in current dollar terms. If this increase in output is achieved, it is expected to reduce unemployment to 4.5 percent by mid-1972.

This in itself, of course, is a totally inadequate goal. It assumes that after another 15 months of the present administration's policies, we shall still have some $3\frac{1}{2}$ million unemployed, not including the traditional large number of underemployed and those who are not counted among the unemployed because they have given up all hope of finding work they can do, and are no longer seeking it.

And even this meager goal is unlikely to be reached, for the report also assumes that the "inflation rate"—presumably the GNP deflator—will approach 3 percent by mid-1972. Assuming a straight line reduction, this implies that the increase in the price level between 1970 and 1971 will amount to 4.2 percent.

If we use this implied annual change in the price level to deflate the 9-percent GNP increase, we find that the annual change in real GNP is expected to amount to 4.6 percent. On this basis, however, it is impossible to see how the expected drop in unemployment can possibly materialize, because the maximum expected real GNP expansion will do no more than at best keep the unemployment level constant. According to the Council's own estimate, which is extremely conservative, potential real GNP is currently expanding at an annual rate of 4.3 percent. That is, if unemployment remains constant the actual GNP will normally increase by 4.3 percent per year as a result of the normal increases in the labor force and in productivity. In other words, an annual real GNP increase of 4.6 percent will, at best, result in a very small reduction in unemployment. However, all statistical evidence shows that at the beginning of a business upswing productivity increases at a pace which exceeds the average rate because overhead labor does not increase proportionately to output. Consequently, it is very likely, even on the basis of the Council's very optimistic estimate, that unemployment, rather than declining, will continue to increase during 1971 if real GNP increases at the implied annual rate.

On the other hand, it is difficult to see how the policy measures advocated by the administration can be sufficient even to bring about an increase in GNP in the amount anticipated by the Council.

The report itself points out that:

> There is a considerable body of opinion that expects the gross national product for 1971 to be in the range between $1,045 billion and $1,050 billion, which would be an increase of 7 to 7½ percent above that for 1970. *This is a possible outcome.* However, it seems more likely that with present policies the outcome would be higher than that *and could be as high as $1,065 billion.* [Italic added.]

In other words, $1,065 billion is the most optimistic forecast of 1971 GNP that he Council is prepared to make. The situation is best summarized by Chairman Arthur Burns of the Federal Reserve Board. Burns thinks that the Council's 1971 GNP estimate is an "admirable target" but it is "optimistic" as a projection. This must mean that whether or not one accepts the estimate as a goal, the target cannot be reached with the currently proposed policy measures. With this evaluation of Mr. Burns we wholeheartedly agree.

The administration seems to expect that its liberalization of depreciation allowance will have a great impact on investment expenditures. But, spurred by the investment credit which was belatedly removed in 1969, business had built up a large volume of excess capacity before the beginning of this recession. Because of the decline in production, excess capacity has increased further during the past year, and by the fourth quarter of 1970 excess capacity in manufacturing amounted to approximately 28 percent. Since optimum capacity utilization in manufacturing is a little over 90 percent, this means that even without any further investment expenditures, production could increase by more than 25 percent before the preferred utilization rate would be reached.

As I pointed out in my statement of January 26, given this situation, it is very unlikely that the liberalization of the depreciation allowance will stimulate additional investment spending at the present time. Instead it will only provide a windfall increase in the idle cash reserves of corporations which might well add to inflationary pressures at some future date.

Indeed, as the Wall Street Journal of March 9 suggests, based on the latest quarterly survey by the Commerce Department and the SEC, after adjustment for price changes the real volume of investment spending in 1971 may actually be lower than in 1970.

The report seems also to put great emphasis on the stimulative effect of increased Federal budget expenditures. In this connection the report mentions specifically the first installment of the administration's revenue sharing proposal and the 6 percent increase in social security benefits.

But the report fails to mention the proposed increase in the ceiling on taxable earnings from $7,800 to $9,000, and the proposed increase in the combined contribution rates (including hospital insurance) from 9.6 percent to 10.4 percent. Both these measures are deflationary, and are bound to offset at least in part the expansionary impact of the increase in social security payments.

In general, in evaluating the expansionary or deflationary effect of the budget, it is not the Federal expenditures that are important but the balance of the budget as a whole—both in spending and in taxing. And it is not the absolute level of the surplus or the deficit that is important, but the change in the level. In other words, the same can be said about the actual budget as the report claims for the so-called "full employment budget" in the following statement:

> The fact that the (full employment) budget has a surplus does not imply that the budget is not having an expansionary impact on the economy; the effects may be expansionary if the surplus is declining. Similarly a budget with a deficit may be restrictive if the deficit is declining.

It is the last sentence of the above quote which is immediately pertinent, since the deficit for fiscal year 1971 is estimated at $15 billion, and the deficit for fiscal 1972 is estimated at $4.2 billion. This means that the administration intends to pursue a deflationary policy during the second half of 1971 when, according to most forecasters, the expansion will be slowing down anyhow because it will lack the special impetus of the inventory buildup which is expected for the first half of 1971, in anticipation of a possible steel strike.

If we compare calendar years, it appears that the Federal Government deficit is to increase from approximately $11 billion in calendar year 1970 to approximately $15 billion in calendar year 1971. But this increase of $4 billion is much smaller than the $17 billion expenditure increase stressed in the report. Furthermore, it is very doubtful that the budget will have even such a mild expansionary effect, since $6.6 billion of the expected expenditure increase represents the first installment of the administration's revenue sharing proposal.

In my testimony of January 26, 1971, before this committee I stated our opposition in principle to the revenue-sharing proposal. It does not require restatement at this time. I wish only to question the effectiveness of revenue sharing as a tool for promoting economic expansion. Since these funds are to be given to the States with no strings attached, the States may use a part or all of them: (i) for debt repayment; (ii) to reduce business taxes, and business might add these savings to its cash reserves; or (iii) to use the funds for public works for which no blueprints are yet available and for which more than a year of preparation is needed. To the extent that any of these three alternatives actually occurs, the expansionary impact of the revenue-sharing provision for the current year is dissipated.

In this respect we agree completely with the evaluation of Arthur Burns, even though we do not share his high opinion of the long-range effects of revenue sharing.

Residential construction, it seems, is counted upon as the most stimulative factor in the economy for the immediate future. In this connection, the report points to the increase in housing starts, the greater availability of mortgage funds and the decline in interest rates. But in this respect, too, the Council seems to be much too optimistic.

In spite of the recent increase in housing starts, residential construction, expressed in constant dollars, was lower in 1970 than in four of the 5 preceding years. The FHA mortgage rate has been reduced, but at the current 7 percent level today's "reduced" rate is higher than at any time during the more than 34 years FHA legislation had been in force up to January 1969.

As a rule of thumb, a family ought to spend no more than 1 week's income for a month's regular housing expenses, which in the case of a homeowner must cover property insurance and real estate taxes plus the mortgage payment. But at 7 percent interest the monthly payment for a $20,000, 20-year mortgage amounts to $155. If we add to this mortgage payment the cost of insurance and real estate taxes, the monthly payment for this typical modest new home is bound to exceed $200. This means that such homes are completely out of reach of the average manufacturing worker, whose weekly earnings in 1970 amounted to $133.73 (including overtime), or in fact of the average worker in any industry.

This is not just our opinion. HUD Secretary Romney has estimated that 80 percent of all American families could not afford the average cost of a new home. Given this situation, and in the absence of government subsidy funds of a meaningful size, the market for new homes is so limited that we cannot expect the annual construction rate of 2 million new housing units anticipated by the Council. In the past we have never attained a volume of 2 million housing starts per year, and we will not reach such a volume in the future until the Federal Government makes the funds available to provide a sufficient amount of inexpensive land, credit at reasonable interest rates, and adequate subsidies for lower cost housing.

The Antisocial Role of Property Rights

Under the slogan "the social role of property rights," the report advocates granting private property titles to resources which today are public property. Where this is not possible, the report advocates treating such resources as if they were private property.

Today, the report implies, the Government is developing uniform standards for air and water pollution which "must produce a high enough quality of air and water so that further improvements are not worth the costs of further control." Instead of such "uniform standards" the report advocates that a price be set for air or water pollution which a polluter would have to pay for every unit of pollutants he discharged. Or, alternatively, certificates could be sold which would permit a certain volume of pollutants to be discharged. Since the costs would be added to the price of the product, such a system supposedly would permit the consumer to vote with his dollar bills on how much pollution he is willing to accept. The report also suggests that similar rules should be applied with respect to the utilization of other national resources which are public property (for example, timber resources).

All these proposals are based on an upside-down value scale which we completely reject. In the first place, it is not true that governmental pollution standards are based on utility and cost comparisons. The standard is not set at a point where the disutility of added control costs outweighs the utility of cleaner air or water. Instead, medical experts determine for various levels of pollution the risks to life and health. In other words, medical experts determine for various levels of air pollution how many cases of lung cancer can be expected, how many cases of pneumonia, how many cases of emphysema, et cetera. Based on this expert information, a Federal or local government agency decides what level of risk to accept. Such a decision is based on a value scale entirely apart from cost considerations, since nobody knows the "fair price" for a saved life. In any case, such a decision can be challenged by the people who can see what it is all about and who can reject it in the next election.

By setting a price for permission to pollute, this whole relationship is obscured. The price per unit of pollutant will be set to a large extent arbitrarily, since the agency which sets the price will have only a very vague notion regarding the level of pollution that can be expected at any given price level. This is, of course, still much more true if the extent of control is left, in the last analysis, to its effect on the cost of goods to the consumer. The consumer is unaware of the relationship between the amounts he indirectly spends or fails to spend on pollution control, and the risks he is thereby accepting. He cannot distinguish between costs due to pollution control and other price variations, and he cannot pay specifically for more pollution control even if he were so inclined. Consequently, all the talk about consumer choice is pure myth.

Setting a price for the permission to pollute, and managing public property in accordance with the rules which are applied for private business, will have the result that the interests of a rich corporation or a rich individual are given more weight than the interests of large groups of people with small incomes. The big corporation which finds it profitable to pay a large sum for the privilege of polluting a lake, for example, will be given permission to do so, provided, as is inevitable, that the ordinary citizen with little discretionary income who wants to use the lake for boating and fishing cannot outbid the polluter.

Similarly, the redwood trees will be sold to provide lumber for furniture for the rich who can afford punitive prices. The fact that these trees, because of their age, are irreplaceable does not show up in this balance sheet, except if other rich people set up foundations for the preservation of the trees. In either case the common people have no say at all.

Until now, it has been at least partially recognized that certain human needs have to be satisfied, irrespective of the person's income. Fresh water and clean air are examples of goods which satisfy such needs. Elementary education is another. We who advocate national health insurance feel that medical aid is another example, and medicare is a first small step in recognizing this need.

In general, as the nation has become wealthier, the assortment of services provided by society for the well-being of all its people has tended to become larger. And that has meant more democracy, because what happens to public property is determined in a political process where each American citizen has the same vote as every other American citizen.

But the Nixon administration intends to reverse this trend.

Why Is the Inflation So Stubborn?

Turning now to the problem of inflation, the Report asks, "Why is inflation so stubborn?" In reply, it offers as one explanation the "apparently irresistible agglomeration of power represented by large corporations or unions." But in the discussion which follows, the Report pays practically no attention to the effect of the price-profit policies of the large corporations, the price leaders in major industries—usually highly concentrated—where a top management group makes decisions which literally affect the lives of millions of human beings.

Instead, the Report seems to put virtually all the blame on the rank and file of union members, whose militancy "may be a manifestation of the more general disinclination to have regard for authority." This digression of the Council into psychiatry seems to have the purpose of disparaging legitimate union demands by equating the union rank and file with hippies and youth dropouts.

Actually, the explanation for the militancy of union members is quite simple and does not require any knowledge of psychiatry. The causes are not psychiatric but economic. The statistical appendix to the Economic Report (p. 235) shows the facts.

Since the end of World War II, factory workers have been used to making steady progress, every year. Weekly take home pay, adjusted for changes in the price level has been rising, as a rule, every year. Occasionally this increase has been reversed for 1 year or even 2. But if we take 3-year periods, we find that up to 1965 the factory worker's living standard at the end of each period has always been higher than at the beginning.

Today, in contrast, the living standard of the average factory worker is lower than it was 5 years ago. The average annual take-home pay of a factory worker with three dependents, expressed in 1967 dollars, in 1965 amounted to $5,325, assuming he received 52 weekly paychecks. In 1970 the comparable annual wage had dropped to $5,191, a decline of $134.

This explains the frustration of the rank-and-file union worker. He hears from all sides about the big wage gains workers are making, and he reads that his taxes are reduced. Nevertheless he knows that his own after-tax paycheck buys less and less.

The data also shows how the average factory worker suffers from inflation and deflation at the same time. The main reason his living standard is reduced is the rise in the price level, but he also suffers from a decline of the workweek, which dropped from 41.2 hours in 1965 to 39.8 hours in 1970.

Given this experience of the last 5 years, it is perfectly understandable that workers seek some insurance against the risk of future price increases and such demands do not require any psychiatric explanation. In this connection we are glad to see that the Council finally has come around to acknowledging the anti-inflationary effect of the escalator formula, devised by the UAW, which is incorporated in the current auto contracts.

But the escalator provision, even if widely adapted, although very helpful, cannot do the whole job. It must be supplemented by policies leading to price stability which makes sure that rises and falls in the escalator are in practice minimal. Unfortunately, the Economic Report is very weak in proposing such policies. Fascinated by the image of the Phillips curve, the report asks if the rise in the inflation rate could have been avoided if the unemployment rate at the end of 1965 had dropped more slowly. But the report completely ignores the fact, which we have documented in detail in previous testimony, that wholesale prices had begun to increase as early as the end of 1964, while unit labor costs were declining.

This crucial evidence of the abuse of economic power by the large corporations is completely overlooked in the report. This is the reason the report is unable to provide a satisfactory answer to the question it raises about the reasons for the stubbornness of the inflation. And that is the reason the report is unable to propose effective anti-inflationary policy measures.

The Dole for Defense Workers, Millions for the Rich and Nothing for the Poor

My testimony in January dealt with a series of problems on which immediate governmental action was needed. Unfortunately, the Economic Report either does not deal with these problems at all or treats them in a completely unsatisfactory manner.

(*a*) *Conversion.*—The report considers the cutback in defense expenditures primarily as an antiinflationary measure. Consequently, it does not show much concern about the fact that, for example, Wichita's unemployment rate in the past 12 months has increased from 4 percent to 9.3 percent, and Seattles' rate has increased from 4.9 percent to 11.8 percent. Such catastrophic situations are probably covered by the callous remark that "some hardships and dislocations are unavoidable as cutbacks are made in areas where defense employment has been a large part of the total." The report does not take any position regarding those provisions of the McGovern bill which have precisely the purpose of ameliorating these hardships by providing workers with an income equal to their normal weekly earnings and fringe benefits in case they are unemployed, underemployed, or downgraded for up to 2 years because of defense cutbacks.

(*b*) *War on poverty, income maintenance.*—This is the first annual economic report in many years in which the goal of abolishing poverty is not even mentioned. The chapter of the report on priorities hints vaguely that transfer payments have increased in relative importance, but nowhere in the report is the goal of adequate income maintenance even mentioned. Presumably the Council feels that the administration has nothing to contribute in this field. This is understandable, since the administration's income maintenance bill proposes a $1,600 guaranteed minimum income for a family of four at a time when the administration's Secretary of Labor finds that a four-person family is to be considered poor if its annual income does not amount to at least $3,800.

(*c*) *Tax reform.*—It would be financially much easier to guarantee an adequate floor for income maintenance if all the revenues still being lost through tax loopholes were plugged by a genuine and thorough-going tax reform. But the report indicates that the administration has an Alice in Wonderland view of today's tax burden. According to the report:

> The repeal of the investment tax credit, combined with the other features of the Tax Reform Act of 1969, yielded a tax revision that was excessively burdensome on business investment, and the administration recognized that this imbalance would have to be redressed at an early date.

The administration ignores the Treasury Department studies which show that some industries pay practically no corporate income tax because of the depletion allowance provisions, that other businessmen still avoid income tax payments with the help of tax provisions favoring gentlemen farmers, that most capital gains are not taxed at all because these gains are inhereited from one generation to another, that the maximum tax rate on realized capital gains is ridicously low, etc. Instead of plugging these loopholes the administration has prepared new tax gifts for big business and for the rich by softening the depreciation rules.

(*d*) *Democratic planning.*—Finally, the report makes no reference to the need for overall development of democratic planning of our economy, the establishment of some machinery through which governments at all levels together with private decisionmaking groups, such as labor, farmers, business, and possibly consumer organizations can combine their efforts to do for the Nation what every well-run corporation and every well-run family today does in managing its own affairs—assess the needs to be met, set priorities among them, allocate available resources to meet those needs, and above all, look as far as possible down the road into the future to estimate future needs and to consider how best they can be met.

The report does admit that budgetary and other decisions made by the Federal Government do have an influence on the activities both of governments at other levels and of private decisionmakers, but it presents no coherent idea as to how those various activities and decisions might be coordinated within the framework of a general agreement on national priorities.

As a specific example, in its discussion of future national output and claims upon it, the report states the claim of residential construction in these terms:

> In real terms this component is estimated to follow a path that achieves the 26 million housing units explicitly called for in the Housing and Urban Development Act of 1968.

Taking into account the extent to which homebuilding since 1968 has lagged behind the rate implicit in the goal set by the act—26 million units by 1978—this would require a rate of construction of close to 3 million units per year during the remainder of the period. Yet, as we have already pointed out, the economy has never been able to reach a rate of even 2 million units per year. Obviously, there must either be some rethinking of our goal, or a tremendous, well-coordinated effort between all levels of government, financial institutions, and the construction industry to set up machinery which will permit the goal to be met. Yet, as far as the report is concerned, this is simply a claim upon national output which by some unstated means, through the undirected activities of some unstated persons or agencies, is expected to be met. No policy measures to that end are proposed. The net effect of this kind of unformulated, unplanned approach, is simply to cast grave doubt on the validity of all projections made by the Council as to the future of the economy.

In my statement to this committee last January I proposed the establishment of an organizational setup which could prevent just this kind of chaotic aimlessness. It would have included a standing citizens' committee on national goals to represent private decision makers, a council of advisers on social and human needs to represent the administration, and a joint congressional committee on social and human needs to represent the interest and concern of the Congress. I concluded by saying:

> The three-part planning vehicle I have outlined here would serve as the framework on which a comprehensive democratic planning mechanism could be constructed. This planning mechanism would provide the means to tell us where we stand at any time with respect to our social and human needs and what progress we have been making toward meeting them. It would enable us to measure the social costs as well as the economic benefits of technological change and other economic innovations, to devise means of keeping the social costs to a minimum. It would enable us to establish "performance budgets" in specific areas of social needs, such as health, housing, education, and the quality of our physical environment. It would provide indicators of economic opportunity and social mobility.
>
> Once we get our priorities in proper order and have set up the democratic planning machinery needed to best apply our abundant resources to our economic and social needs, then we can get to work at bringing to reality the basic promise of America. We can get to work at building a society in which each person has an equal opportunity to develop his skills and talents to the extent of his capabilities. We can create a society in which every human being can live in peace and dignity, free from want, and in full equality with his fellowman.

In my opinion, this still represents the kind of planning machinery we need. It is to be regretted that the Council of Economic Advisers has not only ignored this approach, but much more seriously, has ignored the necessity for any other approach toward actual planning to meet even its own limited goals.

JERRY VOORHIS, FORMER MEMBER OF CONGRESS AND PAST PRESIDENT OF THE COOPERATIVE LEAGUE OF THE U.S.A.

This statement will not presume to cover all phases of the economic issues and problems which face the United States today. It will, it is hoped, deal with some of the more outstanding issues.

Saving the Environment

Man's own technology threatens man's existence. This is not only because of the lethal weapons which technology has devised; it is also because up to the present time technology has been tearing the environment to pieces without anything like a corresponding effort to put it back together again. In consequence this generation of Americans is consuming half the exhaustible resources of the earth and contributing half of the pollution of the air and water. If future generations are to have breathable air and usable water, the course of our technology must be reversed. We must begin to direct that technology at the protection and, indeed, the recovery of the environment of the earth; and we must do so now.

Technology has not yet devised any safe method of disposing of the wastes which result from the operation of nuclear power plants or the development of nuclear weapons. Until such a safe system of disposal has been proved effective, the present proliferation of nuclear powerplants will constitute an ever present danger to millions of people. It is quite true that nuclear energy might offer an alternative to the present profligate consumption of fossile fuels and pollution resulting therefrom. But this cannot safely be the case until a means of disposal of lethal wastes has been discovered and until such nuclear plants as are built are constructed under very different circumstances from those which now prevail.

To begin with it is wrong to give the Atomic Energy Commission two functions which are in conflict with each other. The first of those functions is supposed to be the protection of the Nation and its environment against nuclear contamination. The second function is that of promoting the use of nuclear energy through the building of nuclear powerplants. The Commission has pursued the second of these functions so vigorously that, in the opinion of many highly competent scientists, it has become careless about the first one.

These two functions should be handled by separate agencies and the controlling agency should be the protective one rather than the promotional one.

Furthermore, it is risky, to say the least, that nuclear powerplants are built by private, profit-oriented corporations which have a built-in economic interest in short-cutting as many expensive safety devices as they believe they can. If nuclear plants are to be built, they should be built by public agencies and for the sole purpose of producing energy as cheaply but—far more important—as safely as possible. The American taxpayers have paid the total bill for development of nuclear energy. They have a right to all the benefits, economic and otherwise, from its development and use. They should not be required to pay anyone a profit for the exploitation of the energy which they, the taxpayers, have paid to develop. And only if nuclear plants are built by public agencies can we be sure that adequate safety devices will be installed in every case, or that they will be located in such places as to minimize the danger of massive loss of life in case of accidents.

A central problem in saving the environment lies in the inordinate consumption of power by the American Nation today. If the environment is indeed to be saved, certain drastic changes in the life style of all of us will have to take place; and governmental policy will have to be resolutely directed to that end. Either the American people will have to learn to do with far less power than they are now using or else genuinely nonpolluting sources of power must be developed to replace the ones that are now polluting our air and water so seriously.

From this point of view it is impossible to understand why present governmental policy should be playing down the development of hydro-electric power, which is the one kind of power which does not exhaust any natural resources nor in any way pollute either the air or water. What we should be doing is developing hydro-electric power to the utmost.

Beyond these considerations lie constructive measures to clean our already befouled waters and purify our already polluted air.

Recovery of pure water will require intense application of technology toward devising alternatives to poisonous pesticides—natural enemies, for example—treatment of sewage—Milwaukee's milorganite fertilizer, for example—stricter and better enforced laws against industrial effluents that foul the rivers and the sea. Billions of dollars will be required. But many of the methods have already been proved practical if vigorously enough applied, and if applied according to national standards set by Congress rather than left to State or local regulation.

Regaining pure, breathable air presents more difficulties, primarily because the principal culprit is the private automobile. It is doubtful that there can be developed an internal combustion engine which will be sufficiently pollution-free to save the air. Especially will this be true if the number of automobiles on the roads and streets continues to multiply at present rates.

There are going to have to be fewer automobiles in use—not more of them, as is the present trend. At least half the money now spent on highways should be used to meet the evident and central need for development of fast, efficient systems of mass transportation, both national and local, as the key factor in the solution.

Railroads, bus lines, electric subways, and other forms of mass transportation can make possible drastic reduction of the pollution now taking place. Engineers and technicians presently disemployed from the aerospace industry could well be put to work full time and then some, along with countless other workers in the development, construction, and operation of such methods of mass transportation. San

Francisco is an example of a municipality which is endeavoring to proceed along these lines in deadly earnest.

An outstanding example of what we ought not to do is the proposed supersonic transport. The Council on Environmental Quality has warned of the dangers from the SST in polluting the upper atmosphere and possibly changing the climate of the earth. No one knows the exact extent of the danger which this monster will do by its bombarding of the earth with sonic booms. Only a handful of people would ever use such a means of transportation, whereas untold millions of people need a decent, efficient, and cheap system of mass transportation on the ground.

The British Overseas Airways Corp. has recently stated that the British and French version of the SST cannot be operated economically by an airline. Why in the world some billions of dollars of the taxpayers' money should be used to subsidize private corporations to manufacture a supersonic transport, it is impossible for a rational person to understand. Instead, the billions should be used to develop the technology of transports similar to the metroliners now operated by rail between Washington and New York. If a billion-dollar subsidy to private manufacturers of the SST is alleged to create 150,000 jobs, then that same billion dollars spent for purposes the people really need will certainly create an equal number of jobs.

Mass transportation is only a matter of justice to millions of people seeking good employment opportunities, but who are now locked in ghettos from which there is no effective way to reach the factories and other places of employment outside the ghetto. And a principal reason for mass transportation is that once it has been developed, it will then be possible to restrict the use of the private automobile to a rational and really necessary use such as saving of the environment demands. Something to ponder: The United States is the only country of any size on earth whose railways are privately owned. It is also the only country whose railways are in trouble or losing passenger business.

Homes for the People

Congress has set a goal of 2,600,000 new homes per year as the minimum necessary to keep up with deterioration of dwellings and new family formation. At present less than half that number of dwelling units are being built, and most of those that are being built are in the luxury price class so that some two-thirds of all the families in the country are priced clear out of the market for a home.

This is obviously wrong.

Despite the well-devised enabling legislation which the Congress has enacted to try to bring about good housing in good neighborhoods for middle- and low-income families, such legislation cannot be effective with interest rates at the present levels unless a monumental amount of subsidy money is provided.

The basic problem is the interest rate. Despite recent reductions in the interest rate, it is still true that at a 7.5-percent interest rate, a family must pay almost twice as much interest to obtain a $20,000 home as it pays for the actual costs in all its aspects of the home itself.

The fact is that housing at costs which the middle- and lower-income families of this country can afford, cannot be constructed if the interest rate is more than 3 percent. It could be 3 percent, or even 2 percent, if we had a bank for housing which would finance, by direct loans using Government credit, and not borrowed credit, the construction of homes by nonprofit agencies including cooperatives. What we need is a plan for home construtcion which would parallel the operations of the Rural Electrification Administration. Neither the Government nor the taxpyares would lose a single cent from such a program through a bank for housing, as we can judge from the rural electrification experience.

We have our choice between the use of Government credit at low interest rates to enable private agencies to construct the homes we need at costs people can afford. Or, on the other hand, the necessity for colossal subsidies paid to moneylenders in order to make the programs now on the statute books meet the need.

Interest Rates and Inflation

It is to be hoped that the experiences of the past few years have relegated the myth that high interest rates can reduce inflation to the limbo where it belongs. Up until the year 1965, interest rates were not exorbitant; indeed, they were reasonable.

During the years 1960–65, no appreciable price inflation took place. Indeed, the rate of increase in prices for those 5 years was 1.6, 0.9, 1.2, 1.5, and 1.1 percent, respectively. Then in December 1965 the Federal Reserve Board, by a 4 to 3 vote, decided upon a 12.5-percent increase in its rediscount rate. This action stimulated a spiral of ever-increasing interest rates which brought the economy to its knees, seriously reducing business activities, and pushing interest rates to their highest point they had ever been in this country's history since the Civil War.

What was the effect of these high interest rates on price inflation?

Let the record speak for itself. Here are the figures on the rates of price inflation in the years 1966–70; 2.4, 3, 3.7, 4.9, and 6.2 percent. During this period, credit unions alone did not raise their interest rates. All other lenders did so. The result was more, not less, price inflation.

It is hoped the lesson has been learned and that we will fight price inflation with low interest rates to stimulate production and employment and the production of goods and services, and thus to bring down prices in the one healthy way in which that can be done. If, however, control of inflation is to be effective, it must be recognized that along with high interest rates, the two great causes of inflation are not modest congressional appropriations for hospitals, education, or water and sewer systems, but rather the gigantic expenditures for war and military extravagances and administered prices in monopolistic industries.

Even though interest rates come down, unless effective action is taken to reduce drastically the military budget, to end the war in Southeast Asia, and to control price increases by monopolistic industries, price inflation will probably go on at a serious rate.

Instead, however, of such actions being taken, we find the war being spread to new countries and new areas in Southeast Asia, and we have yet to hear an effective word said by administration spokesmen against monopolistic prices in general. The construction industry—whatever may be true of its very high costs—is certainly not a monopoly. And the 6.8-percent increase in steel prices which followed the threat of a 13-percent increase represents, nonetheless, a price increase far greater than can possibly be consistent with "cooling inflation."

What Kind of Agriculture?

The independent owner-operator farmer is threatened with extinction in the United States.

His net income is at the lowest point in 37 years, relative to that of the rest of the economy.

And this despite the fact that the economic owner-operated American farmer is probably the most productive unit in the world. Man-day production in our agriculture has, since World War II, been increasing about twice as fast as productivity in all the rest of our economy.

There are a number of causes of this tragic situation, threatening as it does, not only our agriculture but the whole of our rural life, which has been the most fertile seedbed of national strength throughout our history.

First and most obvious is the fact that most of the industries from which the farmer must buy and to which he must sell have become monopolies or virtual monopolies. Whereas once there was genuine competition among buyers of livestock and other farm products, today there are only a handful of all-powerful buyers in the market. The supply side is almost as bad. And yet present administration policy is to drive farmers closer and closer to having to accept whatever the market dictates. And this at a time when many of the most powerful corporations that now largely control the markets are themselves engaging in agricultural production—sometimes on a very large scale.

This would not be so serious if farmers' supply and marketing cooperatives were larger, stronger, and better integrated than they now are. In some few fields important progress is being made by the cooperatives. Dairy products and some fruits are examples on the marketing side, and fertilizer and petroleum products on the supply side—of where farmers cooperatives are becoming about strong enough to protect their members in the market place. And one shudders to think where our American pattern of agriculture would be today were it not for the cooperative farm credit system.

But if we are to expect the cooperatives to do the job of saving the independent farmer from extinction, some far-reaching encouragement in the form of low-interest loans, understanding attitudes in high places, and other measures are necessary now. Incentive loans to encourage vertical integration such as Farmland Industries, Land 'O Lakes Dairies, and other strong cooperatives are carrying out would help most of all.

The $55,000 limit on payments to any one farm owner in a given year is too high. It should be lowered to, at most, $20,000.

And corporations, other than family corporations, should be cut off from any Government payments whatsoever. Until some such measure as this is taken, the owner-operated farm is probably due for extinction in a decade or two.

Constructively a government ostensibly committed to ending hunger in America should purchase food for school lunch and school breakfast programs directly from farmers or their cooperatives at fair parity prices, eliminating all middlemen profits from such transactions.

If these measures sound radical, they are.

They are so because considerations far beyond purely economic ones are at stake.

The question is whether or not we wish our country to be made up only of overcrowded, festering cities surrounded by effluent, irresponsible suburbs together with a Soviet-type corporate agriculture and the absence of vital rural communities.

Most of our country's leadership and idealism, and most of its basic moral strength, has come from the people who have developed its rural and smaller community culture. Once sacrified, these values can never be restored—at least not for centuries.

The time to save them is now.

Unemployment and Needed Work

It must be recognized that unemployment for unskilled and semiskilled people will be a chronic problem from now on. Automation and technology have removed many of the kinds of jobs for such people formerly engaged, and such jobs no longer exist. The number of people needed by commercial businesses to produce the goods and services required by the population is steadily decreasing.

On the other hand, there is growing need for manifold types of work to be done in what may be called the public sector of the economy. And in many cases a comparatively small amount of training would be required to enable otherwise unskilled people to perform these services. Among such types of work are: hospital and health assistants, educational aides, workers at the cleansing of the environment, the building of mass transportation systems, family counseling work among the poor, reforestation, and many types of work having to do with home construction and the rehabilitation of our core cities.

The Congress passed on excellent bill to provide training and finance for such public service employment in the last session. The bill was not punitive in the sense of being devised to force people off the welfare rolls. But was simply calculated to provide employment opportunities of a dignified nature. Unfortunately the bill was vetoed by the President. It is earnestly hoped that legislation along the very lines of the manpower, training and public employment bill, sponsored by Senator Nelson of Wisconsin and others, can be inacted by the present Congress as a first step toward the only practical longterm answer to the most serious aspect of the unemployment problem.

ZERO POPULATION GROWTH, INC.

By HERMAN E. DALY, *Associate Professor of Economics, Louisiana State University*

Chapters 3 and 4 of the Economic Report of the President, 1971, entitled respectively "National Priorities and the National Output" and "Economic Growth and the Efficient Use of Resources" do not even begin to face up to the crucial issues suggested by the titles. That the dominant outlook is still "growthmania," and that the quality of reasoning is very low, are both indicated by following nonsequitur from p. 92:

> If it is agreed that economic output is a good thing, it follows by definition that there is not enough of it.

For all their professional sophistication (or professional sophistry?) the Council has fallen below the level of common folk wisdom which has long recognized that you can have too much of a good thing.

A more promising line of thought was begun on page 88, but not carried through to its logical conclusion. We are told that "growth of GNP has its costs, and beyond some point they are not worth paying." Instead of raising the obvious question—what determines this optimum size of GNP and how do we know when we have reached it—the Council merely pontificates that "the existing propensities of the population and the policies of the Government constitute claims upon the GNP itself that can only be satisfied by rapid economic growth." That is a restatement of the problem, not a solution. Since GNP cannot grow forever those propensities and policies must change. The existence of such propensities is no guarantee that we will not overshoot the optimum—rather it practically guarantees that we will overshoot it. Further avoidance of the obvious question is provided by noting that "although GNP is not a complete measure of economic production, still less of 'welfare,' its level and rate of increase are positively associated with what most people in most societies consider an improvement in the quality of life." (p. 87). But we are not talking about "most people in most societies"—we are talking about the United States in 1971—and the mentioned positive correlation is hardly relevant. There is also a positive correlation between the state of health of a cancer patient and the amount of radiation administered to him—but after some point the correlation becomes negative as radiation begins to destroy too many healthy cells. "If radiation is a good thing, it follows by definition that there is not enough of it." Hardly. In fact the analogy with iatrogenic (treatment-induced) diseases is very instructive. They result from "too much of a good thing," from a dosage in excess of the tolerance of the organism. Environmental depletion and pollution and overpopulation are iatrogenic diseases induced by treating the basic sickness of "unlimited wants" with even larger doses of production and consumption. One does not cure an iatrogenic disease by increasing the dosage levels of the treatment that caused it. One searches for a new treatment. The most promising one is to surgically remove the cancerous assumption of "unlimited wants" from the corpus of economic thinking.

One could argue that "good things" automatically turn into "bad things" when there is too much of them and that the statement quoted is a tautology and says nothing. But if it says nothing, why say it? And why refer to it in the next sentence as "this fact"? If the object is to enlighten rather than to apologize for present policies, we must face the question "when do the costs of the GNP begin to outweigh the benefits?" The answer is: when the marginal benefit of more GNP is equal to the marginal cost. The marginal benefit is measured by the market value of the extra goods and services—i.e., the increment itself in value units. What statistical series measures the cost? Answer: None. We do not try to measure cost of GNP! Worse than that—we take the real costs of incremental GNP as measured by the defensive expenditures incurred to protect ourselves from the unwanted effects of production, and add these expenditures to GNP. How nice to calculate net revenue by adding, not subtracting, cost from revenue! The greater costs, the greater net revenue. Since net benefit of growth can never be negative with this strange accounting system, the rule becomes "grow forever"—at least until it kills you, and then count your funeral expenses as an increase in GNP. Is the water table falling? Dig deeper wells, build larger pumps, and up goes GNP! Mines depleted? Build more expensive refineries to process lower grade ores, and up goes GNP! Air pollution increases respiratory ailments? Go see your family physician and help increase GNP! Take an aspirin, that helps too, etc., ad absurdam. As we press against the carrying capacity of our physical environment these "extra-effort" and "defensive" expenditures (which are really costs masquerading as benefits) will loom larger and larger. We may already have passed the point where marginal cost of growth begins to exceed marginal benefits. This suspicion is increased by looking at who gets the costs and who gets the benefits. We all get some of each, but not equal shares. Who lives in congested, polluted areas? Who buys a second car and a third TV? The benefits of growth go mainly to the rich, the costs to the poor. That statement, of course, is based on casual empiricism—we do not have social accounts which allow us to say precisely who get the benefits and who gets the costs of growth, a fact which is itself revealing. Ignorance, if not blissful, is often politcally expedient.

In addition to counting costs as benefits, we also count purely parasitic output, i.e., production which can neither be consumed nor used in further production. Military overkill, ABM's, and assorted defense boondoggles are examples.

But the above contradictions of growthania, of a policy which sets growth in GNP is a major national goal, are only the most superficial and obvious. The fundamental objection to maximizing GNP is that all of GNP is really a cost, even though parts of its are "costs of costs." Human wants are satisfied by the services of the stock of wealth and people. The flow of production is the cost of maintaining and increasing this stock. The stock of wealth and people cannot grow forever. The ecosystem is a steady state. The human economy is therefore a subsystem of a steady-state system, and must itself become a steady state, at least in its physical dimensions (physical wealth and population). The flow of throughput which maintains the steady state is its maintenance cost, and like all costs should logically be minimized (subject to the maintenance of a desired stock) and not illogically maximized as it is today. To face up to this logic requires a radical change in our society. Such a change may be socially impossible. But it is wiser to attempt what may be socially impossible than to persist in attitudes and policies whose continuation is definitely physically impossible. The sooner we begin our deceleration to zero growth of physical wealth and people, the longer the period of adjustment and the less disruptive that adjustment can be.

NOTE.—For a fuller development of the views here presented see Herman E. Daly, "Toward a Stationay-State Economy," in John Harte and Robert Socolow eds., *The Patient Earth*, Holt, Rinehart, and Winston, 1971.

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