THE 1972 ECONOMIC REPORT OF THE PRESIDENT

542

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BEFORE THE

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THE 1972 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 15, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Miller, Percy, and Pearson; and Representative Reuss.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Courtenay M. Slater, economist; Lucy A. Falcone and Jerry J. Jasinowski, research economists; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

Today we resume our hearings on the President's Economic Report. Our first witness will be the recently appointed Secretary of Agriculture, Mr. Butz. Secretary Butz, it always amazes me to read the Economic Report year after year, Republican or Democratic Presidents not seeming to matter, and discover how little the reports have to say about farms. Here is without doubt one of the most vital industries in the Nation. It is one of the most productive. While output per man-hour in the private nonfarm economy has risen by only 7 percent over the last 4 years, productivity in the farms has risen by more than 25 percent in the same period.

I am always impressed by the fact that the real difference between this country and the Soviet Union is not so much in industrial productivity but in agricultural productivity. They have seven times as many people working in agriculture as we have and produce 20 percent less food.

The astonishing record of America's tremendous economic strength, I think, is primarily in agriculture. That is badly overlooked and badly neglected by those of us in Government. But it is also an industry plagued with problems, price instability and low incomes. Despite the importance of farming and the major economic problems facing the farmer, the Economic Report devotes three short paragraphs in, I think, a 180-page report to agriculture. Even this pitifully short analysis contains little to cheer about. For example, after noting that farm income was off in 1970, it goes on to say it recovered slightly in 1971 and then says the pattern of the 1970 decline and the 1971 recovery has been significant.

Income of farm operators declined in each consecutive quarter through 1970 and improved in each quarter of 1971.

One thing that has disturbed me in the last few years is while there has been this shortchanging of the farmer in the Economic Report, there has been no Presidential message on the farm situation. It is my understanding that the President has not, as is the usual custom with most Presidents, sent a farm message to the Congress since he has been in office.

You know, Secretary Butz, I did not vote for your confirmation. I had some misgivings about your background, though I recognize you are a man of great ability and integrity. I do want to commend you on your very forthright and vigorous position in defense of the farmer. We need an agricultural Secretary who will do that. That was on two occasions. One by speaking up against a drop in food prices at the expense of the farmer, and; two, in indicating your great skepticism about the wisdom of increasing meat imports.

I agree with you wholeheartedly on both. We need that kind of an attitude because too few people realize that the consumer in this country is spending less for food as a percentage of his income than ever in history by far, and about one-half of what people in Europe spend, and less than that, much less than that, of what people in Russia, China, and other parts of the world have to spend. The consumer has the best break, the best advantage, of anyone from this great productivity we have on the farm, and the farmer has gotten precious little out of it.

We need to do something to correct that serious imbalance. I know this morning, Mr. Secretary, you will do your best to give us the enlightenment we need about this important segment of America.

STATEMENT OF HON. EARL L. BUTZ, SECRETARY OF AGRICULTURE, ACCOMPANIED BY DON PAARLBERG, DIRECTOR, AGRICULTURAL ECONOMICS

Secretary BUTZ. Thank you very much, Mr. Chairman. It is a real pleasure to be here. I especially appreciate your statement.

I noticed two and a half months ago you did not vote to support my confirmation. In view of that, I appreciate very much the kind comments you have just made. You have come a long way in your attitude. You encourage me now.

Chairman PROXMIRE. I praised you on two specific statements. I did not say anything about your background or my concern about how this will affect your administration.

Secretary BUTZ. If you have come this far, my goal now is to share a platform with you in Wisconsin, if you say you have made a mistake on Butz.

Chairman PROXMIRE. I didn't say that. I hope you will prove me wrong, however.

Secretary BUTZ. Anyhow, Mr. Chairman, we are trying very vigorously to speak on behalf of agriculture, as you know. I think agriculture needs that vigorous voice. I shared the same concern you did about the lack of space for agriculture in the Economic Report of the President.

As you know, this was pretty largely prepared before I came on the scene. I quite agree with you that agriculture is basic and fundamental in our economy. I am glad to hear you make that statement.

Even though we have less than 5 percent of our working force in America on farms, agriculture is far more important than that. Production of food is basic. I think our great agricultural efficiency is at the very foundation of the great American economy and great American affluence that we all enjoy. I am glad to have you make that a part of the record of these hearings.

You mentioned there has been no Presidential message on agriculture in this administration. On the other hand, I think it should be pointed out that the Agricultural Act of 1970, which was adopted after this administration came into power, was indeed a bipartisan effort. It was not an administration act, but a congressional act. This was the result of joint hearings and joint discussions that covered many, many months, for the people of the Department of Agriculture and the members of the Agricultural Committees of the House and Senate.

I think in that respect it represents a unique approach to agricultural legislation. For that reason, I presume, there was not a Presidential message dealing specifically with agriculture. This act is being administered right now. It doesn't have unanimous approval, of course, but I sense that many parts of this are very popular with farmers.

There is the set-aside provision and various other provisions that are quite popular with farmers. We are determined to see that this act gets a real chance to demonstrate its effectiveness in the current year, where we are trying to get as many as 38 million acres set aside in corn and feed grains and a very substantial additional voluntary set-aside in wheat. We think the act will prove its efficiency and efficacy this year.

Mr. Chairman, since the statement is only a brief one, I think with your permission I will read the statement and then be open to questions.

The year 1972 gives promise of being a good year in terms of farm income. Realized gross farm income will exceed the 1971 record level by $3 billion to $5 billion. Cash receipts from marketings will provide much of the increase but direct Government payments will also rise.

The gain in gross income will exceed the rise in farm production expenses and leave an increase in realized net farm income of perhaps $1.5 billion to $2 billion above the $15.7 billion estimated for 1971.

Chairman PROXMIRE. Mr. Secretary, would you introduce the distinguished gentleman with you?

Secretary BUTZ. This is Mr. Paarlberg, Director of Agricultural Economics in the Department of Agriculture, who is here to assist if you have any questions for him.

Net farm income rose sharply in the second half of 1971 after a lackluster performance in the second half of 1970 and the first half of 1971. The turnaround in hog production and prices was a key factor in the farm income changes. A sharp increase in marketings of hogs in 1970 resulted in a drop of nearly one-fifth in prices of meat animals from the first to the fourth quarter of 1971.

In 1971, the situation was the reverse of 1970. Hog producers cut production in response to the squeeze on their returns from low hog prices coupled with strong feed costs. Meat animal prices rose during the year as hog marketings declined.

The main boost in cash receipts this year will likely come in the livestock sector. Beef output will increase some and producer prices will likely average a little above 1971. Hog prices will average well above a year earlier because fewer hogs will be coming to market. All told probable changes in prices and marketings could mean an increase of up to $2 billion in cash receipts from livestock products.

Cash receipts from crops this year may total about the same as in 1971. Little change is in prospect either for volume of crop marketings or average prices.

Grain prices are under pressure from the record grain harvest last fall, but with expanding markets they are expected to hold up fairly well despite large supplies.

Price and income prospects for soybeans, cotton, and tobacco are very favorable for 1972. Direct payments to farmers will be sharply higher than the $3.2 billion in 1971. The increase may be as much as $1¼ billion. Most of the increase will go to wheat and feed grain producers who participate in the program.

We can get a better fix on the forecast for crop receipts and direct payments after the report on planting intentions as of March 1, and the final report of the signup for the 1972 feed grain and wheat programs. And, of course, much will still depend on the outcome of the 1972 crops.

The index of prices received by farmers in mid-January of this year was 120 percent of the 1967 base. This was 3 percent higher than December 1971 and close to the highest in 20 years. After a rise in early 1971, prices received were fairly stable before resuming the rise in the last quarter. Crop prices rose during the first half of 1971 but sagged after midyear in the face of record crop prospects.

There has been some recovery since September, and in January crop prices were only 3 percent below the 1971 June peak.

Prices received for feed grains in January were down 17 percent from the high levels of a year earlier.

Prices received for livestock and products have been rising since September, and in January were around 15 percent higher than January 1971.

Prices received for livestock and products will average higher in 1972 than last year—perhaps by around 5 percent. Prices received for crops may average much the same as in 1971.

Prices paid by farmers for production items, interest, taxes; and farm wage rates averaged about 5 percent higher in 1971 than in the pervious year. This was the fourth successive annual rise of about the same magnitude.

Farm production expenses at $42.9 billion in 1971 were up $2 billion from 1970. This was the third successive year that the increase in farm production expenses was $2 billion or more, and the seventh successive year that farm production expenses were higher than the year before.

A somewhat smaller increase in farm production expenses—perhaps around $1.5 billion—is expected this year. Plentiful supplies of feed grains and hay will hold down the bill for purchased feed by keeping unit prices at or below 1971 levels. Also, phase II should slow the rise in the price of off-farm purchased production items.

The increase in net farm income means that realized net income per farm will show a substantial rise of $600 or more from 1971. Total realized net farm income will reach a new record level of from $17.2 billion to $17.7 billion.

People who live on farms get a large share of their income from nonfarm sources and that share is increasing. Last year people who live on farms got about 48 percent of their personal income from nonfarm sources. As might be expected, nonfarm income is a greater proportion of total income for operator families on farms with a low volume of farm products sold. But nonfarm income is not limited to these smaller farms. Operator families on many of the large farms also receive substantial amounts of income from nonfarm sources.

On a per capita basis, disposable personal income of the farm population was a record high $2,692 in 1971. This was about 74 percent of the disposable personal income of the nonfarm population, fractionally below the 75 percent of last year but well above the 55 percent of 1960.

Per capita disposable income of farm people will likely climb by $200 or more this year, with farm income providing the lion's share of the increase.

Farm people share the concern of their city cousins about the effects of inflation and rising prices on what they can buy with their income.

In current dollars, average realized net income per farm in 1971 of $5,468 was up $94 from 1970. But the purchasing power of that income, after adjusting for higher prices, was $119 below 1970 and about $590 below 1969.

Farm assets increased $16 billion in 1971 reaching a total of $335 billion at the beginning of 1972. The value of farm real estate was up 4 percent and accounted for over half the rise in total assets.

Farm debt also rose in 1971. The amount outstanding totaled $65.5 billion on January 1, 1972, up 7 percent from a year earlier. Farm real estate debt increased 4 percent to $30.7 billion. Non-real-estate debt (excluding CCC) increased nearly 10 percent. At $32.7 billion, non-real-estate debt exceeded real estate debt.

Farm proprietors equities (assets minus debts) were $270 billion, up about 4.5 percent. The debt to assets ratio was 19.5 percent, up a little from the 19.2 percent a year earlier.

Farmers will continue using more credit in 1972. The money situation is easier, interest rates are at the lowest in 2 years and higher farm incomes are expected.

Use of farm-mortgages loans will increase as farmers make postponed improvements and purchases and refinance some short-term debts into loans of longer term. Non real-estate farm credit will also increase this year.

Exports are an important market for U.S. farm products. For the fiscal year 1971, our agricultural exports were a record high $7.8 billion. Exports take the product of one cropland acre out of each four or five. Exports took more than half of all the rice and wheat sold by U.S. farmers in the last fiscal year. The same thing is true for soybeans.

Agricultural exports in the current fiscal year will fall short of last year's record total. There are a number of factors involved in this. Foreign supplies of grain are large and limited supplies will restrict exports of U.S. cotton and soybeans.

The export outlook is further clouded by impacts of the extended longshoremen's strikes. Exports of farm products were reduced by these work stoppages.

The possible resumption of the east coast and gulf stoppage is an emergency for farmers, and the emergency will increase until the strikes are ended.

As a partisan of American farmers, I express a fervent hope that such strikes can be avoided if not by negotiation, then by legislation.

Per capita food consumption this year may not change much from last year's record high level. Meat consumption will likely edge lower as and increase for beef is more than offset by reductions for other meats, especially pork. Poultry consumption per person will rise. Use of food from crops will be about the same as last year.

Food prices will likely increase more this year than the 3-perecnt increase in 1971. Continued large increases in disposable income, limited increases in food supplies, and further increases in processing and marketing charges will contribute to the rise.

Consumer expenditures for food will likely increase around 5.5 percent from the $118.5 billion in 1971. The rise in food expenditures will be less than the expected increase of 8 percent in disposable income.

As a result, the percent of income going for food will decline from the 16 percent of 1971 to perhaps 15.6 percent, an alltime low. The per capita supplies of all food in 1972 will be approximately the same as for 1971.

Farmers are converting the big 1971 feed grain crop into livestock products. This takes time. Beef supplies will be up about 4 percent. Pork supplies will be down at least 5 percent; we are at the low point at the cycle in hog numbers.

The farmers have done their job. They doubled the per capita supply of beef during the past 20 years. The strong price situation for meat results from high consumer income and strong demand, not from any shortfall of supply.

When I was sworn in as Secretary of Agriculture last December 2, I said I thought the price of corn was too low. Since then several things have happened. On December 3, we announced a purchase program for corn. Under that program the Department has purchased nearly 12 million bushels through January 31, 1972.

The report on winter wheat as of December 1 indicated that seeding of winter wheat for harvest next summer was 42.2 million acres, 9 percent higher than the previous year. Both the percentage harvested for grain and the yield per seeded acre are indicated to be above 1971. This added up to 1.3 billion bushels of winter wheat, 11 percent more than the 1971 crop and the most on record.

The winter wheat report and the spring wheat intentions indicate that the 1972 wheat crop could climb to a record 1.7 billion bushels. This would mean a further sizable addition to carryover. To help forestall this the Department announced a voluntary set-aside program for wheat on January 10. This gives the wheat producer the option of setting aside 75 percent of his farm domestic allotment in addition to the setaside required for participation in the program.

For the second year in a row, the Department made a 35-State special survey to determine farmers planting intentions of January 1. They reported plans to plant 70 million acres of corn, 4 percent less than last year. Planted acreage of soybeans for all purposes is indicated to rise to 44.3 million acres, 4 percent more than 1971.

The provisions of the 1972 feed grain program announced in October were designed to restrict output, reduce carryover stocks, and increase farm income. Because of the record production in 1971, a specific objective of the program was to reduce 1972 output by achieving a feed grain setaside of around 38 million acres. This would be more than double the 18 million acres plus set aside from feed grain production in 1971.

However, the January planting survey reported intentions to plant several million more acres to corn than the program target.

Because of this the Department on February 2, announced new feed grain options aimed at increasing mainly corn setaside acreages this year. Producers after setting aside the 25 percent of their feed grain base required to qualify them to earn their basic payment will be able to earn an increased rate of payment on additional setaside—80 cents per bushel on an added 10 percent of their base.

To qualify for the higher payment rate under this new option, the producer will agree that for each acre of additional set-aside, his 1972 plantings of corn-grain sorghum will be reduced by 2 acres below his 1971 corn-grain sorghum acreage. One acre would be set aside and held out of all production and the second acre would be held out of corn-grain sorghum production but could be planted to other crops not subject to other program restrictions, such as soybeans.

In summary, the agricultural outlook is reasonably good. Demand is strong, farmers are marketing the products from the good crop year just past, Government programs cushion the grain markets against price decline, and the President's economic stabilization program checks the rise in production costs. This still leaves agriculture short of the income levels it should properly enjoy. But we welcome the improvement.

Mr. Chairman, that is the end of the formal statement. I will be happy to have comments or questions.

Chairman PROXMIRE. Thank you very much, Mr. Secretary. Unfortunately, Senator Hubert Humphrey, who, as you know, has a very profound interest in agricultural questions, could not be here this morning but he has a series of 12 questions he would appreciate if you would answer for the record.

Secretary BUTZ. I would be happy to.

(The information to be furnished follows:)

RESPONSE OF HON. EARL L. BUTZ TO WRITTEN QUESTIONS POSED BY SENATOR HUMPHREY

Question 1. I note that you estimate that net farm income will be $1 billion higher in 1972 than it was in 1971. Taking into account the recent announcements of increased payments for additional voluntary diversion under the wheat and feed grains programs, what is your estimate of the increase in government payments to farmers in 1972 over 1971?

Answer. Department economists forecast that direct government payments to farmers in 1972 could be about $1¼ billion higher than the total of $3.2

billion paid out in 1971. This assumes that program targets for the Feed Grain and Wheat Programs will be reached. The projected increase in government payments will go to participating feed grain and wheat producers. This projection for government payments in 1972 will come into clearer focus after the sign-up for the 1972 programs are completed and after the Department's March 1 Prospective Plantings Report is tabulated and released.

Question 2. Last year, the Office of Management and Budget refused to release several hundred million dollars of funds appropriated for farm and rural development programs. How many REA, FHA Farm Loan and Water and Sewer funds are still being withheld by O.M.B.? What assurance de we have that this will not happen again this year?

Answer. $107 million is being withheld in REA electric funds. We're watching the situation closely. The release of the reserve this late in the fiscal year could result in a very high rate of obligations for the rest of the year. In any event, it is expected that these funds will be released immediately after July 1.

$75 million in operating loan funds is in reserve now, but the program will be increased to the $350 million level upon enactment of legislation to permit making operating loans on an insured basis.

$58 million for rural water and waste disposal grants is in reserve. Of this, $42 million will be used in 1973 to carry out the program at this year's level.

No other amounts are being held in reserve in 1972 for farm loans. About $16.9 million is in reserve for a number of other programs of the Farmers Home Administration. These are amounts which are not needed in the light of projected requirements for 1972. If a need deveolps for any of these funds, their release will be reconsidered.

As for your question regarding the future release of these funds, the 1973 budget proposes the use of the $107 million in REA funds and $42 million in water and sewer grants in 1973. For operating loans the budget proposes that if legislation is enacted to insure operating loans, $350 million will be made available for this purpose.

Question 3. Livestock prices are relatively favorable at the present time. We produced fully 10 percent more feed grains that were needed last year and trade analysts expect production to be greater than market needs again this year. How long will it be before this larger supply of feed grains results in excessive supplies of livestock products and 15 to 30 percent lower livestock prices?

Answer. Larger supplies and lower feed grain prices will stimulate livestock production. While cattle feeds will be encouraged to feed more cattle this year and to heavier weights as a result of more favorable cattle-feed price ratios, the changing level of production and prices of feed grains in 1970 and 1971 probably had little effect on the cattle industry's base, the beef cow herd. The beef breeding herd increased at an annual rate of around 3 percent during the past decade. It expanded 3 percent during each of the past 2 years and will probably be up moderately again in 1972.

On the other hand, hog production changes more readily in response to favorable or unfavorable hog-feed price relationships. However, it typically takes several months of favorable prices before production levels reverse. For example, in 1969 it took nearly 6 months with a hog-corn ratio in excess of 20 to 1 before producers began to increase the number of sows bred. By late 1970 this increase in production had showed up in hog slaughter and the ratio dropped to 11 to 1. The unfavorable ratio choked hog production. The result: By late 1971, hog slaughter began to decline. We expect hog slaughter to continue smaller than in 1971 throughout 1972.

Favorable hog-corn price ratios in the first half of this year may encourage hogmen to increase the number of sows bred this year. That would mean some increase in slaughter by early 1973 and more substantial increases by the end of that year, continuing into 1974. In turn hog prices will be reflecting any substantial increase in output.

The foregoing estimate of what action hog producers may take in the months ahead is based largely on reactions to changed price relationships in the past. However, the timing of changes in the production cycle have never been precisely the same. However, we think it is reasonable to expect some increase in slaughter sometime during the first half of 1973.

Question 4. How much has the world price of wheat increased since the dollar was devalued? Why hasn't it increased more?

Answer. Prices at Rotterdam, considered indicative of world prices, have not changed significantly since devaluation. Actual world supply and demand conditions for wheat primarily determine world prices.

This season, world demand is down somewhat from last year, but supplies in exporting countries remain heavy. Since these conditions have not changed markedly since devaluation last December, we would expect little change in world prices.

WHEAT PRICES AT ROTTERDAM, C.I.F.

[In dollars per bushel]

	U.S. No. 2 hard Red Winter (13.5 percent protein)	U.S. No. 2 Dark North Spring (14 percent protein)
1971		
Dec. 1	1.81	1.90
Dec. 8	1.80	1.91
Dec. 15	1.80	1.93
Dec. 22	1.78	1.92
Dec. 29		1.92
1972		
Jan. 5	1.78	1.92
Jan. 12	1.78	1.93
Jan. 19	1.79	1.92
Jan. 26	1.80	1.92
Feb. 2	1.80	1.92
Feb. 9	1.80	1.93
Feb. 16	1.80	1.92
Feb. 23		

Question 5. What steps have you taken to strengthen the export prices of wheat?

Answer. In present circumstances, the United States is in a poor position to increase its export prices. Our wheat exports are down substantially from last year owing largely to the recurring dock strikes and in part to the incidence of ergot in last season's spring wheat crop. Our competitors have taken full advantage of this situation to negotiate long term sales contracts at fixed prices. In many important markets it is these fixed prices with which the United States must compete in order to regain its share of the commercial export market.

In many cases, our competitor's contracts contain other troublesome features going even beyond prices fixed a year or more ahead. Some of the Canadian sales, for example, give the buyer an option to take additional quantities at the original price. Others guarantee a price no higher than that announced on the date of sale, but give the buyer the benefit of lower prices should they materialize before shipment.

Having substantially committed their availabilities, it would obviously suit our competitors to see the United States incur buyer displeasure by taking the lead in increasing export prices. On the other hand, we need pricing flexibility with which to regain our fair market share. Otherwise, the American wheat producer will suffer further loss to his export markets and consequent domestic price erosion in the face of another bumper harvest.

Question 6. How much corn have you purchased? What percentage of the total crop produced?

Answer. The Department of Agriculture purchased 13 million bushels of corn under the corn purchase program in operation from December 6 through February 15. This was 0.24 percent of the 1971 crop. While the quantity purchased was negligible compared with the crop, the program strengthened the market. It contributed to the rise of 20 cents per bushel in the Chicago price and 11 cents in the average farm price from the middle of November to the middle of December.

Question 7. When do you plan to request a meeting of the exporting countries to discuss adding a price floor to the International Wheat Agreement, in compliance with the Senate resolution adopted over a year ago?

Answer. The Senate Resolution, approved July 12, 1971, stated that it was the sense of the Senate that the President should request the International Wheat Council, at the earliest practicable date, to request the Secretary General of UNCTAD to convene a negotiating conference as provided in Article 21 of the Wheat Trade Convention of the International Wheat Agreement. Article 21 of the WTC is a mandate to the governing body of the Convention, the International

Wheat Council, to call for a conference when it is judged that the questions of prices and related rights and obligations are capable of successful negotiation.

Pursuant to the provisions of Article 21 and consistent with the sense of the Senate Resolution, the Council took up the question of calling a conference to negotiate price provisions at its meeting in November 1971. The Council held a lengthy discussion on the matter with interventions by the major members including Canada, Australia, Japan, the United Kingdom, the European Community and the United States. Each of these members stated that in their view the time had not been reached when such price provisions could be successfully negotiated. Therefore, based on the opinions expressed, the Council concluded that it was, at that time, inappropriate to request the Secretary General of UNCTAD to convene a negotiating conference.

Question 8. In December 1971, all farm prices were 16 percent higher than in 1967, but food and feed grains were 6 percent lower than in 1967.

Farm machinery was 30 percent higher, interest 34 percent higher, hired labor wage rates 38 percent higher and taxes were up 46 percent over 1967. The parity index was up 22 percent over 1967.

This failure of farm prices to increase as other prices are increased is a direct result of farmers lack of bargaining power in the market place.

What legislation to strengthen farmers bargaining power are you prepared to support?

Answer. This Administration and the Department of Agriculture supports the general objective of legislation to improve the bargaining power of farmers. We will make a judgement on the particular provisions or procedures which we support when specific legislation comes before the Congress for consideration.

Question 9. Government payments to wheat and feed grain producers will set a new record in 1972, yet unless unfavorable weather is experienced before harvest time, production of both crops will be so large that they will add to existing surpluses. Why did you not make use of the more effective adjustment provisions available to you in the 1970 Act?

Answer. We believe we have effectively used provisions of the Act. The 1972 feed grain crop will depend on both farmers' final response to the feed grain program and the weather. Based on farmers' January 1 intentions, the 1972 acreage of the 4 feed grains would total 122 million acres, 6 million less than in 1971. Production on this acreage with a normal growing season has been computed at around 195 million tons, around 5 to 10 million tons above projected use in 1972/73. In early February, the Department announced an additional option designed to further reduce corn and grain sorghum acreage. The March 16 Prospective Plantings Report will indicate its efficacy and other changes in farmers' plans since early January.

For wheat, we used the only provision available in the 1970 Act—that for voluntary set-aside. Last July it was announced no limit on wheat acreage would be established for the 1972 crop. Then, of course, we had no idea how much the dock strikes would reduce exports, nor did we anticipate the very favorable conditions increasing the prospects for the 1972 winter wheat crop.

Question 10. What was the total amount of credit extended to farmers by the Farmers Home Administration in fiscal year 1971? How does this compare with the total rural housing funds advanced to rural communities for rural housing and water and sewer loans and grants?

Answer. The credit extended by Farmers Home in fiscal 1971 by major program categories is summarized in the following table:

	Loans	Grants	Total
Farmer programs	$682,941		$682,941
Community facility programs	285,536	$43,998	329,534
Housing programs	1,396,639	2,458	1,399,097

Question 11. Is the present Farmers Home Administration field staff large enough to adequately serve both farm families and the applicants for rural housing, water and sewer loans?

Answer. FHA program levels and personnel staffing levels have both increased significantly as summarized in the following table:

	1969	1972 estimate	Percent increase
Total loans	$1,396,737	$2,711,925	
Total grants	33,003	48,217	
Total program	1,429,740	2,760,142	93
Man-years	7,272	8,924	23

FHA employees are carrying an increasingly heavy workload as is illustrated by a comparison of the percentage increases shown above. To narrow the gap we are working to introduce improved program and management methods, to simplify procedures and forms, and to make more use of private sector assistance. The 1973 budget now before Congress provides an additional $10 million in administrative funding to be used to contract for outside services.

Question 12. Will you support increasing the price support level for milk this year to a level not less than 90 percent of parity?

Answer. USDA announced March 9 that the price support level for milk for the 1972–73 marketing year will remain unchanged from the year earlier. While this is less than 90 percent of parity, the Department has determined this support rate will assure a supply adequate for commercial needs and will allow an increase in the quantity of dairy products available for domestic food assistance and other programs. Additionally, it will prevent resumption of a downward trend in milk production.

Chairman PROXMIRE. Mr. Butz, it seems to me there is a failure in your statement to put the farmers plight in perspective. It is good to hear that you estimate that farm income will incease in the coming year.

But what I don't get from your statement is a recognition of the really very, very serious plight which the farmer finds himself in.

As you know, 1970 was a disastrous year for the farmer when you look at his income as compared with the prices he had to pay.

In 1971, the overall picture was not much better though it did improve in the final quarter. Even in the final quarter I notice the last quarter for 1971 per farm per capita income adjusted for inflation in constant dollars is less than in the first quarter of 1970.

So it wasn't a great improvement. Even though there was a sharp improvement in January, the parity, which includes the Government payments, was only 78, which is less than it was in any one of the years before the President took office.

In 1962 it was 83; 81 in 1963, 80, 82, 86, 79, and 79, and it is down in January 1972 to 78. It was an improvement over what it has been very recently, but it is still, as I say, very low. Under these circumstances, as I said in my initial remarks, I am glad to see that you have taken a very strong position to do what you can to protect the farmer within the administration from policies that might hurt him.

But I would hope that you could recognize that the farmer is in very, very serious plight and he needs much more help than he is getting.

Secretary BUTZ. Mr. Chairman, there are various measures, of course, of farm welfare and farm prosperity. Parity is one of them. It has been used a great deal. Farmers, on the other hand, cannot spend parity; they spend income. I think we have to recognize that income will be at a record level in 1972, that income per farm last year was a near record level and 1972 will be a record high.

I quite agree with you that costs are going up, too. On the other hand, let us recognize that the per capita income of people on farms this year will be at 76 percent of the per capita income of people not on farms. That contrasts with 55 percent in 1960.

Chairman PROXMIRE. That is an insult, isn't it, when you think that people on the farms, the ones who are the most efficient in our country, as I pointed out, when they make a big investment—they just don't come to work and bring themselves but make an investment of everything they have—they take a tremendous risk, and under these circumstances they have 76 percent of the income of people off the farms.

As you say, it has been worse sometimes in the past but it is still disgracefully low. The income, itself, $6,550 in annual rates for 1971, that is an insult, an economic shame.

Secretary BUTZ. I can't agree with you more, but the important thing is we are making progress. As long as we are making comparisons, let us don't forget that we moved from 55 to 75 percent. I won't be content until we get to 100 percent.

I think the people on farms deserve at least as good a per capita income as people not on farms. We are moving in the right direction and we are going to keep the pressure on the move in that direction.

Chairman PROXMIRE. You stressed the fact that farmers are now earning more money off the farm. That is looking at it in the happiest way. It seems to me that is the clearest indication of failure. The fact that the farmer works so hard and has to work so hard to make a go of it on the farm still exists.

In my State, the farmer averages 10 or 12 hours a day of work seven days a week on the basis of Agriculture Department statistics, and then he, his wife or children also have to have some kind of a job off the farm. Something like 40 percent of the farmers in my State a few years ago had full-time jobs off their farms, and it is probably higher now. They are driven to that because they are in such an unfortunate position.

Isn't it true that this figure I gave, of $6,300, includes the income earned by them, their wife and children off the farm? Isn't that right?

Secretary BUTZ. That is quite right. It is like you have to take the total income of people off the farms and you take their total per capita income from all sources. It may not be from their primary job. Let us recognize now that part of this goes back to the definition of a farmer. The Census definition of a farmer is anyone who sells $250 worth of gross products. I dare say that in your State of Wisconsin and my State of Indiana there are a good many people whose primary vocation is off the farm and yet they are classed as farmers. They live in the country, on a farm, they have $250 or $300 of farm income and we call them farmers. But they are really not. They live in the country and have all the advantages of living on a farm. Their primary source of income is the job they hold someplace else.

I think this is not a bad situation. It makes for a lot of social stability and economic stability and political stability.

Chairman PROXMIRE. It would be worse if they didn't have it. But we have to put in perspective the fact that the income they earn, the overwhelming number of farmers in my State, have full-time jobs, and are working harder than ever. They have to have more cows, more acres, a bigger operation to maintain themselves.

What I am getting at is not simply a criticism of their plight but the fact that the budget, particularly, which is the best objective index of effort, indicates that the farmer is going to be shortchanged by your administration this year. The new budget for 1973, for example, cuts hourly REAP funds from $195 to $140 million; Rural Electric loans from $545 to $438; Food for Peace is a cut from $1.4 to $1.17 billion.

It is a long, dreary consistent picture of less than the farmer needs or should have.

Secretary Butz. We will go over some of the budget figures. Recognize at the present time REA has $438 million they are spending this year. As you know, part of the appropriation had been impounded by OMB, a total of $216 million worth, of which $109 million has been released, which makes total expenditures authorized to date $438 million.

I understand that is the budget figure for next year for REA loans.

I am fully aware that the Congress appropriated more money for this year, and the President has asked that he be kept fully advised with respect to the situation of REA loans. We have that under constant advisement.

Let me say in that connection that during the 8 years prior to this administration, and I checked into this to see what had happened, in every one of those 8 years, during which Mr. Freeman was Secretary of Agriculture, the Congress appropriated money for REA over and beyond the amount recommended by the administration, and in every one of those 8 years the administration did withhold funds.

In only 3 of those 8 years did the administration release the total amount that had been appropriated by the Congress.

Chairman Proxmire. Certainly this coming year is one of the years that looks very good on that account.

In 1972, the administration is still withholding $107 million of $545 million authorized by Congress, in spite of the fact that you have this tremendous demand.

As I understand it, the REA is currently pocessing loans in excess of $545 million and expects applications totaling at least $700 million. This is such a good program. It is a program that you and I know is one of the foundation stones of farm efficiency and of reasonable food prices for the consumer. It is an excellent investment.

Secretary Butz. I know it perhaps better than you because I grew up with oil lights and I recall when REA came to our community. It was a great event, a great thing for rural people.

On the other hand, at the rate of $438 million, the total rate of REA loans has exceeded that in only a couple of years, right after the war. All I can say is we are watching this carefully.

If we released $109 million with only 5 months to go in this fiscal year, that is at the annual rate of $250 million, and I am convinced that we could spend that money at that annual rate yet this fiscal year and spend it wisely.

I want to tell you that one of my objectives as Secretary of Agriculture while we do spend a lot of money, is to spend it wisely. If we were now to release the $107 million, and this is not to say we are not going to but it is under study, it would be at the annual rate of around $250 million for the rest of this fiscal year, or putting them together at the annual rate of around $550 million for the rest of this fiscal year.

I want to be absolutely convinced we can spend money that fast wisely.

Chairman PROXMIRE. There is another aspect that has troubled many of us in Congress a great deal, and that is the effect of your program on farmers with lower incomes. Your statement emphasized the improvements in farm income in the last half of 1971 with respect to 1972, but for the average farmer I wonder about the improvement.

Mr. Charles Shultz, of the Brookings Institution, who has high respect as an economist, estimates that the top 7 percent of farmers with an annual net income of $33,000 received 40 percent of farm subsidies, and so far as my staff can determine, Mr. Secretary, the $55,000 payment limitation has been a complete failure. Farms have simply been reorganized, few budgetary savings have been made.

Is this true? Or do you think the $55,000 limitation has accomplished something?

Secretary BUTZ. I wouldn't say it has been a complete failure. There have been circumventions of it, of course. We had a notorious case in California where our own people discovered irregularities when they sent our people from the Inspector General's office out there to investigate. Restitution is being made.

It is the first year in that part of the country we have had the kind of set-aside program we have. There were laxities in administration. To come back specifically to your $55,000 limitation, I think it has worked and it has caused some large farms to break up.

Chairman PROXMIRE. How much money has it saved?

Secretary BUTZ. How much money did it save?

Chairman PROXMIRE. Yes.

Secretary BUTZ. Not a great deal. I can't tell you specifically how much it saved. We can get an estimate of that, I think.

What has happened is that some of these large farms have indeed been broken up and some corporate farms have moved into other types of operation.

Chairman PROXMIRE. Can you give us a figure, an estimate?

Secretary BUTZ. Yes, the reduction in payments resulting from the $55,000 limitation for fed grain, wheat, and cotton programs for the 1971 crop is $2,183,976.

Chairman PROXMIRE. When you say it hasn't saved a great deal it is because large farmers have found ways to evade the spirit of it.

Can you make recommendations to us to make it a much more effective legislation? Certainly, I think it is the overwlehming sentiment of the Congress, whether people are from farm States or nonfarm States.

Secretary BUTZ. Yes. But this is partly a philosophical program, Mr. Chairman. The purpose of this is not so much to enhance payment as much as to get level production. We make these payments to get acres out of production. If you want to get adjustments in production you have to get them where they are, and they are with the larger commercial farmers.

It is true, as you said a moment ago, that 7 percent of our farmers get 40 percent of the subsidies. They produce roughly 40 percent of the farm products, too, I think.

Remember now, that we have about 2.9 million farmers in this country by Census definition. About 1 million of those farmers are part-time farmers, are very small farmers, are subsistence farmers. Their total production is not very much. Since they don't produce much and don't have many acres, obviously their payments won't be much under this type of program.

Chairman PROXMIRE. My time is up and I will yield in just a moment, but there is one part of your response that concerns me very much. You say the purpose of this program is not to enhance income as to reduce production. It seems to me the only purpose of the program must be to enhance farm income. That is the purpose.

Secretary BUTZ. Indirectly these payments enhance farm income. First, the money is there and they can spend that. But we don't spend the money willy-nilly, but for a quid pro quo, to take acres out of production.

Chairman PROXMIRE. There is not only an efficiency situation. We have achieved great success and I hope we continue to. We must, if we are going to have a strong economy with our agricultural policies. What we have not achieved, however, is the kind of adequate income especially for family farmers that we should.

It would seem to me if that particular provision has any purpose at all, that is it. We should do everything we can to achieve that, even if there may be some reasonably small sacrifice in terms of efficiency.

Secretary BUTZ. You are quite right. We are achieving that. As I said a moment ago, we moved up to 75 percent of the nonfarm income level from 60 percent a few years ago, and we are going to keep moving in that direction. This is improvement of income for the family farm. But we must recognize as long as we have an agricultural plant whose capacity to produce is substantially in excess of our capacity to sell at satisfactory prices, we simply have to take some acres out of production. You take acres out of production where they are. Where they are is with our bigger farmers, in the main.

The smaller farmers participate in this thing, too. But the aggregate payment to the smaller farmers is smaller than to the larger farmers for the simple reason the smaller farmers don't have the acres to take out.

Chairman PROXMIRE. My time is up. I will be back.

Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Mr. Secretary, at the time you became Secretary you stated publicly that the price of corn was too low.

As I recall at that time, the price of corn in the central Iowa market was about 94 cents a bushel. For the last month now the price of corn in central Iowa markets has been $1.03 to $1.05, for an average of $1.04.

Do you think that that is too low?

Secretary BUTZ. Yes, sir; I certainly do. It is not as low as it was 2 months ago, but it is still too low.

Senator MILLER. I remember about that time we made an analysis to try to determine the impact of the dock strikes on the price of corn in Iowa. On the basis of the evidence we concluded that the dock strike was costing about 9 to 10 cents a bushel to the Iowa corn farmers.

I think that would be reflected in the improvement of the price from 94 cents to $1.04, because the Louisiana ports have been opened in the meantime. But the problem that I have, and the problem that a number of my Iowa farmers have, is what can be done to get that price of $1.04 in the central Iowa markets up.

I am wondering what you think can be done about that.

Secretary BUTZ. It seems to me there are two or three things. One, of course, is there has been some agitation in the Congress to increase the loan rate, which would increase the price of corn in the central Iowa markets.

On the other hand, we recognize, from the best data we have, on the basis of the best data we have, that through January approximately 50 percent of the corn that will be sold has moved from the farm.

On the basis of the loan rate to be increased, we estimate this would create a windfall to people off the farms, to speculators, processors, handlers, of about a quarter of a billion dollars. I think that is not the intent of this Congress and certainly not the intent of our administration to do something like that. They are not involved in the high cost of producing corn and in the low selling price.

Senator MILLER. On that point, would it be feasible to increase the loan price of corn held by producers?

Secretary BUTZ. I presume it would. Then you penalize those who have sold and they don't get it, you see. One of our objectives here is to get a sufficient adjustment in corn production in 1972 so that the price of corn will improve in the latter part of 1972.

Senator MILLER. You say you penalize those who sold it. But those who sold it didn't have to sell it, as I understand it. They could have put it under loan at $1.05, unless they were not in the program.

We are not talking about those who didn't get in the program. I am symphathetic with those who were in the program and who tried to carry out the program to the best of their ability.

We did have a record compliance in 1971. But those people, as I understand it, put their corn under loan at $1.05 or less. The $1.05 national average loan works out to about $1.02 in my state. There are some counties where the loan is as low as 99 cents and there are others along the river where it is up to $1.05. But the farmers could have put their corn under loan, unless they might have been caught short without any storage facilities, and there were some of those. But, overall, they didn't have to sell. I am just wondering why we should be so concerned about those who voluntarily decided that they wouldn't put their corn under loan and decided to sell it.

I might say this: I would appreciate it if you would provide for the record—and, Mr. Chairman, I would like to have the Secretary's figures inserted at this point in the record—the latest information you have on the amount of corn that has actually been sold by the producers in my State.

I have discussed this with people in the field.

Chairman PROXMIRE. Only in your State?

Senator MILLER. In Iowa. I think Iowa would be a good barometer. Between Iowa and Illinois we produce 40 percent of the corn in this country.

(The information to be furnished follows:)

Available information on the pattern of corn sales by areas indicates that farmers in the Western Corn Belt sell their corn later in the marketing year than in the Eastern Corn Belt. Available data on corn movement and stocks, indicates that Iowa farmers had sold about 42% of their total expected annual sales of 1971 crop corn during October–January, Illinois farmers about 55% and Indiana farmers about 58%.

Senator MILLER. I question whether 50 percent of the corn has been sold by producers. I know a lot of it has been put under loan. I would like to get some details on this because when I tell some of the farmers in my State that it is estimated that half of the corn has been sold by the producers, they just don't believe me.

Secretary BUTZ. Senator, our estimate is a national estimate. It is entirely possible in a particular State or locality those figures would vary from the U.S. average. Please remember that when we say 50 percent, it is 50 percent of the corn that will be sold and much of the corn has not been sold.

Senator MILLER. Let's take a look and see what Iowa and Illinois show. They produce 40 percent of the corn in this country. That is where the main concern over the corn price is. You may have some corn growing in several other States, but that is a very minor part of the State's agricultural income.

Secretary BUTZ. When you mention the corn States, could you include Indiana, too, please?

Senator MILLER. I think Indiana has stronger prices, too. They are nearer the markets, and my recollection is they are not hurting. The farmers down in Indiana are not getting $1.04 for their corn.

Secretary BUTZ. They are doing better.

Senator MILLER. I am sure they are doing better. Now, I have read some articles in large city newspapers intimating that the high prices that meat producers are receiving are having such an impact on meat retail prices that some consideration is being given by the administration to increasing imports of meat or possibly even putting certain raw agricultural products—and I assume the inference there would be meat—under price control.

I had the chance to examine one of your Department's publications that came out just a few weeks ago. Chances are Mr. Paarlberg's shop had a lot to do with this.

It makes an analysis of the meat prices situation from the years 1947–49 up through 1970. I would suggest if the writers of these articles in the big city newspapers had a chance to look at this publication they would find statistics there that would show that it isn't the prices the farmers are getting today that are the cause for the increase the housewife is paying in the retail market price. The prices farmers are getting today are the same as they were getting 20 years ago.

If they are only getting prices that they got 20 years ago, certainly the increase in retail prices over 20 years must have come from someplace else.

This very able analysis that your Department put out shows that the increase in retail prices has come from increases in costs from the time the meat product leaves the meatpacker at the wholesale level to the time the housewife buys it in the grocery store, not because of the increase the farmer gets on the market.

I would hope that you would do all you could to get this information to other key people in the administration and to the press in general so that this shibboleth that is being spread around that because farmers today are getting good prices for their cattle, the housewife is paying a great deal more for her meat in the market, will be laid to rest once and for all.

Do you think you can do a better job in publicizing that?

Secretary BUTZ. We are doing all we can do in that respect to try to get the story out. Of course, you can't direct the Eastern press establishment on what they are going to put in the paper.

I know a friend of mine 2 weeks ago complained about the high price of beef in the stores, and he said, "Steers just hit a 20-year high in Omaha. What have you to say?" And I said, "Well, it is about time steers were getting back to where they were 20 years ago, after income has doubled."

In that connection, what are we doing about it? Only this morning I had 10 minutes on the CBS morning news aired over 170-some stations and made this very point. In 1972, American consumers will spend only 15.5 percent of disposable income for food. In 1971, they spent 16 percent. Twenty years ago they spent 23 percent of a much lower level of income.

I made the point as forcefully as I knew how to make it that never did consumers get their food for so small a share of the working day as in 1971.

I also make the point that when we get this talk about imposing ceilings on food prices, let us remember that food prices are cyclical and seasonal in character. We have a seasonal product we produce and prices fluctuate. When you hit a high point here, you get the agitation for ceilings.

But I made the point this morning that when wages go up, they stay up; when costs go up, they stay up; when utility prices go up, they stay up.

Farm prices are a fluctuating type of price because of the cyclical character of production. That being true, don't pick out a high point and say we are going to slap ceilings on it.

Senator MILLER. I want to commend you in speaking out in favor of decent prices for the meat producers. But at the same time I hope you will get the information contained in this exhaustive study by your Department out to the press in general, and especially some of these large city newspapers and the authors of these articles, so if they will take the trouble to read it, they will know that the inferences that are coming from their articles are wrong.

One other point deals with imports. I noticed in some of these articles that they are using the figure of meat quota imports for last year, and the intimation is that this quota might be raised.

I would hope that you would make clear to these members of the press and other news media that the quota law contains some loopholes and exemptions, not the least of which relate to canned, cured, and cooked items.

At the time Senator Hruska of Nebraska and I offered the amendment which ultimately became the meat import quota law, we tried to cover those; but because of the difficulties we had with the administration and the leadership in the Senate, we had to water this thing down.

I think we got something that was better than nothing, but it wasn't all that we wished. What we forecast has come true. Instead of 1,100 million pounds of meat imports coming into this country last year, which was the quota, some 250 million additional pounds came in, in the form largely of canned, cured, and cooked items.

I think that this ought to be driven home to the people before we start getting the idea that there might be some increase in the quotas. I must tell you that the suggestion there may be significant increase in imports of meat in the face of these exemptions is causing some concern among the cattle producers of our country. I think that it would again recognize erroneously the whole idea that the prices the farmers are getting for their cattle somehow or other are responsible for the increased prices that the housewife is paying.

Secretary BUTZ. You are quite right, Senator. I think we have to make the point, too, that the alleged high price for meat at the retail counter is primarily because Mrs. Smith is bidding against Mrs. Brown for it. She sets the price there. It is not because cattle producers have failed to get a supply of beef there.

We ought to make the point that in the last 20 years cattle producers in this country have increased production by a factor of two and a half. When you make allowance for the increase in population, that means that this year we have a per capita supply of beef of twice as many pounds as it was 20 years ago, and it is better beef, too, because more are fed, it is higher quality beef.

I think our producers have done a magnificent job of making the supply available. It is only because Mrs. Housewife has so much income, so widely distributed, supplemented by food stamps and everything else, that we have this tremendous demand. That is the reason prices are up.

I think we ought to make the point that when they agitate for price ceilings, they should think back to World War II when we did have price ceilings. We had black markets and little meat on the counter. People got mad because they had to line up to get the supply that was there, and if they were on the tail end, they got no meat. There were all kinds of black markets and devious practices. That is what would happen again if we tried to impose price ceilings on meat.

I think we should make the point that beef producers have provided twice as many pounds per person in America today as 20 years ago. They have done a great job of producing.

Chairman PROXMIRE. Congressman Reuss.

Representative REUSS. Thank you, Mr. Chairman.

Welcome, Mr. Secretary and Mr. Paarlberg.

You have just told us, Mr. Secretary, of your struggles against the eastern establishment media to get your message through. I want to congratulate you. You seem to have gotten CBS to give you 15 minutes, which is good. I noticed in yesterday's Wall Street Journal, the very center of the eastern establishment, they quote you, saying, "In a speech Friday to a farm group in Des Moines, Iowa, Mr. Butz warned that consumer pressure might force many food prices to be controlled and vowed to fight 'like a wounded steer' against any such effort."

I congratulate you. They may be trying to black you out, but you are holding your own.

Secretary BUTZ. I started to use stronger language, and I thought they wouldn't print it.

Representative REUSS. Tell me about this beef cattle-raising business. Is that mostly little fellows, or does the majority of the beef cattle come from large farming operations?

Secretary BUTZ. Both. We have a lot of small cow-calf herds in central America, as you know, and in your own State there is a great deal of beef of Holstein origin coming out of that, and it is pretty good beef.

Representative REUSS. Isn't it a fact that more than one-half of the U.S. supply of beef cattle comes from feedlots with 1,000 or more head of cattle?

Secretary BUTZ. Yes. That is fed beef. We have to make a distinction here between the cow-calf operation and the feeding operation.

Representative REUSS. But the feeding of more than half is by giant 1,000-or-more-head operations?

Secretary BUTZ. Yes. But a 1,000-head feed lot is not a large feed lot. There are some that run from 50 or 200 head to 2,000 head of cattle. A large increase came from the increase in the feeding operation. We used to feed something less than half of our cattle. We now put about four-fifths of them through the feed lot which increased the total efficiency a great deal.

To accomplish that we have had the rise of these large feed lots, especially in the High Plains areas of Texas, the Panhandle areas, and the east side of the mountains in Colorado.

Representative REUSS. In your testimony you told us that the disposable personal income per capita of the farm population in 1971 was $2,692. How many people were there in the farm population in 1971?

Mr. PAARLBERG. There are 2.9 million farmers. I am not sure of the population, Congressman. I think it is about 9.4 million.

Representative REUSS. Would you supply the exact amount which was used in computing your $2,692 figure?

Mr. PAARLBERG. Yes. The disposable personal income used totaled $25.308 million divided by the 1971 farm population of 9.4 million.

Representative REUSS. Do you have here with you or in your head the income breakdowns? That is to say, in computing that average, how many of the million people were above $2,692 in income and how many were below?

Mr. PAARLBERG. We cannot supply that.

Representative REUSS. When you do it would you supply the figures by quintiles, by 20 percent of the 9.4 million farm population?

Mr. PAARLBERG. We cannot do that within the limits of our data.

Representative REUSS. I think it will show, will it not, that large commercial farmers do very well but that there is great poverty on a great number of farms.

Mr. PAARLBERG. It probably would show that. The rate of poverty in the rural areas and on farms is about twice as great as in the urban centers when we draw a cutoff level as to what constitutes the poverty level.

The percentage of people below that level is twice as great in the rural areas as it is in the urban areas.

Representative REUSS. I will be very interested in the figures. I think they will bear out my general attitude, which is that when you come before us in Congress wanting help for the bottom two-thirds in terms of income of the American farming community, I am with you.

When you want better things for those who are already making $30,000 or $40,000 a year, some of my enthusiasm is diminished.

Secretary BUTZ. Mr. Congressman, may I make a point at that juncture?

Representative REUSS. Yes.

Secretary BUTZ. I think the message of the President on rural development which came before the Congress 3 weeks ago, and the proposals there, are along this line. I want to tell you that the major thrust of the Department of Agriculture is going to be to push rural development. That is to provide economic opportunities in the country; strong, viable communities in the country to stop this mass migration of people from the country to downtown America and the ghettos of the Philadelphias, Baltimores, and New York, which I think has been a tragedy in the last 20 years; to make viable communities so that the risk capital flows into them and create alternative employment opportunities for these youngsters.

Dad has three sons and there is room on the farm for one of them. Two have to do something else. We have to make an absolute thrust to keep them not only down on the farm but down in the country.

Representative REUSS. On the subject of meat again, your friends in the Cost of Living Council are talking about increasing meat import quotas by a figure of 10 percent for the upcoming year. Are you for that or against it?

Secretary BUTZ. Well, this is under negotiation now. Let us make it clear now that the so-called quotas we operated under last year were a voluntary restraint agreed to by the two exporting nations, Australia and New Zealand, primarily.

As I understand the legislation we have, it does empower the President to impose quotas if imports threaten domestic prices. So last year we had a volunteer limitation on exports to this country of 1.16 billion pounds. This was the same as limitations in effect during the fourth quarter of 1970.

The Australians did not meet that quota last year, the New Zealanders did. Their beef kill was down some in Australia and I understand they oversold to Russia.

For other reasons, too, they didn't meet it. Currently we are talking with representatives of our main suppliers about the voluntary limitation of exports to this country again. This is a voluntary thing on their part. It is not imposed by the President.

What you get them to agree to in this situation I can't say now. All I can say is I have publicly stated we are on the side of the producers and we are going to stay there.

Representative REUSS. And you oppose an increase in the voluntary meat import quotas?

Secretary BUTZ. It all depends on what we can negotiate. I mean, you have to negotiate a voluntary limitation. It depends on what we can negotiate. This is being done by the State Department, let me say.

Representative REUSS. But you oppose, insofar as it lies in your power, an increase in the voluntary quotas?

Secretary Butz. Insofar as it lies within my power. But let's make it clear again this is a voluntary limitation on the part of the exporting nations to us. It has to be negotiated and agreed to by them.

Representative Reuss. As a matter of fact, a 10-percent increase in the beef quota would not amount to very much, as I understand it. Isn't it a fact that only about 5 percent of U.S. beef is imported and, therefore, 10 percent of that would be about one-half of one percent overall as an increase?

Secretary Butz. Last year we imported about 6 percent of our total red meat supply. If we increase meats under quota by 10 percent, it is still under 6½ percent. Frankly, we feel that the increase on price would be small. It would be more emotional than economic.

Representative Reuss. May I now turn to the matter the chairman was discussing with you; namely, the limitations on the amount of payment that can be made to any one farmer. Currently, I think it is $55,000.

Secretary Butz. It is $55,000 for any one crop per farmer.

Representative Reuss. Any one crop, yes. I was one of those who went along with that good Republican Congressman Conte, of Massachusetts, in his effort to restrict payments to $20,000 to any one farmer for all crops.

Is the figure offered by former Budget Director Charles Shultz correct that if we applied a $20,000 for all crops limitation we could save in this year's budget around $200 million of the taxpayers' money?

Secretary Butz. I can't answer your question directly now. We have a study due out in about a week or 10 days, I understand, on this, under the direction of the Congress.

Representative Reuss. Would you at this point in the record give us an answer to my question? Would it be $200 million? If not, how much?

Secretary Butz. The study will answer your question.

Representative Reuss. Also, if you would, give us the benefit of your study so we can incorporate it into the record.

I will ask unanimous consent that it be incorporated.

Chairman Proxmire. Without objection.

Senator Miller. Would the Congressman yield at that point?

Could we also have included at that point in the record the Department analysis of what such a $20,000 limitation would do with respect to the various major crops as far as the reaction of those who would be affected would be concerned, and with respect to either of two directions they would move, either (a) producing more by not going into the program and, therefore, depressing the price, which, of course, would hurt a small farmer, or, (b), going into other crops, for example, converting cotton acreage into soybean and feed grains production?

I think we should have that, too. I know that in either direction you go there are going to be problems. I think we ought to have the whole picture rather than just part of it.

Would that be all right, Mr. Chairman?

Chairman Proxmire. Without objection.

Secretary Butz. It is a very good point, Senator. That is under study, too, and we will make the entire thing available for the record.

Representative Reuss. While you are at that answer, would you also include the following: According to my information, the number of farmers who received farm subsidy payments in excess of $20,000 a year for all crops has been steadily going up. It was 6,867 in 1968, 8,799 in 1969, 10,371 in 1970. Do you have the figure for 1971?

Mr. PAARLBERG. The results will be coming in and there will be an indication of that in the report you asked for, Congressman.

Representative REUSS. If you would include the 1971 figure in the rather comprehensive answer you are giving Senator Miller and myself, I think it will be interesting. It will be helpful. I think it will show that the number of farmers who make more than $20,000 a year in governmental payments is large and getting larger, and particularly in this day of $40 billion deficits. People are interested in this.

(The information to be furnished follows:)

USDA STUDY OF THE EFFECT OF PAYMENT LIMITATIONS ON THE SET-ASIDE PROGRAMS

Response to Resolution S. 153

PART I—INTRODUCTION AND BACKGROUND

A. *Introduction*

This report provides the results of a study of changes in farming operations by producers who earned $55,000 or more under the 1970 Upland Cotton, Feed Grain, or Wheat Programs. This study was requested by the Secretary in response to Senate Resolution S. 153 dated July 15, 1971. This report responds directly to the following issues set forth in the Resolution:

(1) The extent of changes in farming operations for 1971 by participants who earned more than $55,000 in program payments in 1970.

(2) An evaluation of the impact of the $55,000 limitation on program participation in 1971.

(3) An evaluation of the probable impact should a $20,000 limitation be imposed in subsequent years.

Part II of this report responds to point (1) of the Resolution. Part II is based on a study of changes in farming operations of 1,350 producers who earned $55,000 or more in 1970. It is a comparative analysis of these producers' 1970 and 1971 farming operations as reported by 371 ASCS county offices in 33 States. Parts III and IV are in response to points (2) and (3) above.

To obtain information for the comparative analysis, a questionnaire was sent to ASCS county offices where producers who earned $55,000 or more under the 1970 Upland Cotton, Feed Grain, or Wheat Program had farming interests. County office personnel were required to report the 1971 changes from the producers' 1970 operations. It was impracticable to trace these changes to those persons ultimately receiving the base and allotment acreages. Completed questionnaires showed 1970 and 1971 payment and acreage allotment/base data for each producer, and changes in their 1970 farming operations for the 1971 Set-Aside Programs. The data submitted by ASCS county offices was verified by OIG auditors on a sample basis for 150 producers in 18 counties in 5 States. This verification established the reliability of the information furnished by county offices.

B. *Background*

The Agriculture Act of 1970 provides a payment limitation of $55,000 for each "person" each year for the 1971–1973 programs for upland cotton, wheat, and feed grains. The law further provides that the limitation:

(1) Applies separately to upland cotton, wheat, and feed grain payments.

(2) Applies to payments received for price suport, set-aside, diversion, public access, and wheat marketing certificates, but does not apply to loans or commodity purchase agreements.

(3) Does not apply to lands by States, political subdivisions, or agencies thereof, if the lands are farmed for the direct furtherance of a public function.

Pursuant to the Act, the Secretary prescribed rules and regulations to implement the payment limitation. The Secretary's regulations define a "person" for the purpose of the payment limitation as follows:

"* * * the term 'person' shall mean an individual, joint stock company, corporation, association, trust, estate, or other legal entity. In order to be considered a 'person' for the purpose of the payment limitation, in addition to other conditions of this part, the individual or other legal entity must—

(a) Have a separate and distinct interest in the land or the crop involved,
(b) Exercise separate responsibility for such interest, and
(c) Be responsible for the cost of farming related to such interest from a fund or account separate from that of any other individual or entity."

The Secretary also issued regulations for applying the above definition to multiple individuals or entities (partnerships, joint ventures, tenants-in-common, joint operations, corporations and stockholders, estates or trusts, husband and wife, minor children and other) for the purpose of implementing the payment limitation provisions. (See Title 7, Chapter 795, the regulations.)

PART II—CHANGES IN FARMING OPERATIONS FOR 1971

A. *Summary*

The 1971 payment limitation provisions of the Agriculture Act of 1970 resulted in total savings (actual reductions in payments) under the Upland Cotton, Feed Grains, and Wheat Set-Aside Programs of $2,183,976. This represents 1.6 percent of $138.8 million paid to cotton, feed grain, and wheat producers who earned more than $55,000 in 1970. The payment reductions due to the $55,000 limit affected 466 cotton, feed grain, and wheat producers in 1971.

In addition to the savings, 1971 payments to producers who earned more than $55,000 in 1970 decreased about $70.7 million. About $28.0 million of this decrease represented an actual reduction in 1971 program costs due to basic changes between the 1970 program and the 1971 Set-Aside Program. This $28.0 million reduction was not related to the 1971 payment limitation. The remaining decrease of $42.7 million represents a shift in 1971 program payments to other persons or entities as a result of changes in farming operations by those producers who received more than $55,000 in 1970. This $42.7 million was not a reduction in program costs, but represents a redistribution of program payments in conformity with the 1971 distribution of allotments/bases and cropping shares.

The study showed that of about 1,350 producers receiving more than $55,000 each in 1970 program payments on cotton, feed grain, or wheat, 1,046 (77%) changed their farming interests or operations for 1971. The following paragraphs provide summary data for the individual commodities.

B. *Upland Cotton*

In 1970, about 1,200 cotton producers in 204 counties in 17 States received more than $55,000 each in program payments on 1,462 farming operations. The 1970 payments to these producers totalled about $125.1 million. The 1971 payment limitation provisions resulted in total savings under the Upland Cotton Set-Aside Program of about $1.3 million. This represents one (1) percent of the $125.1 million paid to cotton producers who earned more than $55,000 in 1970. The payment reductions due to the limitation affected 413 cotton producers in 1971.

In addition to the savings, payments to the 1,200 producers on 1,462 farming operations in 1971 decreased about $62.7 million. About $22.1 million of this decrease was due to basic program changes between the 1970 Upland Cotton Program and the 1971 Cotton Set-Aside Program. This amount represents an actual reduction in program costs, but is not related to the payment limitation provisions. The remaining $40.6 million decrease represents a redistribution of 1971 cotton payments to other persons or entities as a result of changes in operations by about 1,000 producers (83%) on 1,184 farm operations. Presumably, many of these changes in operations were a direct result of the imposition of the $55,000 limit. Many of these producers who changed their operations for 1971 used more than one means of accomplishing the change. Details of the changes and the impact on 1971 Upland Cotton Program payments are on the following page.

Reason for payment decrease	Decrease in 1971 payments to producers receiving more than $55,000 in 1970 (millions)	Farm operations affected [1]	Reduction in 1971 program costs (millions)
Basic program changes—Reduction in 1971 price support payment rate and farm yields	$22.1	1,462	$22.1
Farm operation changed	40.6	1,184	0
By temporary transfer of allotment acres away from farms	[2] 18.8		
By shifting land and allotment to other "persons or entities" (includes formation of partnership(s), corporation(s), trust(s), settlement of estates, adding tenants; reducing allotment acres transferred to the farm for 1971; reconstitutions resulting from selling farms, cash leases, dropping leases, revising crop share agreements, and discontinuance of farm operations)	[3] 21.8		
Total	62.7		22.1

[1] For the purpose of this study, a farm operation represents all cotton farms in 1 county on which the producer received a 1970 cotton payment. There were 1,462 cotton farm operations on which about 1,200 producers received payments in 1970.

[2] There were 320 farm operations that transferred allotments away under the temporary lease provisions. Based on 1971 participation data, it is assumed that this acreage was enrolled in the set-aside program by those producers who acquired the allotments for 1971.

[3] Based on 1971 participation data, it is assumed that these payments were earned by producers who obtained an interest in the relinquished farming operations for 1971.

See explanations on exhibits attached:

Exhibit 1—Summary of 1970–71 cotton payments and domestic allotment acres for farming operations of producers who received more than $55,000 in 1970.

Exhibit 2—Explanation of 1971 cotton payment decreases on farm operations of those producers who received more than $55.000 in 1970.

Exhibit 3—Summary of cotton allotment acres leased under the temporary lease provisions on farming operations of those producers who received more than $55,000 in 1970.

Exhibit 4—Summary of 1971 changes in farming operations by cotton producers who received more than $55,000 under the 1970 upland cotton program.

C. *Feed grain*

In 1970, 93 feed grain producers in 110 counties in 17 States received more than $55,000 each in program payments. The 1970 payments to these producers totalled about $9.3 million. The 1971 payment limitation provisions resulted in a total savings under the Feed Grain Set-Aside Program of about $0.2 million. This represents 2.1 percent of the $9.3 million paid to feed grain producers who earned more than $55,000 in 1970. The payment reductions due to the $55,000 limit affected 11 feed grain producers in 1971.

In addition to the savings, payments to all feed grain producers who received more than $55,000 in 1970 decreased about $6.7 million in 1971. About $5.5 million of this decrease was due to basic program changes between the 1970 Feed Grain Program and the 1971 Feed Grain Set-Aside Program. This amount represents an actual reduction in program costs, but is not related to the payment limitation provisions. The remaining $1.2 million decrease represents a redistribution of the payments to other producers as a result of the 1971 changes in operations by 21 producers (23%). Presumably, many of these changes were a direct result of the imposition of the $55,000 limit. Many of the producers who changed their operations for 1971 used more than one means of accomplishing the change. Details of the changes and the impact on 1971 Feed Grain Program payments follow:

Reason for payment decrease	Decrease in 1971 feed grain payments to producers receiving more than $55,000 in 1970 (millions)	Feed grain producers affected	Reduction in 1971 program costs (millions)
Elimination of barley and additional diversion payment from 1971 program	$5.5	72	$5.5
Change in farming operation by shifting land and allotment to other "persons or entities" (includes formation of partnership(s), corporation(s), trust(s), settlement of estates; reconstitutions resulting from selling farms, cash leases, or dropping leases)	[1] 1.2	21	0
Total	$6.7		5.5

[1] This payment decrease is attributable to an estimated feed grain base reduction of 22,000 acres by the 21 producers who changed their 1971 operation. It is probable that some of this relinquished base acreage was not enrolled in the program by those producers acquiring control of the land and base acreage for 1971.

See explanations on exhibits attached:

Exhibit 5—Summary of 1970–71 feed grain payments to producers who received more than $55,000 in 1970.

Exhibit 6—Summary of 1971 changes in farming operations by feed grain producers who received more than $55,000 under the feed grain program.

D. *Wheat*

In 1970, 57 wheat producers in 74 counties in 15 States received more than $55,000 each in program payments. The 1970 payments to these producers totalled about $4.4 million. The 1971 payment limitation provisions resulted in total savings under the Wheat Set–Aside Program of about $0.7 million. This represents 15.9 percent of the $4.4 million paid to wheat producers who earned more than $55,000 in 1970. The payment reductions due to the $55,000 limit affected 42 wheat producers in 1971.

In addition to the savings, payments to the 57 producers in 1971 decreased about $1.3 million. About $0.4 million of this decrease was due to basic program changes between the 1970 Wheat Program and the 1971 Wheat Set-Aside Program. This amount represents an actual reduction in program costs, but is not related to the payment limitation provision. The remaining $0.9 million decrease represents a redistribution of the wheat payments to other producers as a result of changes in operations by 25 producers (44%). Presumably, many of these changes were a direct result of the imposition of the $55,000 limit. Many of the producers who changed their operations for 1971 used more than one means of accomplishing the change. Details of the changes and the impact on 1971 Wheat Program payments follow:

Reason for payment decrease	Decrease in 1971 wheat payments to producers receiving more than $55,000 in 1970 (millions)	Wheat producers affected	Reduction in 1971 program costs (millions)
Elimination of additional diversion payment from 1971 program	$0.4	32	$0.4
Change in farming operation by shifting land and allotment to other "persons or entities" (includes formation of partnership(s), corporation(s), trust(s), settlement of estates; reconstitutions resulting from selling farms, cash leases or dropping leases, and nonparticipation in 1971)	[1] .9	25	0
Total	1.3		.4

[1] Based on 1971 program participation data, it can be reasonably assumed that these payments were earned on allotment acreages enrolled by those producers who acquired an interest in the land and allotment relinquished by the 1970 producers.

See explanations on exhibits attached:

Exhibit 7—Summary of 1970–71 wheat certificate payments to producers who received more than $55,000 in 1970.

Exhibit 8—Summary of 1971 changes in farming operations by wheat producers who received more than $55,000 under the 1970 wheat program.

PART III—IMPACT OF THE $55,000 LIMITATION IN 1971

The $55,000 payment limitation had little significant effect on the extent of participation in the 1971 program. And only in the cotton program was the number of producers affected by the limitation significant.

In 1971, 98.5 percent of all eligible cotton allotment acreage was in the program—slightly higher than the 97 percent in 1970. Since the total allotment enrolled in the cotton program was higher than in 1970 and since virtually all was in the program, it is evident that the program payment limitation had little effect on total participation. Most of the persons who earned more than $55,000 in payments in 1970 were in the five states of Arizona, Arkansas, California, Mississippi, and Texas. About 99 percent of eligible cotton allotment acreage in these states was in the program in 1971—compared with 98 percent in 1970.

Although precise data are not available, we estimate about 50 wheat producers and 20 feed grain producers would have been affected by the payment limitation in 1971 if they had made no change from their 1970 farming operations. Allotments and bases on these farms accounted for about 0.43 percent of total U.S. wheat allotments in 1971. and 0.12 percent of corn and grain sorghum base. On the other hand, about 1,000 cotton producers holding about 13 percent of total cotton allotments would have been affected in 1971 if they had made no change from their 1970 farming operations.

Participation in the feed grain program rose from 66 percent of the eligible acreage in 1970 to 81 percent in 1971. Similarly, participation in the wheat program rose from 88 percent to 95 percent. These increases, however, occurred because of other changes in the program rather than the payment limitations.

The payment limitations very likely caused some cropping changes on those farms where payment to a producer was reduced because of the payment limitation. The acreage set aside on these farms was reduced proportionately to the reduction in total payments. The limitation thus made more acreage available for production on these farms. About 16,000 acres in total set-aside was reduced for this reason on farms affected directly by the payment limitation. Most of this reduction was under the provisions of the wheat program. These f[illegible] earned a lower income than they would have had there been no payment limitation. Likewise, those farmers who utilized the leasing provision of the cotton legislation also earned a lower income in 1971 than had they not been subject to a payment limitation. Conversely, most of the lessees probably had a higher income from cotton as a result of the payment limitations feature of the 1971 program, because they didn't pay the full return from the program payment as rent for the leased allotments.

In summary, while the $55,000 payment limitation in 1971 adversely affected some individuals and benefited others, it had no significant effect on:

(1) Program signups;

(2) Surpluses of grain or shortage of cotton; and

(3) Government expenditures.

These results, especially (2) and (3), are interrelated. If there had been a significant reduction in government expenditures as a direct result of the limitation (payments forfeited), then the surplus grain and short cotton situations would have been aggravated. This point will be dealt with further in Part IV below.

PART IV—PROBABLE IMPACT OF A $20,000 PAYMENT LIMIT IN SUBSEQUENT YEARS

If the maximum payment to any one person had been $20,000 in 1971, some 10,000 persons would have been affected compared with about 1,350 affected in 1971 by the $55,000 limit (based on 1970 data). A small part of the feed grain and wheat program payments went to persons receiving more than $20,000, and they accounted for a small part of United States production of corn, grain sorghum, and wheat as implied in the following table. Thus, the major impact of a $20,000 payment limitation in subsequent programs which were otherwise similar to the 1971 programs would fall on the cotton program and cotton producers.

NUMBER OF PERSONS, AND PAYMENTS AND ALLOTMENTS OR BASES OF PERSONS RECEIVING $20,000 OR MORE FROM COTTON, FEED GRAIN, AND WHEAT PROGRAM PAYMENTS IN 1971

Program	Persons		Payments		Allotment or base	
	Number	Percent of U.S. total	Dollars (thousands)	Percent of U.S. total	Acreage (thousands)	Percent of U.S. total
Cotton	8,742	2.6	$308,117	37.7	3,231	31.3
Feed Grains	247	0.1	7,186	0.7	627	0.7
Wheat	1,112	0.9	32,009	3.6	741	4.1
Total	[1] 10,012		347,312		4,599	

[1] Net number; some persons received $20,000 or more from two or three programs.

In adjusting from unlimited payment in 1970 to the $55,000 limit in 1971, the affected producers reduced their cotton allotment acreage by 324 thousand acres, or 45 percent, from 715 thousand acres they drew payments on in 1970. Most of the reduction was brought about by leasing land and allotments to producers earning less than the limit.[1] However, based on 1970 data, only 14.3 percent of the cotton payments went to producers who received in excess of $55,000. But, as indicated in the table above, 37.7 percent of the cotton payments in 1971 went to producers who received between $20.000 and $55,000.

With a further reduction to a $20,000 limit the supply of allotments for lease or sale without or with the land could be expected to increase without any comparable increase in demand for these allotments. Thus, the rent that allotment owners could receive from their allotments would very likely drop from the amount received in 1971 when it ran between three and ten cents a pound. This would result in a readjustment in the benefits from the program—with the holders of the allotments to be leased out receiving a smaller share of the benefits.

Another problem would arise in those areas where there is a heavy concentration of large producers. In such cases, there might not be a market for all the leases made available as a result of a $20,000 payment limitation.

Under the rules in effect for the 1972 programs, a producer would need to establish up to nine separate corporations if that method were chosen to minimize effects of the limit on him as an individual, because if a producer has more than a 20 percent interest in a corporation, his proportionate income from the corporation would count toward his total payments. It would, of course, be difficult, if not impossible, to organize several corporations by an individual who would perforce be a minority stockholder in each.

As required by law, the cotton program provides the option of leasing or selling allotments. Such an option is not available to feed grain or wheat producers. Therefore, relatively more leasing out of land by feed grain and wheat producers subject to a $20,000 limit could be expected. Others might adjust by dropping the leases on land they were renting in order to cut the size of their farming operation down (c.f. Exhibit 4 with Exhibits 6 and 8). However, the sum total would apparently not be large since if a $20,000 limit had been in effect in 1971 only about one percent of the feed grain base acreage and four percent of the wheat allotment acreage was on farms that would have been affected.

The 10,000 producers in 1971 that received more than $20,000 operated 30,000 farms. There were 20.4 million acres of cropland on these farms. Their planting pattern was as follows:

[1] Rented-in allotments increased from 58 thousand acres in 1970 to 90 thousand acres in 1971. But this increase resulted from the greater ease with which allotments could be transferred for 1971 and not from any effect of payment limitation.

	Million acres
Feed Grains (all four)	2.9
Wheat	2.7
Total Grains	5.6
Soybeans	2.4
Cotton	4.5
Other crops	.9
Conserving base	3.2
Set-aside	1.9

The experience with the $55,000 limit in 1971 indicates that many farmers would adjust to a lower limit by dropping leases, leasing out allotments with or without land, or outright sale of farms or farmland. These kinds of adjustments reduce the impact on production; however, they also preclude any reduction in total government payments under the farm program due to the limitation.

What size of farm would be affected by a $20,000 limit, given the payment rates provided for in the 1972 program? In the case of corn on a farm that has a hundred bushel yield, a $20,000 limitation would become effective on a payment base of 500 acres (1,000 acre corn base) if the producer signs up for the minimum set-aside of 25 percent. If he wished to sign up at the maximum, it would become effective on a corn base of 625 acres (a payment base of 312.5 acres). In the case of wheat with a 60 bushel yield, the limit would be effective on a farm having a wheat allotment of 198 acres at the minimum level of participation; at the maximum level of participation, a farm of only 140 acres of wheat allotment would be affected. Cotton with a 500 pound yield would be affected on a farm with a cotton allotment of 267 acres.

The number of producers and the acreage affected in the 1972 feed grain and wheat programs would be somewhat larger than in 1971—because payments under the 1972 feed grain and wheat programs will be larger. First, the minimum set-aside acreage for feed grain was revised from 20 percent to 25 percent of the base and payments increased proportionately. Furthermore, farmers are offered additional set-aside for both feed grains and wheat. However, if the required set-aside raised a person's payment to the limit he could not be expected to volunteer additional set-aside. Thus, the limitation would reduce the total set-aside on these farms below what it otherwise would be. On the one hand, this would reduce the total payments to these producers—but it would also require increased set-aside (at increased costs per acre) by other producers to offset the resulting reduction in the supply management aspects of the program.

In 1970, when barley was included in the feed grain program and producers could voluntarily divert additional land, 1,425 grain producers (0.09 percent) and 1,273 wheat producers (0.13 percent) received payments in excess of $20,000 each. With greater participation expected in the 1972 program, the number of producers with payments in excess of $20,000 each is expected to be somewhat larger than it was in 1970.

The increase in required set-aside in the 1972 program could increase the number of feed grain producers receiving $20,000 or more by some 25 percent above the number affected in 1971, as the acreage required to set-aside per farm also is about 25 percent larger—or about 350 producers more. The number of wheat producers would be perhaps 10 to 15 percent greater—or 150 to 200 more. Estimating the number who would move up to $20,000 or more because of additional voluntary set-aside is much more difficult; there is no solid basis for estimating ahead of actual signup the number who would voluntarily set-aside additional acreage under the several available options even if there were no limit on payments.

Reducing the limit from $55,000 to $20,000 would reveal some differences in kind as well as degree. A substantial part of the hardships resulting from the 1971 crop limits fell on a relatively few producers who operated farms on such a scale that the entrepreneur himself was required to devote most of his time to the management and direction of the farm operations, as opposed to actually driving the tractor, combine, or cotton picker. However, producers affected by a $20,000 limit, as opposed to the $55,000 maximum, would, to a large extent, be farmers who, with their family members, actually perform a significant portion of the basic farm labor requirements themselves. These are mostly family farms; not typical, but generally efficient, unusually productive and progressive—but certainly few would be large corporate operations.

This report has approached the probable impact of a $20,000 limitation as it would have related to the programs in effect in 1971 and 1972. Since it is impossible to precisely foresee future program changes, this statement, of necessity, outlines mainly the direction rather than the specific magnitude of the possible effects.

In summary, the anticipated impact of a $20,000 limit in subsequent crop years would be:

(1) Slightly reduced participation in the set-aside programs.

(2) A slight increase in grain production which at present is surplus to our needs.

(3) A modest decrease in cotton production which at present is short of our requirements.

(4) A nominal decrease in government payments under the set-aside programs.

(5) Increases in cotton production for a considerable number of small operators who would increase production by renting acreage from farmers with payments above $20,000.

EXHIBIT 1

SUMMARY OF 1970–71 COTTON PAYMENTS AND DOMESTIC ALLOTMENT ACRES (PAYMENT ACRES) FOR FARMING OPERATIONS OF PRODUCERS WHO RECEIVED MORE THAN $55,000 IN 1970

State	Number of counties	Farming operations			Payments to producers who received more than $55,000 in 1970		
		Total	Did not change	Did change	1970	1971	Percent decrease
Alabama	22	46	5	41	$2,014,650	$1,484,104	26.4
Arizona	6	209	39	170	22,030,359	9,080,799	58.8
Arkansas	19	109	34	75	6,635,695	4,600,325	30.7
California	8	306	44	262	43,623,920	17,382,360	60.2
Florida[1]	1	1	0	1	4,463	6,326	(+41.7)
Georgia	14	20	1	19	1,157,658	686,629	40.7
Kentucky[1]	1	1	0	1	10,815	0	100.0
Louisiana	16	45	7	38	2,828,764	1,844,266	34.9
Mississippi	34	404	72	332	28,767,485	16,696,095	42.0
Missouri	5	9	5	4	188,390	153,672	18.4
Nevada	1	1	1	0	6 ,636	54,300	14.7
New Mexico	7	10	0	10	536,555	272,755	49.2
North Carolina	4	15	1	14	651,343	230,798	64.6
Oklahoma	2	3	0	3	158,409	72,471	54.3
South Carolina	10	34	6	28	1,820,744	1,265,402	30.6
Tennessee	7	14	3	11	435,937	352,977	19.1
Texas	47	235	60	175	14,221,386	8,236,379	42.1
Total (percent decrease)							50.2
Total	204	1,462	278	1,184	125,150,209	62,419,658	$62,730,551
Breakdown:							
Operations not changed			278		14,927,695	13,339,444	1,588,251
Operations changed				1,184	110,222,514	49,080,214	61,142,300
Payment acres					715,405	391,233	324,172
Average per acre payment rate					$154.07	$125.45	$28.62

[1] Producers also had farming operations in other States.

EXHIBIT 2

Explanation of 1971 cotton payment decreases on farm operations of those producers who received more than $55,000 in 1970

Payment reduction due to change in 1971 set-aside program from 1970 upland cotton program:	
278 farm operations not changed, actual	$1,588,251
1,184 farm operations changed, computed (1970 payment acres—715,405 x $28.62—average payment rate reduction from 1970 to 1971)	20,474,891
Total reduction in 1971 payments on 1,462 farming operations due to program changes	22,063,142
Payment decrease due to change in operations:	
Temporary lease of allotment away from farm operations (150,008 acres x $125.45—average payment rate for 1971—See exhibit 3)	18,818,504
Producer reduced acres leased to the farm, added partners, corporations, field rent tenants, revised cash or crop share leases or control of land and allotment was acquired by other producers for 1971 (324,172 acre reduction for 1971 minus 150,008 acres leased away from farm operations x $125.45, average payment rate for 1971)	21,848,874
Total decrease in 1971 payments due to change in operations on 1,184 farming operations	40,667,378
Total	[1] 62,730,520

[1] Different from Exhibit 1, payment decrease column total, due to rounding.

EXHIBIT 3

SUMMARY OF COTTON ALLOTMENT ACRES LEASED UNDER THE TEMPORARY LEASE PROVISIONS ON FARMING OPERATIONS OF THOSE PRODUCERS WHO RECEIVED MORE THAN $55,000 IN 1970

State	Allotment acres leased			
	To the farms		Away from farms	
	[1] 1970	1971	[1] 1970	1971
Alabama	6,438	7,860	152	292
Arizona	8,011	8,639	379	8,630
Arkansas	913	2,913	5	2,203
California	7,358	27,836	1,341	100,660
Florida	0	26	0	0
Georgia	4,616	3,324	0	15
Kentucky	16	0	0	0
Louisiana	1,843	2,012	0	1,696
Mississippi	8,566	17,770	502	13,973
Missouri	216	291	0	67
Nevada	0	0	0	0
New Mexico	405	741	0	652
North Carolina	1,838	1,698	88	61
Oklahoma	101	188	0	0
South Carloina	3,460	4,077	0	51
Tennessee	270	1,283	0	232
Texas	13,779	10,984	742	21,476
Total	57,839	89,642	3,209	150,008

[1] Adjusted to 1970 domestic allotment (65% of 1970 regular allotment).

Exhibit 4

SUMMARY OF 1971 CHANGES IN FARMING OPERATIONS BY COTTON PRODUCERS WHO RECEIVED MORE THAN $55,000 UNDER THE 1970 UPLAND COTTON PROGRAM

State	Farming operations of producers who received more than $55,000 in 1970	Number of operations		Type of changes in operations for 1971							Allotment acres for payment increased for 1971 [5]
							Increased number of eligible persons				
		No change for 1971 [1]	Changed operations for 1971	Allotment transfers [2]	Revised cash or share lease agreements [3]	Reduced physical size of farming operations [4]	Forming partnership	Forming corporation	Forming trusts/ settlement of estates	Added producers or tenants	
Alabama	46	5	41	25	8	17	6	0	0	0	10
Arizona	209	39	170	72	5	99	42	4	2	3	22
Arkansas	109	34	75	21	9	42	13	5	2	1	14
California	306	44	262	133	55	116	49	4	4	0	64
Florida	1	0	1	0	0	0	0	0	0	0	1
Georgia	20	1	19	13	0	16	0	1	0	0	2
Kentucky	1	0	1	1	0	1	0	0	0	0	0
Louisiana	45	7	38	16	6	20	6	2	0	0	10
Mississippi	404	72	332	105	9	30	80	30	7	15	59
Missouri	9	5	4	2	2	3	0	0	0	0	0
Nevada	1	1	0	0	0	0	0	0	0	0	0
New Mexico	10	0	10	4	1	8	0	0	0	0	1
North Carolina	15	1	14	7	4	5	0	2	0	0	2
Oklahoma	3	0	3	1	0	1	2	0	0	0	0
South Carolina	34	6	28	10	0	8	3	5	0	5	7
Tennessee	14	3	11	5	2	7	0	0	0	1	3
Texas	235	60	175	95	25	77	15	8	6	7	18
Total	1,462	278	1,184	[6] 510	126	550	216	61	21	32	213

[1] No material or significant change from 1970 to 1971.

[2] Producers reduced their 1971 allotment acres for payment by transferring allotment acres away from the farm or the allotment acres transferred to the farm in 1970 were reduced for 1971. These actions are permitted by section 344a of the Agricultural Act of 1965, as amended.

[3] Revised 1970 lease (cash or share) agreements for 1971.

[4] Reduced size of 1971 operations by dropping or not renewing leases, cash leasing land with allotment to other producers or selling land with allotment to others. These actions most generally involve farm reconstitutions.

[5] Allotment acres for payment increased for 1971 as a result of leasing acres to the farms or adding additional land or allotment by combining farms. Increases in operations generally occurred on multi-producer operations, and individual operations whose payments would have been reduced below $55,000 for 1971 as a result of the 1971 reduction in price support rate.

[6] Of the 510 allotment transfers, 320 were transfers away from the farm and 190 were cases where the number of acres transferred to the farms in 1970 were reduced for 1971.

EXHIBIT 5

SUMMARY OF 1970-71 FEED GRAIN PAYMENTS TO PRODUCERS WHO RECEIVED MORE THAN $55,000 IN 1970

State	Number of counties	Producers: Total	Producers: Did not change operations	Producers: Did change operations	Payments to producers who received more than $55,000 in 1970: 1970	1971	Percent decrease
Arizona	4	5	1	4	$468,600	$54,033	88.5
California	[1] 14	19	19	0	3,474,907	80,223	97.7
Colorado	2	2	1	1	308,724	95,983	68.9
Illinois	[2] 15	3	3	0	191,502	118,654	38.0
Indiana	[3] 18	5	4	1	395,838	227,448	42.5
Iowa	7	4	2	2	386,933	170,686	55.9
Kansas	3	2	2	0	122,707	64,595	47.4
Missouri	7	4	3	1	266,027	131,218	50.7
Nebraska	5	5	4	1	321,985	160,929	50.0
New Mexico	[4] 2	5	5	0	389,384	187,845	51.8
North Carolina	3	1	0	1	77,503	3,330	95.7
Ohio	1	1	1	0	80,887	40,698	49.7
Oklahoma	[5] 3	1	0	1	72,375	36,636	49.4
Pennsylvania	2	1	1	0	59,926	26,976	55.0
Texas	[6] 23	34	25	9	2,613,382	1,122,547	57.0
Wisconsin	1	1	1	0	55,735	27,031	51.5
Total	110	93	72	21	9,286,415	2,548,832	6,737,583
Breakdown:							
Operations not changed			72		7,517,962	2,007,289	5,510,673
Operations changed				21	1,768,453	541,543	1,226,910

[1] Includes counties in Arizona (1), Iowa (3), Kansas (1), and Texas (3) in which California producers received payments.
[2] Includes counties in Iowa (6), Kansas (1), Nebraska (1), and Missouri (1) in which Illinois producers received payments.
[3] Includes counties in Illinois (5) and Wisconsin (2) in which Indiana producers received payments.
[4] Includes 1 county in Kansas in which New Mexico producer received payment.
[5] Includes 1 county in Kansas in which Oklahoma producer received payment.
[6] Includes counties in Oklahoma (1), Kansas (1), and New Mexico (1) in which Texas producers received payments.

Exhibit 6

SUMMARY OF 1971 CHANGES IN FARMING OPERATIONS BY FEED GRAIN PRODUCERS WHO RECEIVED MORE THAN $55,000 UNDER THE 1970 FEED GRAIN PROGRAM

State	Number of producers who received more than $55,000 in 1970	Number of producers		Type of changes in operations for 1971					
						Increased number of eligible persons			
		No change for 1971 [1]	Changed operations for 1971	Revised cash or share lease agreements [2]	Reduced physical size of farming operation [3]	Forming partnership	Forming corporation	Forming trusts/settlement of estates	Added producers or tenants
Arizona	5	1	4	0	4	1	0	0	1
California	19	19	0	0	0	0	0	0	0
Colorado	2	1	1	0	0	0	0	0	1
Illinois	3	3	0	0	0	0	0	0	0
Indiana	5	4	1	1	0	0	0	0	0
Iowa	4	2	2	0	2	0	0	0	0
Kansas	2	2	0	0	0	0	0	0	0
Missouri	4	3	1	0	1	0	0	0	0
Nebraska	5	4	1	0	1	0	0	0	0
New Mexico	5	5	0	0	0	0	0	0	0
North Carolina	1	0	1	0	1	0	1	0	1
Oklahoma	1	0	1	1	0	0	1	0	0
Ohio	1	1	0	0	0	0	0	0	0
Pennsylvania	1	1	0	0	0	0	0	0	0
Texas	34	25	9	1	8	0	1	1	3
Wisconsin	1	1	0	0	0	0	0	0	0
Total	93	72	21	3	17	1	3	1	6

[1] No material or significant change from 1970 to 1971.

[2] Revised 1970 lease (cash or share) agreements for 1971.

[3] Reduced size of 1971 operations by dropping or not renewing leases, cash leasing land with allotment to other producers or selling land with allotment to others. These actions most generally involve farm reconstitutions.

EXHIBIT 7

SUMMARY OF 1970-71 WHEAT CERTIFICATE PAYMENTS TO PRODUCERS WHO RECEIVED MORE THAN $55,000 IN 1970

State	Number of counties	Producers: Total	Producers: Did not change operations	Producers: Did change operations	Payments to producers who received more than $55,000 in 1970: 1970	Payments to producers who received more than $55,000 in 1970: 1971	Percent Decrease
California/Arizona	[1] 9	7	4	3	$598,999.00	$306,227.00	48.9
Colorado	[2] 10	2	0	2	235,057.00	54,057.00	77.0
Idaho/Utah	[3] 8	10	3	7	660,158.00	405,740.00	38.5
Kansas	[4] 5	1	0	1	64,271.00	12,707.00	80.2
Montana	8	7	6	1	418,094.00	385,000.00	7.9
Nevada	1	1	0	1	55,884.00	55,000.00	1.6
New Mexico	1	6	6	0	477,305.00	346,851.00	27.3
Oklahoma	[5] 7	2	0	2	169,754.00	121,426.00	28.5
Oregon	[6] 5	3	1	2	207,367.00	162,434.00	21.7
South Dakota	2	1	1	0	69,989.00	55,000.00	21.4
Texas	13	9	7	2	756,532.00	505,224.00	33.2
Washington	4	7	3	4	590,904.00	586,781.00	.7
Wyoming	1	1	1	0	56,200.00	55,000.00	2.1
Total	74	57	[7] 32	25	4,360,514.00	3,051,447.00	30.0
Breakdown:							1,309,067
Operations not change			[7] 32		2,266,229.00	1,883,103.00	383,126
Operations changed				25	2,094,285.00	1,168,344.00	925,941
Estimated payment acres					44,267.00	22,395.00	21,872
Average payment rates					47.31	52.17	+4.86

[1] 1 California producer had operations in one Arizona county.
[2] Includes 1 Kansas county in which Colorado producer received payment.
[3] 2 Idaho producers also had operations in 2 Utah counties.
[4] Includes 2 Colorado counties in which Kansas producer received payments.
[5] Includes counties in Kansas (2) and Colorado (1) in which Oklahoma producer received payments.
[6] Includes counties in Idaho (1) and Washington (1) in which Oregon producer received payments.
[7] Includes partnerships where 1970 payments were to partnership and 1971 payments were to each partner.

EXHIBIT 8

SUMMARY OF 1971 CHANGES IN FARMING OPERATIONS BY WHEAT PRODUCERS WHO RECEIVED MORE THAN $55,000 UNDER THE 1970 WHEAT PROGRAM

State	Number of producers who received more than $55,000 in 1970	Number of producers		Type of changes in operations for 1971					
						Increased number of eligible persons			
		[1] No change for 1971	Changed operations for 1971	[2] Revised cash or share lease agreements	[3] Reduced physical size of farming operation	Forming partnership	Forming corporation	Forming trusts/settlement of estates	Added producers or tenants
California	7	4	3	1	3	0	0	0	0
Colorado	2	0	2	2	2	0	0	0	0
Idaho	10	3	7	0	7	1	1	0	1
Kansas	1	0	1	0	1	1	0	0	0
Montana	7	6	1	1	1	0	0	0	0
Nevada	1	0	1	0	0	0	0	0	1
New Mexico	6	6	0	0	0	0	0	0	0
Oregon	3	1	2	0	0	1	1	0	1
Oklahoma	2	0	2	1	0	0	1	0	1
South Dakota	1	1	0	0	0	0	0	0	0
Texas	9	7	2	0	0	0	0	0	2
Washington	7	3	4	0	0	0	1	1	1
Wyoming	1	1	0	0	0	0	0	0	0
Total	57	32	25	5	14	3	4	1	7

[1] No material or significant change from 1970 to 1971.
[2] Revised 1970 lease (cash or share) agreements for 1971.
[3] Reduced size of 1971 operations by dropping or not renewing leases, cash leasing land with allotment to other producers or selling land with allotment to others. These actions most generally involve farm reconstitutions.

Chairman PROXMIRE. Senator Pearson.

Senator PEARSON. Thank you, Mr. Chairman.

Mr. Secretary, I first want to say that you have made an excellent presentation of a complicated matter.

Congressman Reuss covered in large part one of the first questions I wanted an answer to. That is when one recites per capita disposable income, we are really talking about a constantly diminishing farm population. I noted with a great deal of pleasure the President's message on rural development which he sent up, and which dealt primarily with credit.

You responded in a most encouraging way to me, indicating a resolution on the part of yourself on the part of pushing forward in rural development.

Do you have other proposals that will be forthcoming in relation not only to credit but in relation to jobs, rural housing, rural health? Could you expand any further than the answer you gave?

Secretary BUTZ. Yes. The President's proposal included a recommendation for a new $1 billion annual authorization in guaranteed loans where we would make maximum use of private lending agencies in the rural communities. Sixty-five percent of this under the President's proposal would be available for new businesses of one kind or another in rural communities.

Senator PEARSON. This isn't a poverty program but a rural redevelopment?

Secretary BUTZ. This is rural redevelopment; yes, sir. Sixty-five percent would be available for business loans, for job creating businesses in rural communities, to be made by local institutions. The loan would be guaranteed up to 90 percent of the loan and 10 percent participation.

I am sorry. The loan would be for 90 percent of the total project. There would have to be 10-percent equity in it. The loan would be 90 percent guaranteed with 10 percent carried by the originating institution, or the local bank, as the case may be. Thirty-five percent of that total credit would be available for community projects. It might be a city hall or some kind of facility they need, whatever it is they need to make the community more viable.

These loans could be made on a 100-percent basis, still 90 percent guaranteed and the local source would carry 10 percent of it. The logic back of this is you have to have a viable community before risk capital flows into it.

I am convinced that the Federal Government just doesn't have enough money to provide the kind of growth we need in rural America.

We have to use private capital for that. I think this is the step in the right direction, to make maximum use of private lending institutions for viable communities.

If we are going to focus the total resources of the Federal Government on this, the HUD Department is involved in this, too, for housing in suburbia. There is some little overlap that can be worked out, I think, very nicely, and will be worked out.

It is my impression that when you get a community with good roads, good schools, good churches, good transportation, good cultural opportunities, good electricity, good telephones, good water, and sanitation systems—this is the kind of situation into which risk capital flows.

That is what we have to encourage in rural America. If you have a community going down, risk capital avoids it. I hope the major thrust of this program will be to make a viable situation into which private capital will flow to get the job done.

Senator PEARSON. Does the Department or the administration have a firm position as to the use of tax incentives, tax credit, for the creation of new jobs?

Secretary BUTZ. No, sir; to my knowledge there is no such position.

Senator PEARSON. Mr. Secretary, you made reference to a number of things that, as I listened to your statement, seemed a little bit pessimistic about exports. I make reference to the recent dock strikes. I hesitate to cite figures as to the losses, but I think if my memory serves me well, the losses of wheat were about $100 million; feed grains, $75 million, and perishables, $40 million.

But actually, in my part of the country, the west coast dock strike was not the one that really created the bottleneck, but it was the gulf coast. If the gulf coast closes down then we are really going to be in a very, very difficult situation.

I wonder if you will comment on that?

Secretary BUTZ. Senator, I think you put your finger on one of the vulnerable spots of American agriculture. I wouldn't say the west coast strike didn't have an impact on Kansas because it shut off many of the exports that came from that area, and it had an impact on national wheat prices.

You are quite right, in mid-America the vulnerable situation is the gulf coast ports. They have been operating under a Taft-Hartley injunction for 80 days that expired yesterday, February 14. They have indicated that they are going to work an extra 30 days.

We don't know what we will have at the end of 30 days. We estimate that this dock strike knocked at least $1 billion off of farm income last year. I can't prove it knocked $1 billion off, but nobody else can prove it did not knock $1 billion off. I think that is a conservative estimate.

We know our exports are down from what they were last year in certain selected commodities. That west coast strike cost us at least $100 million a month, during the days it was going on, in wheat exports and a good deal in fresh fruit exports. I think it is a very serious situation.

The President 2 years ago recommended legislation known as the Crippling Strikes Prevention Act which has been languishing in committees on the Hill.

We got emergency legislation through last week dealing specifically with the west coast strike. But we are at the mercy of the negotiators and labor leaders on the east coast and gulf coast ports now.

I can't understate the importance of getting this legislation out of committee, moving forward and giving the President power to settle these things, if we can't settle them by negotiation after the expiration of Taft-Hartley.

I want to stress that very, very strongly. It is difficult to build up foreign markets as long as we don't have dependable delivery systems, and our delivery system now is unsure. Buyers are going someplace else to buy.

We spent 20 years building up a wheat market in Japan, with millions of dollars that we spent. Japan was a rice-eating nation and we helped them turn from a rice-eating nation to an American wheat-eating nation. And now comes the strike.

Senator PEARSON. The soybean exports keep going up to Japan.

Secretary BUTZ. Yes. Now comes the strike situation and they can't depend on our delivery system. They are buying wheat from Canada and Australia. At the moment, they can't buy soybeans, but other parts of the world will be encouraged to do so. I think this will hurt markets for years to come.

We will have to spend years of manpower and millions of dollars to recapture the markets that have been destroyed by this dock strike.

Senator PEARSON. I understood quite recently there was some agreement with the Common Market that gave some of us cause for optimism, and yet I don't believe you made any reference to that in your statement.

Secretary BUTZ. In the negotiations just closed with the Common Market, some concessions were made. Some are of a minor character, but at least in the right direction. It indicates that we may have more access to that market in the future than in the past. We are continuing to do all we can to keep that market open to us.

We feel that the entry of Great Britain, Denmark, and Sweden into the European Community over there may in the long run force an easing of the nontariff restrictions they have against us, primarily because Great Britain is a great importer of food and has not normally been a high-food-price nation.

Senator PEARSON. I thank you, Mr. Secretary.

Chairman PROXMIRE. Mr. Secretary, you said that the American consumer will spend, I think, 15.7 percent of his income on food.

Secretary BUTZ. 15.6, we estimate.

Chairman PROXMIRE. That does include the full, entire cost of the agricultural program, is that correct? In other words, not only what the consumer spends in the store, but the consumer also spends in taxes to support the programs?

Secretary BUTZ. No, it doesn't include that. It does include meals eaten out, and over one-fifth of expenditures are for food outside the home.

Chairman PROXMIRE. I want to get statistics including the whole ball of wax. It seems to me a few years ago we had statistics of this kind which did include the full cost of the program. We found that the consumer was paying less, including the full subsidy.

Secretary BUTZ. I am quite sure that would be true now.

Chairman PROXMIRE. If you can, give me that for the record.

Secretary BUTZ. We will be glad to do that. I guess the point is any way you figure it, he is paying less for food than ever before.

(The information to be furnished follows:)

The following table compares the actual amount in billions of dollars consumers spent for food in 1971 and the amount they would have spent under the 1960 ratio of 20 percent.

[In billions of dollars]

	1960	1971	Change
Disposable income	350.0	741.2	391.2
Food expenditures	70.1	118.4	48.3
(At 1960 percent)[1]	70.1	148.2	78.1
Savings in 1971		29.8	29.8
Cost of farm programs[2]	1.7	3.1	1.4
Net saving			28.4

[1] In 1971 food expenditures were 16 percent of disposable income; in 1960 they were 20 percent.
[2] Realized losses of CCC, excluding cotton and tobacco. Price support and related activities, not including Public Law 480 activities; also includes direct payments.

In 1960, consumers received $350 billion in disposable personal income, spent 20 percent or $70.1 billion for food. Government payments to farmers totaled $1.7 billion.

Chairman PROXMIRE. When you were on the CBS network, what time were you on the air?

Secretary BUTZ. About 7:40 this morning.

Chairman PROXMIRE. That is not too bad. So often, you know, I have found in my State when I speak to farmers they put me on about 6 o'clock or 5:30. I speak to the farmers all right. They hear it because they are up. They have the radio operating in the barn or maybe they are having breakfast. But very few other people do.

Secretary BUTZ. I think we have both been critical of the media from time to time, Mr. Chairman.

Chairman PROXMIRE. I don't mean to be critical of the media. That is the effect. The media says they want to reach the farmer and that is when they put you on.

Secretary BUTZ. Since I have been here, I have had a half hour on the "Meet the Press" program of NBC, in prime time on Sunday afternoon. I was on the "Today" show for 12 minutes a while back, after 8 o'clock in the morning. That is a pretty fair audience, and this morning CBS gave me about 10 minutes at 7:40. They only have a 1-hour show. I simply want to show that those programs, I think, have given us a very fair break in giving me a chance.

If I had any city listeners, if they didn't turn me off, I think they got the message.

Chairman PROXMIRE. Mr. Butz, food prices have gone up sharply in the past few months, both wholesale and retail levels. You recently predicted that the consumer cost of food will continue to rise during 1972.

What has caused the recent rise in food prices?

Secretary BUTZ. The chief cause in the recent rise in food prices is, one, the rise in purchasing power. The total retail food bill in 1972 will be up 5 to 6 percent over last year. But wages are going to be up about 7 percent over last year on the average.

Chairman PROXMIRE. You are predicting that food prices will rise about 4 percent?

Secretary BUTZ. A little more than 4 percent, I think. Just a little over 4 percent in 1972. But the primary cause of that is not that the supply is not there. It is there. Our farmers have done a great job of getting the supply. The primary cause of that is we have more money to spend. We are eating more meals out.

Three, we demand more services, more processing, more finished products. Women don't bake a cake anymore. They stir it up. We process half of our potatoes now because they don't want to peel potatoes.

Chairman PROXMIRE. Is there any possibility that one of the reasons why food prices have gone up is that retailers under the freeze were unable to raise the price of processed food and, therefore, in order to compensate they raised the price of the unprocessed, raw food?

Secretary BUTZ. If there has been any of that, I am not aware of it. There may have been some.

Let me say one more thing about why food prices are up. That is the cost of processing, distributing and retailing has gone up chiefly because wages have gone up.

Frequently, the very person who complains about high food prices has her husband in the food chain somewhere. He has had his wages doubled in the last 20 years. That has to be written into the cost of food as retail.

Chairman PROXMIRE. This is a question of the greatest importance to me and my State: Do you support increasing the price of milk this year to a level not less than 90 percent of parity?

Secretary BUTZ. You don't really expect me to use this platform here to make that announcement.

Chairman PROXMIRE. I was hoping you would. Nothing would make me happier, if it was in the affirmative, of course.

Secretary BUTZ. This is a difficult question. There are many factors involved and it is under study right now. Costs have gone up in the last year for dairy farmers in the aggregate. Feed costs are down a little from last year. On the other hand, under the present support program, milk production is going up. It has increased by over 1 billion pounds in 1971 over the year before. Milk consumption per capita is going down; total consumption is about steady. Government acquisition of stocks is going up. These are some of the factors we have to take into consideration.

I want to say that I am just as sympathetic as I can be with the need for higher dairy prices in Wisconsin, Indiana, and Iowa, too.

On the other hand, if you take all these factors into consideration all I can say is we will do our level best to get an equitable and fair answer. I can't tell you what it is.

Chairman PROXMIRE. You are an extraordinarily experienced man with strong convictions. I do hope you will consider the fact that many farmers feel that there is no future in low dairy prices as a means of reducing production, that the dairy farmers feel that they are in a stretchout. If prices are down they have to produce more in order to pay the taxes and in order to keep the farm. There is terrific pressure on them.

If anything, it is their feeling that as prices rise moderately they are under less pressure and production is not going to go through the roof.

Secretary BUTZ. We are fully aware of that feeling.

Chairman PROXMIRE. As my predecessor used to say, I hold in my hand here—my predecessor was Joe McCarthy——

Secretary BUTZ. I heard him.

Chairman PROXMIRE (continuing). A report by the General Accounting Office that has not been released, so I am releasing it right now, and that report is a very disturbing one. It is on the rural environmental assistance program and it relates to this: The rural environmental assistance program provides subsidy to farmers to fundamentally improve and conserve soil resources. Annual expenditures for this project have averaged about $200 million. But it seems that the objectives, according to the GAO, are not being achieved.

The report just released indicates that this is an environmental mess. Let me give you some examples of what is going on in the name of the environment. Payments are made to build fences that have nothing to do with conservation. Payments are made to plant grass plowed under in the following crop year. Cash payments are paid to plant shrubs in the yards of everyone. Payments are made to cut down woodland and turn it into pasture.

Payments are made in residential areas on land having no apparent agricultural significance, and in some cases farms are as small as one-half acre.

Payments are made for the application of fertilizer for production and not for conservation. This strikes me as a subsidy program that is completely out of control and it has lost sight of its objectives.

What is the story?

Secretary BUTZ. I haven't seen that report. You say it has not been released yet?

Chairman PROXMIRE. It is being signed by Mr. Staats, head of the GAO, today, and it will be released today.

Secretary BUTZ. I look forward to seeing it. There has been some shift in the emphasis of the REA program. It used to be the ACP program, the agricultural conservation program. Now the emphasis is on environment, as you indicate.

I presume there probably are isolated cases of abuse. I will have to look into it.

Chairman PROXMIRE. The GAO has been so reliable and so careful. They are not irresponsible in their findings.

Secretary BUTZ. That is quite right.

Chairman PROXMIRE. These findings, therefore, puzzle me.

Secretary BUTZ. We will certainly look into that. I want to tell you that in the Department of Agriculture, as you know, we spend a lot of money. There is bound to be some chiseling and some abuses.

I am determined, and I have put the word out, that to every extent possible I want these programs to be administered well, clean and honestly.

Chairman PROXMIRE. When you get a chance to look at this report. will you give us your reply?

Secretary BUTZ. I certainly will.

(The information to be furnished follows:)

USDA COMMENT ON RECENT GAO REPORT ON THE RURAL ENVIRONMENTAL ASSISTANCE PROGRAM

In general, we agree with the recommendations in the report which covers activities and findings under the 1969 and 1970 Agricultural Conservation Program (ACP). A number of the items questioned by GAO were resolved when the 1971 REAP was developed and ACP was discontinued. Further improvements have been incorporated in the 1972 REAP. The changes made in the 1971 and 1972 programs include the elimination or de-emphasis of most of the temporary and production-oriented practices and the elimination of the home garden and the beautification practices. Major program effort and emphasis is now placed on the more permanent soil and water conservation practices and the new pollution prevention and abatement practices. Other practices criticized in the report have been generally de-emphasized through establishment of priority systems.

Some of the GAO recommendations are at variance with legislative history and with the language in the report of the Conference Committee on Agricultural Appropriations for 1971 and the House Report for the 1972 agricultural appropriation. In the latter, the Department is "directed to keep all the 1970 practices." We have permitted county committees the option of keeping any 1970 practice if the committee felt the practice was needed to round out the county's program. This is aimed at carrying out the committee's wishes relative to specific practices and changes recommended by GAO in this area of operation run counter to the committee's position.

Senator MILLER. In your statement, you say agricultural exports for the current fiscal year will fall short of last year's record total. Do you anticipate soybean exports will decline?

Secretary BUTZ. We hope not. We are going to end the year with a smaller carryout of soybeans than we had a year ago. One of the objectives of the diversion program in feed grains is to get more soybeans.

The January intentions report shows that farmers plan to plant a little more soybeans but they are not going to reduce corn as much as we would hope or increase soybeans as much as we would hope. We export half of our soybeans. This is a good export market. We have 80 percent of the world's movement of soybeans and world trade coming from this country.

At the moment we have virtually a monopoly on soybean exports from this country. If we can get some increase in soybean acreage this summer, which we anticipate, and have good growing seasons, and the demand holds up as we think it will, we think the soybean exports will be strong, and hopefully increase.

Senator MILLER. I guess we all hope. But I am wondering what you really expect. You said something in the beginning of your response to the effect that you expected a drawdown of the soybean carryover.

Secretary BUTZ. In the current year, the current crop year.

Senator MILLER. That would affect both the domestic consumption and the export consumption?

Secretary BUTZ. Both.

Senator MILLER. In other words, you do expect some increase in soybean exports?

Secretary BUTZ. Right, for the 1972 crop.

Senator MILLER. Is that because we have such a strong productive base and there isn't as much competition in other countries around the world? Is that the reason for your optimism?

Secretary BUTZ. Well, two reasons. One is soybean meal, of course, is a product in great demand for countries with expanding livestock population. Where you have expanding livestock populations, as you have in Europe and in Russia, for example, and other parts of the world, you have to have protein supplement and this is a good one.

There are competitive protein supplements available, sunflower seeds, rape seed production, fishmeal production, which can grow in response to high prices for protein supplement.

But at the moment, for soybean meal we supply roughly 80 percent of the world's trade. I think our position is well illustrated by conversations I had with the Prime Minister of Russia who was in this country before Christmas. I had two long conversations with him.

He said the new 5-year plan called for a 25-percent increase in the protein content of the Russian diet. He said they had to import the soybean meal because they are too far north to raise it. They wanted to buy it from the United States.

I said to him, "You are absolutely safe in building up the Russian cattle population based upon the supply from the United States because we have the unused acres, the climate, the rainfall, the well capitalized farms, well equipped farms. The supply will always be here and you are perfectly safe in building your livestock population on that."

Then he came back very quickly with a glint in his eye and he said, "Yes, but what about the dock strike?" It was kind of a difficult question to answer.

Senator MILLER. Of course, if we have continued dock strikes, all bets are off. But assuming that we get that straightened out, would it be fair to say that the Department expects an increase in soybean exports for 1972?

Secretary BUTZ. Yes, sir.

Senator MILLER. Earlier I had been commenting about the $1.04 corn price in the central Iowa markets. I asked you what could be done about it. You indicated that one possibility, and there were several possibilities, would be an increase in the loan price.

Then we got off on a tangent about the fact that maybe half of the corn had been sold, and all of that. But I don't think we carried that on through. I wish you would pursue that a little.

Secretary BUTZ. I am glad you brought us back. I only half answered that question. Let's point out that for the 1971 crop at the lower prices we had more bushels in the aggregate to sell than we had in 1970 at the higher price.

Our best figures are that the total value of the corn crop in 1971, at the lower prices, was a little higher than the total value of the corn crop in 1970 at the higher prices.

Senator MILLER. The total value?

Secretary BUTZ. The total value. We had more acres. We had higher yields in 1971.

Senator MILLER. Yes, but you have higher costs of production that go in there, too.

Secretary BUTZ. That is right. I am talking now about the value of the crop. You are quite right about the higher cost of production. To get back to what we are really trying to do here it is to make our diversion program of feed grains in 1972 work so well with approximately 38 million acres of corn, grain sorghum and other feed grains coming out of production that the price for the 1972 crop in the marketplace will be much more satisfactory than the price was for 1971.

Senator MILLER. We are talking now about prices that might show up around September and October and November of this year, aren't we?

Secretary BUTZ. Yes, sir.

Senator MILLER. I must tell you that I share your hope, but the Chicago corn futures market doesn't seem to bear that out as of now. I have been watching those very hopefully. The September corn futures in the Chicago market is not significant.

Secretary BUTZ. A year ago now they erred just as bad in September futures prices for 1971 as they may be doing now for September prices in 1972. The September futures are around a nickel higher than now.

Senator MILLER. I recognize that speculators have differences of view on this, but I am still trying to find some way of presenting a tangible sign to the Central Iowa corn farmers that the $1.04 corn price will improve. I recognize that if the 1972 program is successful, that can't help but have a strengthening impact on the market.

I recognize that the corn futures do indicate some strengthening, but not very much—maybe 2 or 3 cents a bushel, which I trust is not satisfactory to you. Then what about the third alternative, the corn purchase program which you have undertaken? How many million bushels has the Department purchased in the last couple of months?

Secretary BUTZ. Not a great deal. We purchased around 12 million bushels. Each week we take offers through the Kansas City office and accept those that are in line on the following Monday. We think the chief impact of this has been to indicate that there is a definite floor under prices.

It had a buoyant effect on prices to begin with. At the same time, the Taft-Hartley injunction was invoked in the gulf ports. These things together, I think, did bring the price of corn up 10 cents, you say, in eastern Iowa, but I think in the other parts of the cornbelt it came up more than that.

Senator MILLER. I have a feeling that the improvement from 94 cents to $1.04 in the Iowa markets has been attributable to opening up the ports.

Secretary BUTZ. And also the purchase program.

Senator MILLER. If it has been attributable to the purchased program it would be negligible because long before you announced the purchase program we had the impact of the gulf ports strike on corn prices in Iowa carefully analyzed and it came out 9 to 10 cents a bushel.

Now the ports have cleared up and the price has improved 9 to 10 cents a bushel. So I would respectfully suggest to you that the corn purchase input on that price improvement has been very, very small.

I think most of the farmers I know of in my State attribute the improvement almost entirely, if not entirely, to the opening up of the gulf ports rather than to the corn purchase program.

I would hope that as long as you have decided that the corn purchase approach will be used you might see fit to substantially increase that corn purchase program and see what happens. I don't think it would hurt. I think it might help.

The 12 million bushels is not a very big dent in that 750 million bushels of overproduction, granted that you got a record amount under loan.

Can you tell us how much corn is under loan today?

Secretary BUTZ. Yes. It was 834 million through January 31. This is by far the largest on record for this time of year. As a matter of fact, there is so much corn under loan that our predictions are that the free corn will be pretty well dried up before next harvest and we will probably have to pull some corn out of loan before next harvest to meet demands for feeding.

Senator MILLER. What is the total amount of corn on hand? You said 834 million bushels is under loan. That is out of a total of how much?

Secretary BUTZ. We produced 5.5 billion last year.

Senator MILLER. Perhaps I should say how much free corn is there today? Do you know?

Mr. PAARLBERG. We can supply that for the record from our Grain Stocks Report.

(The information to be furnished follows:)

Our total corn stocks on January 1 were 4,642 million bushels. In addition to the 834 million bushels of 1971 corn placed under loan through January 31, 177 million were resealed on farms and CCC owned 145 million. This made a total of 1.156 million of government stocks. leaving "free" stocks of 3,486 million bushels. "Free" stocks would be around 250 million bushels below estimated requirements for January-September—including total use of around 3,340 million and "free" carryover stocks of around 400 million.

Secretary BUTZ. The supplies of free corn will have been pretty much dried up by next harvest time.

Senator MILLER. This suggestion has been advanced and I would appreciate your comment.

Would it be feasible to provide a dual loan rate system of, let's say, $1.11 on the first 20,000 bushels and after that $1.05.

The reason for this suggestion which has been made to me is that it would protect the smaller farmer under the $1.11 loan and the larger one would have to get along at $1.05. Or there could be some variation of that approach. Has the Department gone into that?

Secretary BUTZ. Yes. It would be extremely difficult to administer a dual price system like that. It has been studied, but it would be extremely difficult to administer a dual price system like that.

Senator MILLER. Why would it be so difficult to administer? After all, the farmer goes in and gets his loan and the Department keeps a record of how much corn he has under loan. Once he gets up to 20,000 bushels, from there on the loan rate is $1.05.

It seems to me it would mean a little extra bookkeeping. I recognize that would be an extra step in the administrative chore, but I am wondering if it would be so difficult, and I am wondering if it wouldn't be worth it.

Secretary BUTZ. It could be done. There are philosophical reasons, of course, why this wouldn't work. One of the reasons I haven't pointed out is the impact it would have on participation in the 1972 program, where we want very desperately to get approximately 38 million acres out of production in 1972.

Senator MILLER. One last question. Getting back to this cost to the consumer, the consumer cost for food was roughly 20 cents of each dollar of disposable income some years ago and roughly 16 cents today. The question I have is how much savings does that mean per year to consumers? In other words, if in 1971 American consumers had to pay 20 cents of the consumer dollar for food and instead only paid 16 cents, I wonder if you can furnish for the committee the total amount in millions of dollars in benefits to the American consumer, and then juxtaposed against that savings to the American consumer, the cost to the American consumer in taxes to fund the programs for the farmers of this country. I don't think I have ever seen the Department put out those figures, but I would suggest you would have the resources available, and I think this would be a wonderful thing to show the American consumers, some of whom are concerned about the cost of farm programs.

If we can show them how much they can save in a year as against what it is costing them in tax money, I think they would find they have had a great bargain. But I would like to have that firmed up by good figures, which I am sure you could provide. Could you furnish those for the record?

Chairman PROXMIRE. I think those figures have been made available in the past. I am positive I have heard other Secretaries of Agriculture and other Presidents say that including the cost of the farm program, the entire cost of it and the cost that the consumer has to pay for food in the store, that it is less. Now I think you are absolutely right, Mr. Secretary, it is less now than it has ever been, including that cost. I join the Senator from Iowa in saying that it would be useful to have that combination statistic.

Secretary BUTZ. We will do that. May I comment briefly that our total food bill in this country is around $118 billion a year, roughly what the consumers spend for food. If we drop from 23 percent of disposable income for food down to 16 percent, that is a 7-percent change.

But that is not all. In those 20 years our food supply has improved. There is far more quality and far more meals are eaten out. We are not measuring the same think we did 20 years ago. There are far more services in the grocery store. So it is very difficult to measure here. The saving understates the savings to consumers because of this reduction in food costs I am talking about.

Senator MILLER. May I say I have taken a little different approach. I have taken the 20 cents of the consumer dollar and compared that to the total consumer dollars being spent in this country and then reduced that down to 16 cents. I come up with a pretty healthy figure. It comes out substantially greater than the tax cost to the consumer.

May I say to my chairman I have heard this statement made before, but maybe I have overlooked it. However, I don't think I have seen it pinpointed in dollars and cents, which is what I am asking for the record.

Secretary BUTZ. We can estimate that for the record.

(The information to be furnished follows:)

The following table compares the actual amount in billions of dollars consumers spent for food in 1971 and the amount they would have spent under the 1960 ratio of 20 percent.

[In billions of dollars]

	1960	1971	Change
Disposable income	350.0	741.2	391.2
Food expenditures	70.1	118.4	48.3
(At 1960 percent)[1]	70.1	148.2	78.1
Savings in 1971		29.8	29.8
Cost of farm programs[2]	1.7	3.1	1.4
Net saving			28.4

[1] In 1971 food expenditures were 16 percent of disposable income; in 1960 they were 20 percent.
[2] Realized losses of CCC, excluding cotton and tobacco. Price support and related activities, not including Public Law 480 activities; also includes direct payments.

In 1960, consumers received $350 billion in disposable personal income, spent 20 percent or $70.1 billion for food. Government payments to farmers totaled $1.7 billion.

Chairman PROXMIRE. I am also sure that right now we are paying less in the farm program in terms of gross national product and personal income, than we were 10 or 20 years ago. So you must add that factor.

Senator MILLER. Thank you, Mr. Secretary.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Secretary Butz, I am sorry I couldn't be here for your full testimony. I was listening to the Ambassador to Japan testify before the Foreign Relations Committee.

I may be repetitive. If I am, please tell me so.

I have just come back from a rather extensive trip through Illinois to determine the current level of satisfaction among farmers—whether it has improved at all. I would like to ask a question concerning both the farmer and the consumer, to see whether they can both be happy at the same time.

With cattle in the Peoria market near $36 in recent weeks, highest for about 20 years, hogs in western Illinois at about $28, which is highest they have been since early 1970, soybeans, at $3.13, there seems to be a higher level of satisfaction with these prices among the farmers, and their mouths are even turning up a bit. They are still unhappy about corn at $1.13, even though their yields are higher. But they are still basically unhappy. With the devastating inflation down, and with the prospect that the farmer might have relief at some point in the future on property taxes, which have been hurting him badly, is there a basis for optimism? I begin to feel the lot of the farmer is looking better. It is not good by definition, but it is looking better.

Secretary BUTZ. You raise a significant question. I think there is a basis for optimism. Before you came in, we indicated that net farm income this year would be up from $1.5 to $2 billion over 1971. We indicated that gross farm income would be up in the magnitude of $3 to $3.5 billion, which means it will increase more than costs will increase. This is partly the result of the phase II program that is holding costs in check, and various other reasons.

But even though we have had this improvement in farm prices and farm income, we still have a long way to go. As we pointed out, our per capita income of people on farms this year is going to be about 76 percent of the per capita income of people not on farms. This contrasts with 55 percent in 1960, just 10 years ago, and is certainly the right direction for a trend.

I sense, as you do, that there is much less dissatisfaction among our farm people than a year or 2 or 5 or 10 years ago, for that matter. We are in the right direction. We are going to keep fighting, Senator, because I want to see it still better.

Senator PERCY. I think you are more experienced in speaking for farmers than I am. You say there is less dissatisfaction. I went so far as to say that farmers ought to be feeling better, and I was confronted by four farmers who told me that statement was overly optimistic.

I think your method of expressing is probably more acceptable.

Necessarily, if the farmer is feeling somewhat better or less disappointed than in the past, does the consumer have to feel worse? Is it always reflected in higher consumer prices? In order to clear the record, tell us what proportion of the increase in farm prices is passed on to the consumer. To what degree is the farmer, as one element of cost, responsible for increasing food prices today?

Secretary BUTZ. Senator, they all join together. The farmer's share of the market basket has improved over 1 or 2 years. It means that the distribution and processing costs haven't gone up relatively as much as his prices have gone up. On the other hand, before you came in we pointed out that there is some consumer dissatisfaction with retail food prices. They are aware of this. They buy food three times a week. Mrs. Consumer goes to the grocery store and comes home complaining about the high price of food. She unloads her cart and takes out a pound of bacon, a quart of milk, a 10-pound package of detergent for the automatic washer, a 25-pound bag of dog food, two pairs of panty hose, and a whole mess of soap and towels and complains about the high cost of food.

She thinks she is buying food in that modern supermarket.

On the other hand, we pointed out in 1972 Mrs. Consumer will get her food with all the services built in and with one-third of the meals outside the home for about 15.6 percent of the disposable income. Last year it was 16 percent. Twenty years ago it was 23 percent.

We are trying to make the point repeatedly that never did Mrs. Consumer get her food for so small a share of disposable income as in 1972. We pointed out that the reason she is paying high prices, as she sees them, for meat at the counter is not because the farmers have let her down. They produced meat in great quantities and beef in great quantities. She has so much purchasing power and is bidding against others, that she bids the price up herself. It is not the farmers. She sets the retail price.

I have never known a farmer that sets the price of a bone steak at the retail counter. The consumer does.

Senator PERCY. The greatest complaint we have had is about the meat prices. What is your advice with respect to a ceiling price on meats or the suggested alternative of increasing imports?

Secretary BUTZ. The chairman a moment ago quoted a statement that was quoted from me in Des Moines last Friday in which I said if any serious attempt were made to put ceilings on meat prices, I would fight like a wounded steer, I believe was the expression, and that statement still stands. I believe it would be an unfortunate thing for America. We have to hark back to World War II when we had rationing, when we had black markets, little meat at the counter. Mrs. Consumer getting there early to line up.

At the present time there is meat there and it is there at prices that the consumers feel are fair prices or they wouldn't bid against each other for it. If some lady feels that steak is too high priced, all she has to do is shift to something else for a time. There are cheaper meats. Or not eat quite so much. She could bring prices down fast if she feels that way. These prices are not set by farmers; they are set by consumers.

Senator PERCY. I would like to express appreciation on behalf of our farmers in Illinois for your very active role in urging the President to impose Taft-Hartley on the dock strike. Would you comment now as to what the dock strikes have cost American farmers, and the necessity of finding a permanent solution to this kind of a problem?

Secretary BUTZ. I certainly will, Senator. I know you are interested in that because so much of the produce of your Illinois farmers goes down the Mississippi River or out through the Great Lakes ports. You not only had the gulf coast strike, but you had the strike of 9 of 11 elevators in Chicago that tied up shipments through the Great Lakes right at harvest time.

It tied shipments up until the lakes froze over and you couldn't move them then. We estimate that those strikes cost American farmers at least $1 billion in income lost.

We estimate that it cost them between $600 and $700 million, partly in lost exports and the rest was because they were forced to sell last fall on depressed prices. There was a dime off the price of corn and 15 or 20 cents off the price of beans, and it reduced their income.

President Nixon sent a recommendation to this Congress nearly 2 years ago for legislation to enable him to act after the expiration of the 80-day Taft-Hartley cooling off period. That legislation still languishes in the Senate Labor Committee of this body. I think it should be gotten out. We should have permanent legislation to assure foreign buyers of American farm products that there will be a certain delivery system they can depend on. At the present time they are reluctant to make future commitments in this market because they are not sure they can move products through the ports.

Senator PERCY. With the support of Chairman McClellan, I took the Government Operations Committee to southern Illinois for hearings on revitalizing rural life in America. I think these were the first Senate hearings ever held in southern Illinois. We had 2 days of very stimulating testimony from our excellent witnesses at the University of Southern Illinois at Carbondale. I will send to you, Mr. Secretary, a summation of the 25 or so recommendations that came out of those hearings for revitalizing rural America, and a full set of the hearings when they are available.

The President has proposed changes in the rural development program, and there are several bills before the Congress right now. What do you see ahead for rural development?

Secretary BUTZ. Senator, we are going to give that as big a push as we can. To my knowledge it was the first time that a President of the United States has had a separate message dealing with rural development. This indicates that President Nixon gives high priority to that. We do in the administration. We do in the Department of Agriculture. This legislation is in the Congress now. What will come out, I don't know. But I am sure we are going to get expanded lending authority for the Farmers Home Administration. I hope we can get provisions for guaranteed loans for small businesses and community projects that will make maximum utilization of local private lending institutions. I hope we can bring the full resources of the Government to bear on the development of viable rural communities which will attract private risk capital. All I want to say is that in the Department of Agriculture we are giving this whole thing top priority.

Senator PERCY. Senator Proxmire and I have the same interest in young people, and we both serve great agricultural States. He and I meet with a great many young people from farm families. What advice would you give a young man when he says, "Should I stay on the farm?"

Secretary BUTZ. First I would ask questions about the opportunities he has. If he is on a family farm adequate in size to provide a decent living for his family and his father's family, and has access to capital, which I am sure he will have, my answer would be a resounding "Yes."

If on the other hand he is in the family situation where dad has three sons and there is just room for one on the farm, and there is not sufficient volume there for adequate income for three families, I would strongly advise him to do something else. That is one of the reasons we are having this strong rural development program that you and Senator Proxmire are interested in, to provide opportunities for that kind of young man to stay down home, live in the country and have opportunities for a decent living.

Senator PERCY. I yield to Senator Miller.

Senator MILLER. I would ask a question as a footnote. What about one of those three sons who can't go on that farm, the family farm, but can go on some other acreage as a tenant farmer?

Secretary BUTZ. I certainly would advise him to do that, too, if he has the aptitude, to go on some other acreage as a tenant farmer, perhaps in cooperation with his father. That means enlarging the size of the operation. That means he goes on other acreage as a tenant farmer, and somebody else doesn't farm that. We still have the same problem, of providing an opportunity for the chap who doesn't farm as for the one who does.

Senator MILLER. I just wanted to draw out the recognition that even though he may not be able to go on the family farm where the capital is available, there are other opportunities for tenant farming that may be worthwhile.

Secretary BUTZ. You are quite right. This young man might team up with his dad and other brother and then enlarge the total operation. They might have equipment to do that for the three families. In that case, my answer would be to, by all means, stay in agriculture. There is a real challenge there.

Senator PERCY. The specter hangs over the family farm. There is concern that corporation farming will in the end replace family farming. Can you give us your perspective on that? It has been asked of you a great many times, I presume.

Secretary BUTZ. Less than 1 percent of our farms in America are corporation farms, and nine out of 10 are family corporations, for passing title from one generation to the next. We will resist the advance of corporate farming in America but I don't think we will have to resist it very much. It dies of its own weight. The experience in recent years of large corporations that have gotten into active farming has not been favorable. They are backing out. They are taking a licking and taking their capital out of it. You simply cannot get a hired man to get up at 3 o'clock in the morning to go out and sit with the sow as she has her pigs.

Time and again we have indicated that you cannot separate the entrepreneurial element from successful agriculture.

Senator PERCY. My last question is with respect to the widespread allegations that our food supply is unwholesome because of additives and so on. I ask you with deep personal interest. My daughter is at a college in Santa Cruz, Calif. When I call her up and ask "What did you do today?" she says, "We spent the whole day on the farm." She is a member of a group in her college that operates a cooperative farm raising their own foods without additives or pesticides, and doing their own cooking. This is a new kind of college for me. It shows that among the young people there is a great deal of concern about all the things that go into food now. Can you comment on that and what responsibility the Department of Agriculture has in this area?

Secretary BUTZ. Yes, I will be glad to, Senator. There has been a good deal of agitation about the misuse of chemicals and pesticides and antibiotics in agriculture. Many unfair things have been written and said about this.

First let me say that it would be absolutely impossible for us to feed 206 million Americans without a substantial input of chemicals and herbicides and pesticides and antibiotics. We couldn't do it. We could go back to an organic agriculture in this country without the use of these things, if we must. We know how to do it. We did it when I was a kid. But before we go back to that kind of farming, somebody must decide which 50 million Americans will be left to starve. That is an awesome statement I make, but it is true. No less an authority than Mr. Norman Borlaug makes the same contention. Instead of the additives, and chemicals, being unsafe for the food supply, it has been the opposite. Our food supply is free from disease, from insect damage, from contamination. It is true that we do use poisons, but we use them under carefully prescribed regulations. I think, Senator, one of our basic problems in America is that two-thirds of us in this country are so young that we never had the experience of biting into a wormy apple and seeing the worm, and wondering, "Is he still in there, or did I eat him?" We were so young that we thought the God of Nature made red, juicy apples. As a matter of fact, the God of Nature put the worm in the apple and man took him out. Through the use of these chemicals we have developed a very wholesome, tasty, pure, nutritious food supply. I can talk about the parasite and the pig. I could have a dozen illustrations like that. Through the use of chemicals we have gotten a very wholesome, pure, nutritive food supply. I would resist very strongly any efforts to change that.

Senator PERCY. This is the first chance I have had to comment to you since your confirmation. I have thought a lot about those proceedings. The first reaction I had was that at least the constituents really care; this country does care who the Secretary of Agriculture is. So we can take comfort in that concern. My mail ran all the way from the condemnation that you would eliminate the family farm, to Douglas Stuart, former Ambassador to Canada and head of Quaker Oats, who said you would be the greatest head of Agriculture this country has ever had. I would like to say that I think the whole confirmation process was a very good exercise. It might have been painful for you, but it certainly enabled you to put your views on record, and receive the concerns that people honestly felt. I would like to report that the reaction of the farmers in Illinois has been exceptionally good.

I think the Department of Agriculture has great guidance in yourself and the very able colleagues working with you. I am very hopeful that we are going to come closer to Douglas Stuart's predictions than some of the others we have had. I commend you on a job well done.

Secretary BUTZ. Thank you.

Chairman PROXMIRE. Doug Stuart's son, Bob, now head of Quaker Oats was one of six boys in my grade school class with me for many years, so I know him very well.

I voted against your confirmation. While I like you and Mr. Stuart very much, I think both of you could be wrong. I spoke to a group of beet farmers on Friday and they were very unhappy about my bill to outlaw the DES. Before I spoke a representative of Eli Lilly spoke and quoted you at greath length about what a terrible situation we were going to have if we give in to the environmental extremists. I presume he means me.

I wholeheartedly agree that we need chemicals, that we need to make advances in technology. We are just on the verge of many, many breakthroughs, I am sure. But that does not mean in my mind we can't be safe, 100 percent safe, with our food supply. Wherever there is a question it seems to me that something could cause cancer, as DES allegedly can, in the eyes of the experts in FDA, we should be on the safe side.

We have this marvelous production. We have overproduction. Of all the times in our history when we could play it safe, now is the time. When some legitimate question comes up and governmental scientists who are objective challenge the industrial spokesmen and say, "We want to hold up on this for a few years, if necessary," I can't see how that represents any kind of a conflict or any kind of extremism.

Secretary BUTZ. May I say a word about DES? For years we have had a 48-hour-withdrawal period for steers being fed that. Now we have moved it to 7 days. The other day I asked the Department Medical Adviser to the Secretary, about this. "Tell me where the residue DES lodges in the carcass." She said, "In the liver." I said, "How much would you have to eat to have an effect?" She said if you ate it every day in the year, for 365 days, it probably wouldn't injure you.

Chairman PROXMIRE. They don't know. That has been challenged very affirmatively by top medical experts in FDA.

Secretary BUTZ. But they don't know the world, either. I said, "Do we have any evidence now of any human ailments from ingestion of DES?" She said, "Not to my knowledge."

Chairman PROXMIRE. There have been. There have been cases of cancer. There is no question about that.

Secretary BUTZ. On the other hand, I think if you want to add another 2 or 3 or 4 additional cents to the cost of meat, this is a very important factor.

Chairman PROXMIRE. I understand that. Your Department's estimate is 3.5 cents per pound additional cost. I think it is a price worth paying to safeguard ourselves. And the industry would be better off in the long run.

Secretary BUTZ. I guess we always bear some risks ourselves. I don't insure my automobile for as much as I could because I couldn't afford it. I don't insure my life for what it is worth. If I did, I couldn't spend money for anything else. I think we are also optimistic about the risk. Don't forget that there are tremendous benefits flowing from DES.

Chairman PROXMIRE. Well, I would like to call your attention to one thing that disturbed me very much. That is that recent statistics indicate that the enormous efficiency that you and I were so happy and also proud about and talked about earlier may be slowing down with the farmer. I notice 1971 was the first year in 20 years in which the man-hours of farm work actually increased. It went from 6.5 billion hours to 6.6. The only previous time was 1951, during the Korean war, and, of course, in the middle of World War II it did also. But I am concerned about that. I don't mean to be contradictory.

I do think we ought to be very concerned and make sure that we are devoting as much to research as we possibly can to continue this marvelous story and record of great farm efficiency.

Secretary BUTZ. I share your concern.

Chairman PROXMIRE. I want to thank you very much for a fine appearance.

Our next witness is Mr. Reuben L. Johnson of the National Farmers Union.

Mr. Johnson is a man I have known for many years. He is extraordinarily intelligent and articulate. He is particularly expert in the farm area. I have always wondered why the commonsense which he and the farmers' union represents hasn't somehow gotten in our policies more than it has.

They have been a profound and fine influence, the Farmers Union. Their logic is so clear and the position they take, which is primarily one of doing all they can to help the farmers improve their income is so obvious that I just feel we should do all we can to assist them. The Farmers Union has had a long history of support of strong economic policies to assure that the overall economy as well as the farm economy operated at its full potential under stable price conditions. Its leadership was in the forefront of the debate when Congress was considering the Employment Act of 1964.

Mr. Johnson, you have an excellent prepared statement, including some very fine appendixes. The entire prepared statement, including the appendixes, will be printed in full in the record.

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION, ACCOMPANIED BY WELDON V. BARTON, ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES

Mr. JOHNSON. Thank you, Mr. Chairman. We appreciate very much the opportunity to be here. I have with me, Mr. Chairman, Mr. Weldon V. Barton, who has brief remarks on some of the rural development aspects in the current situation.

Mr. Chairman, you have provided us with the opportunity for a number of years to put into the record of the hearings of the Joint Economic Committee what I sometimes refer to as boilerplate testimony.

It has been our attempt over the years to attempt to provide information that we hoped would get to students, to the press, and citizens generally, including our own farm community, of just what a contribution the farmers of this Nation are making to the country.

We will be brief here, Mr. Chairman. We realize we are into the lunch hour. We will attempt to very briefly make some key points that we have included in our prepared statement.

As you know, when the President was campaigning for the office, he indicated that 74 percent of parity was intolerable to the farmers, and he said they were entitled to more. We, of course, agreed with that statement, but in spite of the statement, the parity level for 1970 averaged out at 70 percent. It has moved up in response to some increases in livestock prices in the early part of this year. But, Mr. Chairman, I would like to submit that this huge feed grain surplus that we have, a billion and a half more bushels than the previous year, with a carryover that may get as high as 1 billion bushels of corn for this year, means that there is going to be another side of that coin in terms of cattle and hog prices.

We are headed for a period when farmers are going to be seeking to utilize this grain profitably. We are headed toward a period when likestock and hog prices are going to decline because of the increase in production.

Part of the reason why the livestock prices have gone up some is because of the fact that farmers are now holding breeding stock, with the expectation of attempting to profitably market the feed supplies that they have in such abundance at this time.

I would like to also chide the previous witness a little. I hope our press people will get a chance to take a look. He is defending beef cattle prices at only 88 percent of parity. I wish he had waited a little longer until they had gotten to the 100 percent of parity before he had come out in such strong defense of the prices. I hope he is going to be still a defender of the increase in cattle prices when they get to that level, if they do, which I seriously doubt.

Mr. Chairman, we have commented in our prepared statement on various tables included in the farm statistical and legislative report which we have provided, and I am just going to ask that these be put in the record, as you have suggested.

I would like to say, since you represent a milk State, that we have written to the Secretary of Agriculture urging him to increase the support level on manufactured milk to 90 percent of parity. The current support level of $5.04 was 85 percent of parity last April. But today it is only 82 percent.

We have made the case that you made here this morning, that it would not be wise to reduce production of milk at this time. The margin of production for the national need was only seven-tenths of 1 percent last year.

That margin is far too small to represent a truly adequate national safety reserve. It would be unthinkable for any other industry of major importance to attempt to operate with a reserve margin so dangerously thin.

Mr. Chairman, I want to say one word about the feed grain legislation that Secretary Butz talked about recently in the Senate committee, H.R. 1163. As you probably recall, we made a valiant effort and did succeed in the Senate to peg the support level for corn at 75 percent of parity. The administration made it very clear it was opposed to that level. In fact, it suggested that 68 percent of parity would be preferred over the 70 percent of parity level set by Congress for corn.

For that reason I don't understand exactly why some of the concern coming out of the Department today takes the turn it does for corn prices because 68 percent of parity is a very low price for corn.

The Congress finally did set 70 percent of parity as a floor under corn. We fought hard to save the 75 percent of parity. We still look upon H.R. 1163, which would increase price support loans, as legislation to be given top priority, and perhaps legislation will again be presented to the Congress in some form for action. We hope so. We will continue to support it, because we feel that farmers were not responsible for the excessive production of feed grains which has depressed the price, and, therefore, that it is a responsibility of the country and the Congress to help them over this situation we are in.

We do not share the optimism for utilization, I might say, of the previous witness. In fact, it appears to us that we are going to have another year of surplus production, that is, more corn than we can use in the marketing year this year, and if we do it will just compound further the problem that producers are currently faced with.

You commented on the budget figures, so I will not comment on them.

(The prepared statement of Mr. Johnson follows:)

PREPARED STATEMENT OF REUBEN L. JOHNSON

Mr. Chairman and members of the committee, we are pleased to be afforded this opportunity to appear before the Joint Economic Committee to present our views on the President's Economic Report to the Congress.

The Full Employment Act of 1946 called for such a report to be made each year. Farmers Union was active in support of the Act and I don't believe we have missed a year since 1946 expressing our views on the state of the rural economic situation.

RURAL ECONOMIC SITUATION

Spokesmen for the Administration seem willing to concede, in speeches at least, that all is not well on our farms and in our rural communities.

For example, President Nixon has said:

"The Nation owes American agriculture a very great debt, a very great debt which perhaps has not been adequately reflected in agricultural income."

We of course, agree with the President and would hope that his Council of Economic Advisers understands the problem of inadequate farm income and diminishing opportunity in rural America.

Just over three 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.

In spite of these pronouncements, there was hardly any mention at all of the state of the rural and farm economic situation in the Economic Report of the President. A further omission is the fact that the President, in the usual custom, has not sent a farm message to the Congress since he has been in office.

The Economic Report of the President barely gives recognition to the agricultural sector of our Nation. The brief reference in the report is on "incomes in agriculture" and covers little more than one-half page. In the section providing statistical 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.

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. 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 will provide information which we hope will be useful to the Committee and to the Congress generally.

To document and to substantiate our findings, we ask that 10 tables included in *Exhibit A, Farm Statistical Report*, be included in the record of these hearings.

Price Support Levels.—The trend is toward lower price support levels as page 2 of Exhibit A and the table below clearly indicate. We are disturbed over the obvious attitude of some U.S. Department of Agriculture officials that the "market is working" to protect farmers. An example they repeatedly have cited is that when the soybean price support was lowered, the market price went up. We trust that members of the Committee would agree that lowering the price support has not been a factor in the strong soybean market.

We cannot understand the logic of lowering support levels if the aim of the Administration is to strengthen producer power in the market place.

I call your attention to the table showing recent decisions on loan levels as compared to 1970:

Commodity	1971		1970	
	Support price	Parity level	Support price	Parity level
Barley, bushel	$0.81	53.4	$1.03	71
Oats, bushel	.54	55.6	.63	66
Rye, bushel	.89	57.4	1.02	68
Soybeans, bushel	2.25	56.5	2.25	60
Cotton, pound	.345	66.8	.3705	76
Wool, pound	.72	71.3	.72	74

An obvious fact is that as production costs have increased, the level of support slides down on the parity scale. Price support loan increases, such as H.R. 1163 would have provided, are already justified and more especially should be adjusted upward when market prices are higher than the support level as in the case, for example, of soybeans.

Rising Costs of Production.—The table on Page 5 shows that prices paid by farmers in 1971 have gone up 64.0 percent since 1947–49. During this time, the parity ratio dropped from 108 to 70. Let me remind you again that President Nixon in his campaign called 74 percent of parity "intolerable" and declared that farmers were "entitled to better." Since President Nixon took office the index of prices paid by farmers jumped from 109 to 120 and are still going up.

Prices Received and Prices Paid.—In 1971, the average index of prices *received* by farmers (base period: 1910–14) was 285. The average index of prices *received* by farmers in the period 1947–49 was 271; little change in more than twenty years has occurred in prices *received* by farmers.

In 1971 the average index of prices *paid* by farmers (base period 1910–14) was 410. 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 little change in the index of prices *received* since 1947–49 but the index of prices *paid* since that period has increased 64.8 percent.

When one considers that production has increased by 38 percent since 1947–49 but that net return for 1971 and the period (average annual) 1947–49 was $17.1 billion and $15.7 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.

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 3 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 72 percent in 1969, and slid to 67 percent by December of 1970, a level unmatched in bleakness since 1933 in the dark days of the Great Depression. The parity level for 1971 only averaged 70.

In an effort to camouflage this situation, the U.S. Department of Agriculture has been engaging in statistical gimmickry with parity.

In its December 1970 issue of Agricultural Prices, the Department tried to assure us that "no such parity ratio realistically reflects the current status of the income or 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 in 1971, under the new USDA definition we are supposed to be lulled into believing that parity, and the economic welfare of farmers, is really 98 percent (Jan. 15, 1972).

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 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 1971 to January 1972.

There is only one way to interpret the bleak facts on farm income and parity levels. Farmers are in a tight economic squeeze which is getting worse.

Manufacturing Milk Support to 90 Percent of Parity.—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 last year—4 percent lower than 5 years ago. Yet, the current $5.04 per hundredweight price which was 85 percent of parity last April is only 82 percent of parity today.

Farmers Union has urged that the support be raised to 90 percent of parity or $5.44 per hundredweight—the maximum authorized under the law.

We have also urged the Secretary to take action toward establishing a nationwide marketing order for milk. Such a milk marketing order system would bring greater equity to milk prices throughout the country. A first step could be the development of larger regional marketing orders, including one covering the vast mid-section of the Nation.

With the escalating cost of production, the dairy price support program is not the proper instrument to discourage increases in milk production. In any event it would not be wise to reduce production at this time. The margin of production above the national need was only seven-tenths of one percent last year. That margin is far too small to represent a truly adequate national safety reserve. It would be unthinkable for any other industry of major importance to attempt to operate with a reserve margin so dangerously thin.

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 corn 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 would be preferred over the 70 percent of parity level set by Congress for corn.

Farmers Union fought hard to save the 75 percent of parity floor for feed grains, but it was lost in conference when the threat of a veto was made.

We also look upon the enactment of H.R. 1163 or like legislation as a top priority. Except for the opposition of the Administration farmers could have had $1.5 billion more income on 1971 feed grain and wheat production with the income benefit extending also to 1972.

We continue to support such legislation, although it is too late to get the income benefit on 1971 production of feed grains and wheat.

Administration's 1973 Fiscal Year Budget.—The new budget of the Administration for fiscal 1973 cuts REAP (formerly ACP) funds from $195.5 million to $140 million. Other reductions include:

(1) Rural electric loans at 2% would be reduced from the $545 million appropriated in 1972 to $438 million, or a cut of $107 million. REA telephone loans at 2 percent would be cut from $134 million available for expenditure in 1972 to $125 million for 1973; and

(2) Food for Peace (PL 480) from $1.4 billion to $1.17 billion, down $230 million; rural water and waste disposal grants from $53 million to $49 million; and Forest Service land management programs from $701 million to $640 million, a cut of $61 million.

In our appearance before Senate and House Subcommittees on USDA appropriations, we will urge that the REAP budget be restored and increases in funds for REA, school lunch, FHA, Crop Insurance and Foor for Peace.

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.

STIMULATING RURAL ECONOMIC GROWTH

Unfortunately, the 1972 Economic Report of the President indicates little change toward more executive leadership in farm and rural matters. There is nothing in this year's Economic Report that relates the independent, family farm pattern of agriculture to the broader network of rural revitalization policies. Indeed, the Economic Report devotes no attention to the primary problems associated with rural development: land use planning with emphasis on keeping independent farmers on the land, renewal of rural and smaller communities, dispersion of industrial development into the open countryside, etc.

The neglect of farm-rural problems by the Presidency and in the Economic Report points up the need for passage of the Rural Development and Population Dispersion Act, now pending in the Senate and House.

This bill (S. 2571; H.R. 11138) would create a Council on Rural Development and Population Dispersion in the Executive Office of the President. This new unit in the EOP would be patterned after the Council of Economic Advisers, with a 3-member Council appointed by the President with the consent of the Senate.

The bill requires the President to submit to Congress an annual report on policies to achieve rural development and improved geographical balance of population.

No new Congressional committees are called for in the legislation. Indeed, this Joint Economic Committee is the logical committee—perhaps along with the Committees on Agriculture—to receive and react to the annual report. Rural development can open up new vistas for our stagnating economy, and provide new jobs to alleviate the unemployment problem that seemingly is so intractable. The ingredients for economic expansion are all present in rural America: Resources, labor force, potential purchasing power—and, perhaps the most important, open space. Of course, we must be careful that growth in rural America is orderly growth, and is undertaken with effective safeguards to protect the natural environment.

Beyond preparation of the annual report to Congress, the primary function of the Council on Population Density and Rural Development would be to publicize and crystallize public support for policies and programs to bring about rural development and population dispersion. The Council would encourage public awareness of the need for more geographical balance of population and more support for comprehensive rural revitalization. The Council would seek to provide the climate of opinion to achieve specific, operating programs—in health, housing, transportation, industrial development, etc.—to serve rural areas and people.

One thing that the Council might do is "bore from within" to encourage the release of funds impounded by the Presidency for rural programs and to promote larger budget requests for such programs.

One of these is the rural electrification program, for which the Administration is still withholding $107 million of $545 million authorized by Congress for fiscal 1972. These funds remain impounded despite the fact that the Rural Electrification Administration is currently processing loans in excess of $545 million, and expects applications during FY 1972 to total at least $700 million.

Rural telephone loans are even more starved for funds. As pointed out earlier in this statement, only $134 million was available for rural telephones in FY 1972, and the Administration's budget contains only $125 million for FY 1973. The Rural Electrification Administration currently has a backlog of 482 application ($670 million) for telephone loans, and expects a carry-over from FY 1972 of $571 million of loan applications.

The availability of employment opportunities is the central factor that will determine whether rural vitalization and population balance policies succeed or fail. Provision of job opportunities in rural America must begin with the preservation of an independent, family-farm pattern of agriculture. A healthy family-farm agriculture is, of course, only a part of rural development, but it is the essential element. Certainly rural development requires that we enable the people who now reside in rural America to remain there under quality living conditions. And family-farm agriculture is a people's agriculture. The independent-farmer pattern will keep farm families on the land and provide the solid nucleus around which rural revitalization and a better geographical balance of population can be achieved.

If non-farm jobs were available, we might talk more about helping farmers to adjust and retrain for jobs to supplement or replace their farm income. But industrial jobs are not available. This point was made forcefully last Wednesday by Jule Sugarman, New York City's Human Resources Administrator, in testimony before the House Education and Labor Committee on Manpower and

Employment legislation. Sugarman urged that the focus of attention in Federal manpower legislation be shifted from job training to job creation:

"The need is enormous. In New York City and throughout the country there are far too many manpower training programs producing no results because there are no jobs at the end of the training period. The intense desire for real jobs is demonstrated constantly in the ranks of the poor, the underemployed, the unemployed and welfare population. The time has come when the creation of jobs must be as much a part of public policy as the building of highways, the provision of public assistance, or the defense of the nation. In the absence of a job creation policy we can expect a growth in tensions between those who have jobs and those who do not—often accompanied by racial and ethnic polarization—further breakdown in family life, and extensive deterioration in our great cities and public agencies."

How many jobs are we creating? The President's 1972 *Economic Report* states: "At year's end, funds had been provided for about 128,000 positions, and about three-fifths of the jobs had been filled," (p. 10), under the Emergency Employment Act of 1971. These are generally temporary positions, because the cities and other jurisdictions do not know if funding will be continued to support permanent positions. Consequently, these people could be back on the streets, or on the welfare rolls, in a year or two.

The number of jobs created under the 1971 Emergency Employment Act is roughly identical to the number of persons annually forced out of farming. Since 1950, farm population has dropped from 23 million to 9.4 million—from 15.2 per cent of the total population to 4.5 percent.

There are about one-half as many farms today as in 1950: 2.9 million compared to 5.7 million. This is a loss of about 135,000 farmers each year during the last two decades, which more than cancels out the new jobs created under public service employment. Furthermore, the loss of persons from farming reduces economic activity and employment in business communities that serve agricultural areas.

It seems compelling that employment policies in the United States should begin with the objective of maintaining *present* jobs and work opportunities, particularly if these jobs are helping to solve social needs of the Nation. Maintenance of family farms in agriculture serves important national objectives—including efficient production of food and fiber, environmental protection, and geographical population balance.

When the social goals such as environmental protection are added to the more strictly economic benefits, policies to strengthen family farm agriculture should be justified by a comparison of costs with benefits of such policies.

An independent farmer agricultural sector cannot be maintained through any single approach or program. A multiplicity of means must be used. A number of these are covered earlier in our statement: Effective bargaining power for producers, price support and supply management programs, strong farmer-controlled cooperatives, etc.

We need Federal legislation to eliminate the tax advantage which wealthy individuals and conglomerate firms derive from tax-loss farming.

We also need to expand the "soft" and subsidized loan programs to marginal farmers and small-farmer cooperatives that are administered by the Farmers Home Administration. The amount of funding in the operating and real estate loan programs of Farmers Home is almost insignificant in proportion to need, and the Nixon Administration is in the process of abolishing the Rural Economic Opportunity Loan Program administered by Farmers Home since 1965 under Economic Opportunity Act authorization. Fortunately, the pending bill to extend the EOA contains provisions to continue assistance to small farmers and cooperatives similar to the Rural Economic Opportunity Loan Program.

Opposition to "soft" loans and other financial assistance to small and marginal farmers has been based largely upon a line of thinking that we think is misguided: The idea that government assistance should be made to individuals in their role as low-income individuals, rather than as farmers, or other occupational segments.

Mr. Chairman, I am sure that you have heard the argument on the floor of the Senate that we should not mix our "welfare" policies with our agricultural policies. We hear the same type of logic from agencies that carry out credit programs for farmers and rural people; they want to administer "economically sound" loans and leave the subsidized programs to the Office of Economic Opportunity and welfare agencies.

If such logic was ever sound, it is no longer sound in view of two developments: (1) The paucity of available jobs for those forced out of agriculture prematurely by "hard" credit and other policies; and (2) increasing reassertion of the work ethic, criticism of welfare programs, and pressures toward work incentives and opportunities as a part or an alternative to welfare.

My point is this: It is more realistic and workable to build subsidized loans and elements of a guaranteed price or income into agricultural programs than it is to build work incentives and opportunities into welfare programs. The former approach provides for the dignity of the individual and his family to a greater degree, and facilitates the natural economic processes through which the individual can achieve upward mobility. There is no better way to enable an individual farmer to work his way out of a poverty or near poverty situation than to give him technical and financial assistance *on the farm*, with which he can improve his economic situation.

Even if assistance must be continued for an indefinite period, this is preferable to allowing the person to be forced out of farming and perhaps into an "artificial" work situation that might grow out of a welfare or public employment program. We need to assess our manpower and employment policies in a broader framework, so that a comparative analysis of the kind of welfare-versus-subsidized agriculture that we have outlined here could be conducted in cost-benefit terms.

In a sense, the January 11 staff study of your Committee, *The Economics of Federal Subsidy Programs*, aims at this kind of broad-gauged analysis. Perhaps the next step should be a more rigorous evaluation of subsidies, along the lines outlined on pages 77–81 of the study.

Certainly this Committee would have the analytical foundation for new leadership initiatives in economic policy-making, to the extent that this kind of analysis could be carried out.

CONGRESSIONAL 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."

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 prosperous family farm agriculture with parity prices and parity income.

Consistent with this call for a larger Congressional role in strengthening the farm and rural economy, 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 your attention to Exhibit B attached hereto. This exhibit is the expression of Delegates to our most recent convention held in Washintgon, D.C., February 24–27, 1971, on major economic policies—Full Employment Economy, Monetary Policy, Federal Taxation, Control of Monopoly, Small Business, Communications and Transportation.

I also call to your attention Exhibit C which lists some of the more significant policy decisions made by delegates to our convention. We invite your attention to a complete statement of our 1972 policies which will be mailed to your office soon after our convention this year, February 28–March 3 at Houston, Texas.

Attachments: Exhibits A, B and C.

EXHIBIT A

<u>N A T I O N A L   F A R M E R S   U N I O N</u>
Suite 1200, 1012 - 14th Street, N. W.
Washington, D. C.

February 1, 1972

FARM STATISTICAL AND LEGISLATIVE REPORT

To : Farmers Union Co-Workers and Friends
From: Reuben L. Johnson

The attached <u>Farm Statistical and Legislative Review</u> concerning United States Agriculture is intended to give you up-to-date resource material for speeches, articles, press releases, etc.

As you put this information to use we would appreciate thought being given to ways in which it can be improved.

We will appreciate your suggestions.

February 1, 1972
Page 1

Commodity Credit Corporation Inventory as of June 30 and Market Prices as of June 15 for Corn, Wheat and Grain Sorghum 1952 through 1971

Year		Corn (Million bu.)	Wheat (Million bu.)	Grain Sorghum (Million cwt.)
1952	Inventory	313	143	1
	Price (% parity)	1.73(97)	2.06(84)	2.68(94)
1953	Inventory	228	470	1/
	Price (% parity)	1.46(83)	1.88(78)	2.39(90)
1954	Inventory	365	774	16
	Price (% parity)	1.49(82)	1.91(77)	2.27(89)
1955	Inventory	580	976	52
	Price (% parity)	1.40(77)	2.06(82)	2.24(89)
1956	Inventory	702	951	55
	Price (% parity)	1.42(80)	1.93(80)	2.02(77)
1957	Inventory	803	824	44
	Price (% parity)	1.22(67)	1.91(76)	1.89(71)
1958	Inventory	1,028	835	175
	Price (% parity)	1.19(67)	1.70(70)	1.76(66)
1959	Inventory	1,043	1,147	281
	Price (% parity)	1.16(68)	1.69(72)	1.85(73)
1960	Inventory	1,158	1,195	319
	Price (% parity)	1.08(66)	1.72(73)	1.53(61)
1961	Inventory	1,261	1,243	392
	Price (% parity)	1.03(64)	1.72(73)	1.65(67)
1962	Inventory	659	1,096	385
	Price (% parity)	1.03(64)	1.99(82)	1.71(68)
1963	Inventory	492	1,082	633 2/
	Price (% parity)	1.16(73)	1.86(74)	1.75(70)
1964	Inventory	735	828	637 2/
	Price (% parity)	1.16(74)	1.40(56)	1.78(73)
1965	Inventory	483	646	564 2/
	Price (% parity)	1.24(78)	1.28(50)	1.97(79)
1966	Inventory	279	340	420 2/
	Price (% parity)	1.19(75)	1.59(62)	1.80(71)
1967	Inventory	141	123	194 2/
	Price (% parity)	1.26(78)	1.49(57)	1.99(77)
1968	Inventory	136	102	191 2/
	Price (% parity)	1.07(65)	1.24(47)	1.80(68)
1969	Inventory	270	162	193 2/
	Price (% parity)	1.18(69)	1.22(44)	1.81(65)
1970	Inventory	263	301	163 2/
	Price (% parity)	1.21 (68)	1.23(44)	1.80(62)
1971	Inventory	92	370	78 2/
	Price (% parity)	1.43(76)	1.46(50)	2.43(78)

1/ Less than one million cwt.
2/ Million bushels.

SUPPORT PRICES FOR FARM COMMODITIES 1960, 1968, 1970 AND 1971

Supported Commodities	Unit	Parity Price 1971	1971 Support	1971 Support Percent of Parity	1970 Support	1970 Support Percent of Parity	1968 Support	1968 Support Percent of Parity	1960 Support	1960 Support Percent of Parity
		Dollars	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Wheat	Bu.	2.91	2.91 1/	100	6/ 2.82	100	2.63	100	7/ 1.78	75
		--	1.25 8/	43	8/ 1.25	45	1.25	48		
Corn (No.2)	Bu.	1.80	1.35	75	9/ 1.38	78	1.35	77	1.06	65
Sorghum	Cwt.	3.10	2.21	68	9/ 2.14	74	2.15	82	1.52	61
Barley	Bu.	1.51	.81	53.4	9/ 1.03	71	.90	68	.77	61
Oats	Bu.	.971	.54	55.6	.63	66	.63	72	.50	60
Rye	Bu.	1.55	.89	57.4	1.02	68	1.02	72	.90	60
Rice	Cwt.	7.78	5.07	65.2	4.86	65	4.60	67	4.42	75
Soybeans (No.1)	Bu.	3.98	2.25	56.5	2.25	60	2.50	76	1.85	64
Flaxseed	Bu.	4.82	2.50	56.6	2.50	58	2.90	72	2.38	62
Cottonseed	Ton	79.80	5/	--	37.00	49	48.00	70	38.00	57
Cotton	Lb.	.5168	.345 4/	66.8	10/ .3705	76	.3249	73	.322	83
Peanuts	Ton	358.00	268.50	75	255.00	75	240.25	77	201.24	79
Dry Beans	Cwt.	12.09	6.40	52.9	6.40	55	6.38	61	5.35	61
Milk, mfg.	Cwt.	5.90	4.93	83.6	4.66	67	4.28	89	11/ 3.22	80
Butterfat	Lb.	1.01	5/	--	.715	74	.66	76	11/ .596	80
Tobacco										
Flue-Cured	Lb.	1.01	.694	68.7	.666	69	.616	71	.555	90
Wool	Lb.	1.01	.72	71.3	.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 first five 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 first five months of the marketing year (beginning Oct. 1) for the crop can not 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 $.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 $.52 per cwt. on one-half of base times farm yield. 4/ Loan rate of $.195 per lb. plus $.15 payment. 5/ No price support. 6/ Support for domestic food use -- $1.25 loan rate plus certificate on 530 million bushels to equal the parity price. 7/ All wheat. 8/ Support for wheat production not certificated. 9/ Included price-support payment for 1970 on one-half of base acreage as follows: Corn, 30¢; Sorghum, 53¢ (cwt.); Barley, 20¢; Corn, Grain Sorghum and Barley loan rates were $1.08 (No.2), $1.61, and $0.83 respectively. 20% reduction from feed grains base required to qualify for payment.

10/ Included price-support payment of 16.80¢ per pound to qualifying producers (except 10-acre or under producers--or projected production from allotment of 3600 pounds or under -- received higher price without acreage reduction.)

11/ Support price for period Sept. 17, 1960-March 9, 1961. Support from April 1-Sept. 16, 1960, was $3.06 cwt. for milk, and $0.566 a pound for butterfat.

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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 Agri. Acts Percent	1970 AGRICULTURAL ACT: Loans and Payments	1970 AGRICULTURAL ACT: Percent	1971 Support: Dollars	1971 Support: Percent
Wheat, domestic certificate	Bu.	100	Domestic Certificate 1/ 1.25 loan certificate value	100	2.91	100
Non-certificated	Bu.	0-100	Non-Certificate 1.25	45	1.25	43
Corn (No. 2)	Bu.	2/65-90	1.08 loan, .32 preliminary payment 3/	---	1.35 10/	75
Grain Sorghum*	Cwt.		1.73 Loan, .52 Preliminary Payment 4/	---	2.27 10/	68
Barley*	Bu.		.81 Loan	53.3	.81	53
Oats*	Bu.		.54 Loan	55.5	.54	56
Rye*	Bu.		.89 Loan	57.4	.89	57
Cotton, upland	Lb.	65-90	.195 Loan, .15 Payment 5/	66.7	.345	67
Cottonseed	Ton	0-90	6/	---	6/	6/
Rice	Cwt.	65-90	65-90 (Loan 5.07)	65	5.07	65
Soybeans	Bu.	0-90	0-90 (Loan 1.25)	56.5	2.25	56
Flaxseed	Bu.	0-90	0-90 (Loan 2.50)	55.8	2.50	57
Peanuts	Ton	75-90	75-90 (Loan 268.50)	75	255.00	75
Dry Beans	Cwt.	0-90	0-90 (Loan 6.40)	52.90	6.40	53
Milk, Mfg.	Cwt.	75-90	75-90 (Support level 4.93)	85.	4.93	84
Butterfat	Lb.	75-90	75-90 (Support level .678)	69	6/	6/
Tobacco, flue cured	Lb.	7/	7/ (Loan .694)	68.7	.694	69
Wool	Lb.	8/	9/ (Loan .72)	71.3	.72	71

1/ (a) Domestic certificate wheat--100% of parity as of the beginning of the marketing year (July 1);
(b) Non-certificate wheat--at level not in excess of 100% 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 first five 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 first five 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 October 1, 1971, whichever is greater. Payment is available on 50 percent of corn base times farm yeild. The preliminary payment of $.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 U.S., 90 percent of the average world price for such cotton as determined by the Secretary, for the two-year period ending July 31 in the year in which the loan level is announced. For 1971, the loan rate of .1950 cents per pound on a net weight basis is equivalent to .1870 cents per pound, gross weight, micronaire 3.5 through 4.9 at average location.

6/ No price support for 1971.

7/ 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.

8/ Adjust annually by multiplying 62¢ 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.

9/ Price support relationship to parity (see footnote 8) repealed. Price support will be $.72 per lb. in 1971-72-73.

10/ Included price-support payment in 1971 on one-half of base acreage as follows: Corn, 32¢; Sorghum, 52¢ (cwt.); Corn, Grain Sorghum and Barley loan rates are $1.05, $1.73 and $0.81 respectively. 20% reduction from feed grains base required to qualify for payment.

11/ Included price-support payment of 16.80¢ per pound earned on the farm's domestic allotment, which was 65 percent of the effective farm allotment. The loan rate was 20.25¢ per pound.

* 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.

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INDEX OF PRICES RECEIVED BY FARMERS, UNITED STATES
(Base period 1910 - 14 = 100)

Unit	Average 1947-1949	Average 1969	Average 1970	Average 1971	Percentage Change 1971 from 1947-1949
PARITY RATIO[1]	108	74	72	70	
All Farm Products	271	274	280	285	+ 5.2
All Crops	247	219	226	244	- 1.2
Food Grains	246	154	162	167	-32.1
Feed Grains and Hay	230	167	177	185	-19.6
Cotton	264	173	183	208	-21.2
Tobacco	384	594	604	626	+63.0
Oil-bearing Crops	318	252	266	296	- 6.9
Feed Grains	241	165	176	184	-23.7
Fruit	183	242	237	271	+48.1
Fresh Market	---	243	236	277	---
Commercial Vegetables	249	298	294	329	+32.1
Fresh Market	---	359	362	422	---
Potatoes, etc.[2]	232	208	221	212	- 8.6
Livestock and Products	292	321	326	320	+ 9.6
Meat Animals	334	400	405	401	+20.1
Dairy Products	275	326	345	354	+28.7
Poultry and Eggs	229	162	151	132	-42.4
Wool	259	226	194	138	-46.7
Retail Food Prices (1967=100)	73.5	108.9	114.9	118.3	+61.0

1/ Adjusted parity ratio which includes government payments averaged 77 for year 1970 and 74 for 1971.
2/ Includes sweet potatoes and dry edible beans.

Source: Agricultural Prices, USDA, monthly issues; Bureau of Labor Statistics

PARITY RATIO AND
INDEX OF PRICES PAID BY FARMERS
(Base Period 1910-14=100)

Item	Average 1947-1949	Average 1969	Average 1970	Average 1971	Percentage Change 1971 from 1947-1949
P A R I T Y R A T I O 1/	108	74	72	70	
All Items	250	373	390	410	+ 64.0
Family Living:	244	351	366	382	+ 56.6
Food and Tobacco	239	344	362	370	+ 54.8
Clothing	285	447	475	500	+ 75.4
Household Operation	178	246	256	270	+ 51.7
House Furnishings	256	282	291	299	+ 16.8
Building Materials, House	339	503	498	535	+ 57.8
Auto and Auto Supplies	233	376	392	419	+ 79.8
Production Items:	237	304	314	331	+ 39.7
Feed	231	205	216	224	- 3.0
Feeder Livestock	348	436	450	464	+ 33.3
Motor Supplies	140	190	193	203	+ 45.0
Motor Vehicles, Auto, Trucks and Tractors	290	545	567	610	+103.4
Farm Machinery	239	509	537	576	+141.0
Farm Supplies	235	286	293	303	+ 28.9
Building & Fencing Material	296	464	469	505	+ 70.6
Fertilizer	143	142	148	155	+ 8.4
Seed	242	254	266	283	+ 16.9
Interest 2/	79	569	611	639	+708.9
Taxes 3/	270	1,097	1,191	1,298	+380.7
Wage Rates	430	1,010	1,083	1,140	+165.1

1/ Adjusted parity ratio which includes government payments average 77 for year 1970 and 74 for 1971.
2/ Interest payable per acre on farm real estate debt.
3/ Farm real estate taxes payable per acre (levied in preceding year).

Source: Agricultural Prices, USDA, monthly issues.

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AVERAGE PRICES RECEIVED BY FARMERS FOR FARM PRODUCTS
UNITED STATES

Commodity	Unit	1947-49 Crop Average	Average 1969	Average 1970	Average 1971	Percent Change 1971 from 1947-1949
		Dols.	Dols.	Dols.	Dols.	Percent
All Wheat	Bu.	2.05	1.78 1/	1.92 1/	1.86 1/	- 9.3
Rye	Bu.	1.64	1.00	.986	.846	-48.4
Rice (rough)	Cwt.	4.98	4.95	5.17	5.22	+ 4.8
Corn	Bu.	1.56	1.28 1/	1.47 1/	1.22 1/	-21.8
Oats	Bu.	.804	.586	.624	.602	-25.1
Barley	Bu.	1.32	.927 1/	1.01 1/	.961	-27.2
Sorghum, Grain	Cwt.	2.52	2.18 1/	2.38 1/	2.18 1/	-13.5
Hay, all baled	Ton	22.80	24.70	26.10	28.30	+24.1
Cotton, upland	Lb.	.293	.3708 1/	.395 1/	.445 1/	+51.9
Cottonseed	Ton	65.50	41.10	56.50	57.60	-12.1
Soybeans	Bu.	2.59	2.35	2.85	2.96	+14.3
Peanuts	Lb.	.103	.123	.128	.136	+32.0
Flaxseed	Bu.	5.16	2.65	2.40	2.33	-54.8
Potatoes	Cwt.	2.43	2.23	2.21	2.00	-17.7
Beans, dry edible	Cwt.	8.69	7.61	9.23	10.60	+22.0
Hogs	Cwt.	21.80	22.20	22.70	17.60	-19.3
All beef cattle	Cwt.	20.10	26.20	27.10	28.80	+43.3
Calves	Cwt.	22.50	31.50	34.50	36.00	+60.0
Lambs	Cwt.	21.90	27.20	26.40	24.05	+ 9.8
Milkfat, in cream	Lb.	.705	.689	.696	.703	- .3
Milk, mfg. grade	Cwt.	3.63	4.45	4.69	4.85	+33.6
Turkey, live	Lb.	.395	.224	.227	.217	-45.1
Eggs 2/	Doz.	.459	.400	.376	.310	-32.5
Wool	Lb.	.469	.418	.355	.246	-47.5

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: Crop Values, USDA

AVERAGE RETAIL PRICES OF DIFFERENT FOOD IN GROCERY STORES

Item	Units	Average 1947-49 cents	Average 1969 cents	Average 1970 cents	Average 1971 (prel.) cents
Cereals and Bakery Products:					
Flour, wheat	lb.	9.7	11.6	11.8	12.0
Bread, white	lb.	13.5	23.0	24.3	25.0
Rice, short grain	lb.	--	18.8	19.1	19.6
Dried beans	lb.	19.9	19.6	19.2	22.2
Meats:					
Beef-Rib Roast	lb.	67.8	109.3	111.7	118.0
Round steak	lb.	83.8	126.7	130.2	136.1
Chuck roast	lb.	57.1	70.4	72.5	75.0
Hamburger	lb.	50.4	62.4	66.2	68.1
Pork Chops (center cut)	lb.	74.5	112.2	116.2	108.1
Bacon, sliced	lb.	73.7	87.8	94.9	80.0
Ham, whole	lb.	66.3	72.8	78.6	70.9
Lamb Chops	lb.	69.3	178.3	185.3	190.0
Chickens: Fryers, ready to cook	lb.	--	42.2	40.8	41.0
Dairy Products:					
Butter	lb.	79.9	84.6	86.6	87.6
Cheese (American Process)	½ lb.	28.4	47.0	50.4	52.7
Milk, fresh (delivered)	½ gal.	41.6	62.9	65.9	67.8
Milk, evaporated (canned)	14½ oz.	13.7	17.6	18.7	19.8
Eggs	doz.	70.5	62.1	61.4	52.9
Fats and Oils:					
Shortening	lb.	41.1	27.5	29.6	32.2
Margarine, colored	lb.	--	27.8	29.8	32.7
Sugar	5 lbs.	47.5	62.0	64.8	68.0
Index of retail food prices 1/		73.5	108.9	114.9	118.3
Index of prices received by farmers 2/		271	274	280	285
Index of prices received by farmers 1/		107	108	110	112
Retail cost of market basket of food		$890.	$117.3	$1,225.	$1,218.
Marketing charges		449.	696.	745.	752.
Farmers received		441.	477.	480.	466.
Percent of consumer's dollar received by farmers		50%	41%	39%	38%

1/ 1967=100; 2/ 1910-14=100.

Source: Bureau of Labor Statistics; Marketing & Transportation Situation, USDA.

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"GROSS NATIONAL PRODUCT HAS INCREASED 350.8 PERCENT SINCE 1947 WITH NON-FARM GROUPS SHARING SUBSTANTIALLY IN THE INCREASE IN THE NATION'S GROWTH. BUT FARMERS' NET INCOME HAS DECREASED BY 8.2 PERCENT SINCE 1947."

FARM ECONOMIC SITUATION COMPARED WITH OTHER GROUPS

	1947	1965	1967	1968	1969	1970	1971	Percent Change 1947-1971
	-----------------B i l l i o n s-----------------							
Farmers' total net income 1/	17.1	14.0	14.2	14.7	16.8	15.7	15.7	- 8.2
Farmers' total gross income	34.0	44.9	49.0	50.9	55.5	56.6	58.6	+ 72.4
Farmers' production expenses	16.8	30.9	34.8	36.2	38.7	40.9	42.9	+ 155.4
Interest received by creditors	8.2	38.7	48.0	52.9	58.8	64.7	67.5	+ 723.2
Dividends received by corporation stockholders	6.5	19.8	21.4	23.6	24.4	25.0	25.5	+ 292.3
Business and professional income	19.9	42.4	47.3	49.5	50.3	51.0	52.1	+ 161.8
Rental income of landlords	6.5	19.0	21.1	21.2	22.6	23.3	24.3	+ 273.8
Average weekly earning of all manufacturing workers 2/	59.92	107.53	114.90	122.51	129.51	133.73	142.44	+ 137.7
Gross National Product	232.2	684.9	793.9	864.2	929.1	974.1	1046.8	+ 350.8
Unemployment (1971)								
Millions	--	--	3.0	2.8	2.8	5.0	5.0	--
Percent of labor force		--	3.8	3.6	3.5	6.0	5.9	--

1/ Including government payments
2/ Current dollars

Source: Economic Indicators, published by President's Council of Economic Advisers, January 1972

BALANCE SHEET OF AGRICULTURE, UNITED STATES
JAN. 1, SELECTED YEARS, 1956-72[1]

ITEM	1956	1960	1963	1966	1967	1968	1969	1970	1971	1972
	Billion Dollars									
Assets										
Physical Assets:										
Real estate	102.9	130.2	143.8	172.5	182.5	193.1	202.6	208.2	214.0	223.0
Non real estate										
Livestock[2]	10.6	15.2	17.3	17.5	18.9	18.8	20.2	23.4	23.7)	
Machinery and motor vehicles	19.3	22.2	22.7	27.1	28.9	31.4	33.0	34.1	36.6)	86.8
Crops stored on and off farms[3]	8.3	7.7	9.3	9.7	10.0	9.6	10.6	10.9	10.7)	
Household furnishings and equipment	10.5	9.6	9.0	8.6	8.4	9.0	9.6	9.7	9.8)	
Financial Assets										
Deposits and currency	9.5	9.2	9.2	10.0	10.3	10.9	11.5	11.9	12.4)	
United States Savings Bonds	5.2	4.7	4.4	4.1	3.9	3.8	3.7	3.7	23.7)	25.3
Investments in coopera-tives	3.3	4.3	5.3	6.3	6.6	7.0	7.3	7.7	8.1)	
Total[4]	169.6	203.1	221.0	255.8	269.5	283.6	298.5	309.6	319.0	335.1
Claims										
Liabilities:										
Real estate debt	9.0	12.1	15.2	21.2	23.3	25.5	27.1	28.4	29.5	30.7
Non-real estate debt										
to: Commodity Credit Corporation[5]	1.9	1.2	2.0	1.4	1.2	1.4	2.7	2.7	1.9	
Other reporting institu-tions[6]	4.4	6.7	8.5	11.1	12.4	13.7	14.5	15.8	17.4)	34.8
Non-reporting creditors	3.5	4.8	6.0	7.9	8.8	9.8	10.3	11.2	12.3)	
Total Liabilities	18.8	24.8	31.7	41.6	45.7	50.4	54.6	58.1	61.1	65.5
Proprietor's equities	150.8	178.3	189.3	214.2	223.8	233.2	243.9	251.5	257.9	269.6
Total[4]	169.6	203.1	221.0	255.8	269.5	283.6	298.5	309.6	319.0	335.1

1/ For 48 states only, 1972 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: The Balance Sheet of the Farming Sector, 1971 USDA

REPORT ON PENDING LEGISLATION

	Short Title or Bill Number	Description	FU Position	Status: House	Status: Senate
1.	Stragetic Storable Commodities Act (HR 1163)	Establish a national strategic reserve of wheat and feed grains; increase the price support loan on wheat and feed grains by 25% for the 1971 and 1972 crops.	+	Passed the House in December	Hearings on strategic reserve & price support bills by Ag & Frs. C. during Nov. HR 1163 reptrd unanm. by Ag Sub Com. Dec. 15. Early action is expected on bill when Sen. returns Jan. 18.
2.	Farmers' Income Improvement Act of 1971 (S.J. Res. 172)	Increase price support loan on wheat & feed grains by 25% for the 1971 crop; require a return to the base acreage supply management system for feed grains and acreage diversion with payments for wheat for the 1972 crop.	+	Not introduced.	Reported unanimously by Ag Subcm. in Dec.; schdled for action by full Com. early in new session.
3.	Agricultural Bargaining Act (S. 726, HR 8886); Agricultural Marketing Act (S. 727, HR 8887).	Provide for collective bargaining by farmers to secure a more equitable return for their produce, either through new legal mechanisms patterned after the Nat'l Labor Relations Act of 1935 or by extending marketing orders to all commodities under the Agricultural Adjustment Act of 1938.	+	House Ag Com held hearings in Sept. on bargaining bills. No bill has been reported.	Sen. Ag & For. Com. held hrngs. in Nov. Sen.will probably wait for House to act on a bill before taking further action.
4.	Federal Environmental Pesticide Control Act (HR 10729; S.745, S.660).	Provide for the classification and regulation of the use of agricultural pesticides by the Federal Environmental Protection Agency.	+ (with amendments)	Passed House 11/9/71.	Agriculture Subcom. held hearings early in 1971; further hearings planned on House-passed bill.
5.	Health Security Act (S.3; HR 22)	Provide a comprehensive national health insurance program financed by the nat'l government, with no deductibles and no co-insurance requirements for the coverage specified in the bill. Payments would be made directly by Department of HEW to providers (physicians, hospitals, etc.), giving the Federal government control over inflation in medical care.	+	House Ways & Means Com. held 5 wks hrings on Natl. Hlth. Ins.legis. Oct.-Nov. Will probably rept.a bill to House early Feb. or March 1972.	Sen. Finance Com. held preliminary hrngs. on Nat'l Hlth. legislation (inc.S.3) early in 1971; now awaiting action by the House.
6.	Economic Opportunity Amendments (S.2007)	Congress in 1971 passed a bill extending the Office of Economic Opportunity through June 30, 1973, establishing a comprehensive child development program, creating a National Legal Services Corp. and providing a new (Title VII) program of loans and grants to farm and non-farm rural cooperatives to replace the Rural Economic Opportunity Loan Program. The President vetoed the bill on Dec. 9, and Congress extended existing OEO programs through June 30, 1972 in special legislation.	+	House Ed. & Labor plans early action on a bill similar to Senate Committee	Sen. Labor & Public Welfare Com. plans action on an OEO authorization bill early in 1972, which will probably be the bill vetoed Dec. 9 minus the child development section & possibly with some change in Legal Serv. Corp.Rural loan & grant program (Title VII) should remain intact.

REPORT ON PENDING LEGISLATION

	Short Title or Bill Number	Description	FU Position	Status: House	Status: Senate
7.	Reorganization of the Department of Agriculture (HR 6959-6962; S.1430-1433).	Four reorganization bills introduced in April, and supported by the Nixon Administration, would abolish the USDA by transferring all present functions of the Agriculture Department to 4 new departments to be created by the bills. On Nov. 11, 1971, when President Nixon announced the nomination of Earl Butz as Secretary of Agriculture, he also announced withdrawal of his recommendation to abolish the USDA. Instead Nixon said, he would recommend that the USDA be retained, but stripped of all but its strictly <u>agricultural</u> functions. This can be done with amendments primarily the Community Development and Economic Development bills (S.1430, S. 1433).	Opposed to abolition of USDA, and of stripping USDA of all but "purely agricultural" functions. Opposed to removal of rural community development functions from USDA.	Both House & Senate Government Operations Committees have held overview hearings on all 4 reorganization bills. Senate Committee also held hearings specifically on Community Development (S.1430) & Natural Resources (S.1431) bills. Further hearings on specific bills are planned in 1972 before any bills are reported. Doubtful that <u>any</u> bill will be passed in 1972, although Department of Natural Resources appears most likely of the four.	
8.	Revenue Sharing				
	a. Administration Bills	Authorize annual allocation to states and local governments of $5 billion with no program limitations ("general revenue sharing"), and allocation of additional amounts to states under six broad program categories ("special revenue sharing")--one of which would provide $1.1 billion for rural community development. Almost all of the funds for rural development and the other 5 special revenue sharing bills would come from phased-out national programs--such as REAP in the case of rural community development.	-	Hearings were held on gen'l revenue sharing by Ways & Means, and on several of the special revenue sharing bills by other Committees. No further action has been taken.	Agri. Subcom. held hearings on rural community development revenue sharing, & on a substitute measure introduced by Sen. Allen (Ala.) The Allen substitute would provide $500 million per yr. to state & local governments for rural development, all of which would be "new money"--No existing Fed programs would be phased out. The full Agri. Com. is expected to take up both the Administration bill & the Allen Substitute early in the new session. The Sen. will await action by the House on general revenue sharing.
	b. Mills substitute: Intergovernmental Fiscal Coordination Act (HR 11950)	Bill introduced on November 30, 1971, by Wilbur Mills, as an alternative to the Administration's general revenue sharing bill. Makes available $3.5 billion each year for 5 years to local governments, & $1.8 billion each year for 5 years to states. Includes incentives for the states to make greater use of individual income taxes.		No action--Will be the first order of business for the House Ways & Means Committee when Congress reconvenes 1/18/72.	No action--Senate will wait on the House to act.
	Consumer Protection Act (HR 10835)	Establish an independent agency to represent consumers before other government agencies and in federal court suits.	+	House Passed Oct. 14, 1971.	Sen. Commerce Com. has completed hearings. Committee will probably report a bill to the Senate by April or May.

REPORT ON PENDING LEGISLATION

	Short Title or Bill Number	Description	FU Position	Status: House	Status: Senate
10.	No-Fault Motor Vehicle Insurance Act (S.945).	Establish national system of no-fault insurance. Tort liability arising out of automobile accidents would be eliminated. A person injured in an auto accident would seek reparations from his own insurance company or the ins. company of the owner of the vehicle in which he was a passenger or (if a pedestrian) which cause injury to him. Every owner of vehicle operated on public roadways required to take out a basic insurance policy to cover losses.		House Commerce Com. hearings completed. Further action probably awaits Sen. floor action on S.945.	Hearings completed by Commerce Com. & mark-up of bill begun. Ch. Magnuson has indicated that bill will be reported to the Senate by early Spring.
11.	Federal Water Pollution Control Act, Amendments (S.2770)	As passed by the Senate, shifts the primary focus of water pollution control from water quality standards to effluent limitations, and requires that the "best practicable treatment" of municipal and industrial effluence now available be effectuated by Jan.1, 1976. Citizen suits against polluters authorized EPA takes over from Corps of Engineers for the issuance of permits as required by Refuse Act of 1899.	+	Public Works Committee has completed hearings, and is expected to report a bill rather early--perhaps March 1.	Passed Senate (S.2770) on Nov. 2, 1971.
12.	Consolidated Farm and Rural Development Act (S.2223).	Expand the authority of the Farmers Home Administration to make "soft" loans and grants for rural development; create a new rural development credit system, patterned after the Farm Credit System, with central and regional banks that would be authorized to make "hard" loans and grants for rural development, including industrial development.	+	Agri. Com. is considering markedly different rural development legislation; the primary House bill is HR 10867. There will be serious problems of co-ordinating any major rural development bills that are passed by the House & Senate during1972.	Approved by Rural Development Subcommittee. Full Agric. Committee expected to report the bill early in the new session.
13.	Farmers Home Administration Farm Operating Loans (S.1806)	Amend the Consolidated Farmers Home Administration Act to provide for insured operating and other types of loans.	Supported, provided that 5% interest ceiling reinstated on operating loans. The 5% ceiling was adopted by Sen. Agri. Subcom, but dropped by the full Committee.	Most of the provisions of S.1806 are contained in Rural Development Bill (HR 10867), which is still pending before Agri. Com.	Passed a new bill, S.1806 (Agri. Com. hearings were on S.290, S.578 May. 11, 1971.
14.	Adjustment of Cotton Yields for Natural Disasters (HR 11706)	Require the Secretary of Agriculture, in the event of a natural disaster, to make adjustments in payment yields for producers of cotton.	Supported requirement of USDA to adjust ave. yields up to 100% of the prior year for natural disasters, with equal application across the cotton belt.	Agri. Subcom. held hearing Nov. 29. No further action.	Not introduced.

	Short Title or Bill Number	Description	FU Position	Status: House	Status: Senate
15.	Cooperative Federal-State Meat Inspection (S. 1316)	Increase from 50 to 80 percent the amount that may be paid as the Federal Government's share of the costs of any cooperative meat inspection program carried out by any state.	+	No action.	Passed July 29, 1971.
16.	Crop Insurance Legislation (S.1197, S.1601, S.2212)	Extend availability of Federal crop insurance, authorize appropriation of funds for administrative expenses of the Federal Crop Insurance program, provide crop insurance against loss of investment S.1601 provided for self-support of FCIC.	Supported all except S.1601; opposed S.1601	No action.	Agriculture Subcommittee held hearings in July No further action.
17.	Agricultural Pest Control Research (S.1794, HR 8159)	Authorize pilot field-research program administered by USDA and NSF for the control of agricultural and forest pest by integrated biological-cultural methods.	+	No action.	Hearings completed, reported by Agriculture Subcom. Pending for early consideration by full committee.
18.	Farm Parity Resolution (Sen. Con. Res. 24; House Con. Res. 283)	Calls upon the Agriculture Committees of the Senate & House to conduct investigation to determine whether the parity ratio is being employed by the Administration in a legal way and in a way that maximizes the usefulness of parity as a measure of fair and equitable farm prices. The investigation would include an examination of the shift during 1971 in the base years for calculating parity.	+	No action.	No action.
19.	Food Stamp Eligibility (S.J.Res. 179; H.J.Res. 992)	Assure continued eligibility of food stamp benefits and maintain present levels of bonuses for these recipients.	+	No action.	Adopted Dec. 10 as floor amendment to S. 1874, the Child Dental Health Bill.
20.	S. Res. 136 to accompany Senate approval of the International Wheat Agreement of 1971.	Expresses the sense of the Senate that the President of the U.S. should take the necessary steps at the earliest practicable time to reopen international negotiations on the IWA, with a view toward addition to the IWA of minimum pricing and related provisions.	+	No jurisdiction.	Approved S. Res. 136 prior to approval of the International Wheat Agreement.
	Note: The Administration has taken no action to this date to bring about further negotiations as called for by the Senate.				
21.	GI Bill (Education), HR 3351	Authorize educational assistance to farmers who are veterans, under the GI Bill, with provision for individual instruction on-the-farm except for 200 classroom hours per year.	+	Veterans Affairs Committee held hearings on HR 3351 and other educational bills involving veterans, with a view toward reporting a comprehensive bill on education programs to the 1972 session.	Not introduced.

REPORT ON PENDING LEGISLATION

	Short Title or Bill Number	Description	FU Position	Status: House	Status: Senate
22.	Minimum Wage Legislation (S.1861, S.2259, HR 7130)	Increase the Federal minimum wage on both non-farm and farm workers.	Supported an increase in farm minimum wage to $1.45 an hour in 1972 and $1.60 in 1974, provided that the current exemption from minimum wage payments of farmers employing less than 500 man-days in any calendar quarter is kept in the law.	House Ed. & Labor Com. reported a bill Nov. 17 which would raise the minimum wage for agric. workers to $1.50 an hour effective Jan.1, 1972, & to $1.70 on 1/1/73. 500 man-day provision retained.	Sen. Labor & Public Welfare Com. held hearings on minimum wage legislation in Sept. No bill has been reported.
23.	Egg Industry Adjustment Act (HR 11913, S.2895)	Designed to stabilize, maintain, and develop orderly marketing conditions for eggs at prices reasonable to consumers and producers. Provides for destruction of hens as supply control measure.		Introduced in both House & Senate in November. Hearings are likely in both houses during first months of new session.	
24.	Family Farm Act (HR 11654, S. 2828)	Amends Sec. 9 of the Clayton Act to require conglomerates engaged in agricultural production to divest themselves of agricultural holdings over 3 million.	+	Judiciary Subcommittee on Antitrust plans hearings for late March.	Referred to Judiciary Com. No action.

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SENATE COMMITTEE ON AGRICULTURE
Herman E. Talmadge, Chairman
322 Old Senate Office Building
Washington, D. C. 20510

Phone: 202-225-2035

Agriculture and Forestry

(Suite 321, phone 52035, meets first and third Wednesdays)

Herman E. Talmadge, of Georgia.
Allen J. Ellender, of Louisiana.
James O. Eastland, of Mississippi.
B. Everett Jordan, of North Carolina.
George S. McGovern, of South Dakota.
James B. Allen, of Alabama.
Hubert H. Humphrey, of Minnesota.
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Jack Miller, of Iowa.
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Cotys M. Mouser, Chief Clerk

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1/ Mr. Talmadge, Ex Officio member of each subcommittee

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W. R. POAGE, TEX., CHAIRMAN

[Democrats in roman; Republicans in *italics*]

Agriculture

(Suite 1301, phone 52171, meets first Tuesday)

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George A. Goodling, of Pennsylvania, Ranking Minority Member

W. R. POAGE, TEX., CHAIRMAN, AND PAGE BELCHER, OKLA., RANKING MINORITY MEMBER, ARE EX OFFICIO MEMBERS OF ALL SUBCOMMITTEES.

SELECTED STATISTICS ON UNITED STATES AGRICULTURE

Item	Unit	1947-49	1950	1954	1960	1961	1962	1963	1964	1966	1967	1968	1969	1970	1971 1/
Total population 2/	Millions	146.6	151.7	162.4	180.7	183.7	186.5	189.2	191.8	196.5	198.6	200.6	202.6	204.8	207.0
Index number	% 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	141.0
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	9.4
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	4.5
Farm output	% of 1967	73.0	73.0	79.0	90.0	90.0	91.0	95.0	94.0	96.0	100.0	102.0	103.0	102.0	111.0
Persons supplied per farm worker	Number	14.5	15.5	18.1	25.8	27.6	28.6	30.7	33.2	39.6	42.1	43.4	45.3	NA	NA
Output per man-hour 3/	% of 67=100	31.0	35.0	43.0	67.0	70.0	73.0	80.0	83.0	94.0	100.0	106.0	112.0	113.0	122.0
Prices received	% of 10-14	271.0	258.0	246.0	239.0	240.0	244.0	243.0	237.0	266.0	254.0	261.0	274.0	280.0	285.0
Prices paid	% 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	410.0
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	70.0
Value of agricultural exports 4/	Bil. Dol.	3.4	3.4	3.1	4.5	4.9	5.1	5.1	6.1	6.7	6.8	6.3	5.7	6.7	7.8
Farm debt 5/	Bil. Dol.	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	59.2
Market Basket															
Retail cost	Dollars	896.0	878.0	939.0	996.0	999.0	1,009.0	1,007.0	1,099.0	1,092.0	1,081.0	1,119.0	1,176.0	1,223.0	1,244.0
Farm value	Dollars	448.0	415.0	405.0	393.0	386.0	395.0	378.0	377.0	445.0	419.0	441.0	480.0	476.0	477.0
Marketing margin	Dollars	448.0	463.0	534.0	603.0	613.0	614.0	629.0	632.0	647.0	662.0	678.0	696.0	747.0	767.0
Farmers share	Percent	50.0	47.0	43.0	39.0	39.0	39.0	38.0	37.0	41.0	39.0	39.0	41.0	39.0	38.0
Farm Income 2/															
Realized gross	Bil. Dol.	33.5	32.3	33.6	38.1	39.8	41.3	42.3	42.6	49.7	49.0	50.9	55.5	56.6	58.6
Production expense	Bil. Dol.	17.9	19.4	21.6	26.4	27.1	28.6	29.7	29.5	33.4	34.8	36.2	38.7	40.9	42.9
Realized net	Bil. Dol.	15.6	12.9	12.0	11.7	12.6	12.6	12.6	13.1	16.3	14.2	14.7	16.8	15.7	15.7
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	4,520.0	4,809.0	5,654.0	5,374.0	5,467.0
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	2,970.9	2,924.0	2,876.1

1/ Preliminary
2/ Includes 50 States beginning 1960, April 1.
3/ Revised
4/ Fiscal year ending June 30 of year shown.
5/ Outstanding on January 1, excludes CCC loans

Exhibit B

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. Re-establishment 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 per cent 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 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 cent 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 per cent 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 NONFARM ISSUES

There was call for a National Medical Training Academy emergency employment legislation, a consumer protection agency and a 15 per cent 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.

Mr. JOHNSON. I would like Mr. Barton to briefly summarize a section of our prepared statement that he prepared relating to how we should go about stimulating rural economic growth.

Mr. BARTON. I am Weldon Barton, Assistant Legislative Director of the National Farmers Union.

I will very briefly summarize. My remarks will be essentially from the heading "Stimulating Rural Economic Growth" to the heading "Congressional Leadership Needed," of the prepared statement.

Mr. Chairman, the Nixon administration has devoted a great deal of attention, a great deal of discussion if not action, to the whole question or rural development. But one thing that hasn't occurred, or at least I am not knowledgeable of it, is a real attempt to tie together the problems of the family farmer, of the smaller independent farmer, with the overall problem of rural development.

This is something that is missing from the 1972 Economic Report. Secretary Butz discussed rural development at length this morning. I don't think he ever got to the point in his catalog of rural development programs to bringing in what programs are there to help family farmers as a part of rural development.

This is the case despite the fact that I think we all agree that job opportunities must be at the heart of rural development programs, and that family farming is really the core of job-producing activities, employment-producing activities, in rural America.

In terms of rural revitalization, we could talk more about nonfarm jobs and retraining farmers, let us say, to take industrial or service jobs, if these kinds of jobs were available. But these jobs are not available at this point. The President's economic report on page 56 states, "Because the growth in nonfarm jobs has been limited, income from this source has expanded at a slower rate the last 2 years than in earlier years."

This is a rather mild way of putting it, Mr. Chairman. Last Wednesday, Mr. Jule Sugarman appeared before the House Education and Labor Committee and put this problem much more strongly.

He came down hard for job creation programs. He said: "The need is enormous. In New York City and throughout the country there are far too many manpower training programs producing no results because there are no jobs at the end of the training period." Sugarman made this point the central focus of his testimony. His point was that we should move away to some extent in manpower programs from job training, training oftentimes for jobs that are not there, and move towards job creation.

The question is, how many jobs are we creating? The President's 1972 economic report states on page 10, "At the end of 1971 funds had been provided for about 128,000 positions and about three-fifths of the jobs had been filled," under the Emergency Employment Act of 1971.

This is the point that I would like to make: The number of jobs created under the 1971 Emergency Employment Act is roughly identical to the number of persons annually forced out of farming. There are about one-half as many farms today as in 1950. As the Secretary pointed out this morning, about 2.9 million farmers today as compared to 5.7 million farmers in 1950.

Over this period of 21 years there has been a loss of an average of 135,000 farms per year compared to the 128,000 jobs created under the Emergency Employment Act passed last year. In effect, we are losing more farmers on the average per year than we are gaining in new jobs created under the emergency employment legislation.

It seems compelling to us that employment policies in this country ought to begin with the idea that—if people are in positions of useful employment—then every opportunity ought to be given to them to remain there. We think that a family farmer generally is producing well. They are serving the Nation well. They are producing food and fiber efficiently. They are serving environmental protection needs. They are serving the need of population expansion, better population distribution across the United States.

I won't go into the range of programs that must be available to help family farmers. These are covered in our prepared statement—price support legislation, better bargaining power, strengthening cooperatives, and so on. We need to increase the soft loan programs for smaller farmers. We also need legislation to keep down tax loss farming by corporations and wealthy individuals.

Opposition to soft loans and other financial assistance to small and marginal farmers has been based largely upon a line of thinking that, we think, is misguided. That is the idea that government assistance should be made to individuals in their role as low-income individuals rather than as farmers or other occupational segments.

Mr. Chairman, I know that this kind of attitude, this position, has been taken a number of times on the floor of the Senate and on the floor of the House, that if we are going to help small farmers, let's help them under the welfare program, let's help them separately as individuals, let's not tie together our agricultural programs with our welfare programs or with subsidies to individuals.

If such logic was ever tenable, it is no longer tenable in view of two developments: First, the scarcity of available jobs for those forced out of agriculture prematurely by hard credit and other policies, and second, increasing reassertion of the work ethic, criticism of welfare programs, and pressures toward work opportunities as a part of or an alternative to welfare.

On the one hand, we have the welfare programs and an increasing emphasis on building workfare into welfare, so to speak. We had the amendment to the bill last December that is designed to force welfare recipients into jobs. We have H.R. 1 pending. There is the whole idea of trying to move welfare recipients into jobs.

On the other hand, we have thousands of marginal farmers in this country. If we provide to them some subsidization or whatever we call it, on top of their operation at this point and help them to survive and to pull their economic enterprise up to a sound operation, we might be able to keep them on the farm in a viable economic situation. We might keep them from joining the exodus to the cities where they will compete with others for scarce nonfarm jobs.

My basic joint, and I will stop at this, is that I think it is more reasonable, more workable and natural, to maintain some subsidization of the marginal farmer in a natural agricultural work situation than to allow him to go out of farming or be pushed out of farming, and then have to work from there and try to work back into a work situation in an arbitrary and rather unnatural fashion.

In conclusion, if you did a cost-benefit analysis and comparatively evaluated and compared the welfare program with work incentives, on the one hand, with helping marginal farmers with subsidization, on the other hand, that this kind of aid to marginal farmers would win out in terms of the benefits over the costs to society.

We would like, Mr. Chairman, to see your committee follow up on the excellent study that your staff did and reported on January 11, with this kind of evaluative analysis of subsidy programs. Thank you.

Mr. Johnson. Mr. Chairman, I have one last comment. In the prepared statement we have documented the farmers' situation compared with other groups. When one considers that production since 1947 has increased by 38 percent, and that net farm return, as compared to 1947, in 1971 was 15.7 percent, a decrease of eight points, it is literally true that the farmer has brought and paid for the technology to make possible this added production, and is actually getting less for the production plus the 38-percent increase that he produced in 1947.

We think this is a remarkable record of accomplishment for American agriculture, and we call attention to it at every opportunity we get. I might point out that while the farmer has done the job of production, his numbers have declined. In 1947–49 there were 24.8 million people among the farm population. Today, in 1971, the number of people numbered in the farm population is 9.4 million. There are only about a third as many people left in agriculture as compared with 25 years ago. The percent of the farm population of the total population has declined from 16.9 in 1947–49 to 4.5 currently.

We believe that under these circumstances the farmer is being called upon to make sacrifices that other groups are not making. We compare here the relative standing of other sectors of the economy vis-a-vis the growth in the gross national product. Nearly everyone else has been able to add on a charge for increasing output and increasing efficiency.

Take, for example, the dividend stockholders. They have been able to increase their income out of the total national growth up to $292.3 billion since 1947, and the GNP has increased 350 percent since 1947.

We believe that farmers are in need of further assistance and we are striving to call attention to this need. We hope that this committee can help us in obtaining some of the goals that we have in the Farmers Union for improving the economic position of the family farmers of the Nation.

Chairman PROXMIRE. Mr. Johnson and Mr. Barton, thank you very much for an excellent statement. I will be very brief in my questioning because the hour is late. The brevity of my questioning will not mean that I don't feel very deeply obligated to you, and I am sure the committee is, for an excellent statement and a fine record.

I would like to start off by asking Mr. Barton something.

You quote from Mr. Sugarman in the prepared statement. I am delighted you did. I read the article in the New York Times about Mr. Sugarman's testimony and I was deeply impressed. This is the problem with our manpower program. We have a manpower program. We train somebody. What do they do when it is over?

There is no job. Nothing is more demoralizing or discouraging for that particular worker. It takes a lot of discipline for people who don't have a skill, who are high school dropouts, minority members, to go through a training program. It is hard for them. It is not easy. It is tough. They go through it and what do they get out of it? They can destroy a person and indicate also a very wasteful handling of funds.

I like also where you quote Mr. Sugarman saying, "The time has come when the creation of jobs will be as much a part of public policy as the building of highways or the defense of a nation. In the absence of a job creation policy we can expect a growth in tensions between those who have jobs and those who do not."

There is a division in our country, as there should be, about the guaranteed annual income, about H.R. 1, about welfare reform, about the fear we are going to get people on welfare who will take advantage of it and abuse it, and the cost will be fantastic.

I think there is very little division in the country, though, over the notion that people who want to work ought to have a job. The only way you can do that is to have the Government as an employer of last resort. We have to find a way to do it.

I am always put to it as everybody is when they say, what are you going to do? There are a lot of things in our society that should be done that are not done: Combating pollution, improving housing, food, recreation, and so forth. But I am somewhat puzzled, and either of you can comment on this because both you and the previous witness were very general, on exactly what the man you keep down in the rural area is going to do.

The difficulty is that the reason our farmer has benefited from the evidence of that efficiency is the fact that there are fewer farmers. If we still had 25 million people on the farm instead of 9 million people on the farm, we wouldn't have the efficiency we are talking about. The fundamental resource for an economy or nation is manpower. We have freed that manpower which was tied up in producing food and fiber, to produce other things. That is why we have such a productive economy.

It seems to me to try and stop the clock maybe isn't the kind of Ludyte reaction, stop the clock by saying nobody else is going to move off the farm, that we will have a policy of keeping them on the farm. That is not in the interest of an efficient economy.

I think maybe Mr. Butz is right when he suggests that we ought to find other employment for them in rural areas. But to argue that we ought to keep the same number of family farms and the same number of people on the farm and increase their incomes is another way of saying you will stop that efficiency that has contributed so much to our economic strength.

Mr. BARTON. We are certainly not against a dynamic agriculture. We recognize that over the long run we will have to have more room for adjustments where farmers are too small or for some reason or other, in terms of internal efficiencies as opposed to external, where they bargain over price and so on—we think this kind of deficiency of smaller farmers can be corrected through bargaining legislation—there needs to be adaptive policy to help them move into other kinds of jobs.

Chairman PROXMIRE. But you have a vigorous, young, ambitious farmer, the best kind of farmer in terms of productivity. Say 30, 40, 50 years old. He is a fellow who is an excellent farmer. He may have inherited from his father 120 or 150 acres in our State, which used to be a big farm, dairy farm. It is not enough for him. He goes out and he will farm two or three other farms where the farmer instead goes to work somewhere.

This is the kind of a situation I think we ought to encourage if we are going to have greater efficiency, and not discourage. If you are going to get the people who are now living on the smaller farms than that, with the smaller herds, and provide more funds for them, aren't we just going to produce more of a product we can't find a use for?

Mr. BURTON. We would agree with that, Senator. But I think we have to consider the timing here. Perhaps I shouldn't put it in these terms, but it may be a question of whether we continue to lose 100,000 farmers a year or cut that down to 20,000 farmers a year and give more time for the adjustments to occur.

Chairman PROXMIRE. Let me be specific and definite. We ought to have some kind of a rural program for nonfarm jobs.

Mr. BARTON. We have supported that, Senator. We have testified in support of nonfarm, job-producing programs in rural areas.

Chairman PROXMIRE. Such as?

Mr. BARTON. We supported S. 2223, the Humphrey-Talmadge legislation that would create a new banking system to make loans and to some extent grants to business firms to locate in rural areas, and incentives to locate there.

But at the same time we point out, as the Economic Report points out, that the jobs are not out there at this time, and indeed, as Sugarman points out, the jobs are really nowhere in the economy at this point.

So we ought not to move too rapidly in terms of phasing out the soft loans and the other types of programs that will help small farmers.

Chairman PROXMIRE. You are saying we ought to know what we are doing. We ought to have a cost-benefit analysis to see if it is better to have a welfare program, sheer welfare, and let these people go and move into the city and put them on welfare, not doing anything in many cases, or have a program of relating your subsidy to productive work in the rural area. Is that right?

Mr. BARTON. This is what we are arguing.

Chairman PROXMIRE. But you have to have the costs and benefits clearly in mind if you are going to have an effective analysis. You have to know what you are going to do.

Mr. BARTON. Senator, I would not underestimate in any fashion the difficulty of doing this kind of analysis. I think this is the reason that when you come to the evaluation section of this competent study that was released last month, the study is restricted basically to a diagram of factors that ought to be considered in evaluating subsidy programs. That is, it is a formal statement at that point, rather than one that gets into the real problems of actually evaluating. This is something that we just haven't been able to do.

I recognize that we are going to have to throw together as good an analysis as we can achieve with good judgment. But I think informed judgment will show that phasing out agricultural programs such as low-interest loans before we have nonfarm jobs for these people is unwise. This administration is dedicated to moving as fast as possible, but we say, let's not move too fast in this regard until we build up nonfarm jobs because we are throwing people out of work that will put pressures on other parts of our society.

What I am saying, perhaps, is that we are going to have some soft spots in our economy. It may well be that for a short time the agricultural sector should simply resolve itself that it is going to have some soft spots.

Chairman PROXMIRE. This ties right in with the analysis that Mr. Johnson gives in his part, showing the fact that the farmer is being shortchanged very seriously and sharply in program after program after program. In fact, he is being driven off the farm by shortsighted budgetary policies that will cost the Government more in the long run.

Before I call on you, Mr. Johnson, I would like to add one other thing. It is so characteristic of the Farmers Union that you have taken a broad-scale look at this thing and you have recognized that if we are going to have a strong economy, our problem now is job creation. You go not strictly on a rural job creation but overall, for our whole society. Just as you supported in 1946, as I said, the Full Employment Act, as it was called then, the act under which this committee operates, now you support a program that would make that mean something by having an effective job creation program.

Mr. BARTON. If I could add one other thing, Mr. Chairman, I would like to emphasize that we supported the Full Employment Act of 1946, and opposed the watering down of the legislation.

Chairman PROXMIRE. I will always remember that.

Mr. JOHNSON. Senator, I think what we are lacking in moving in the direction that we want to move in the Farmers Union is a national commitment to preserve the family farm system of agriculture which even the Secretary of Agriculture apparently indirectly, at least, admits is doing a good job.

On the corporate crowd wanting to get into agriculture, by pointing out that 1 percent of the farms are corporate farms obscures the issue to a great degree.

We need a national commitment to the preservation of a family farm type of agriculture before we run out of people because of the age of farm people to enable us to preserve that system.

We are not providing loans to young people to take over farms where their parents pass on in many instances. We are not doing in a positive way all that we ought to be doing to protect and preserve that family farm. We are convinced, and I am convinced and most consumers are convinced, that the family farm is a better way to produce the Nation's food.

Chairman PROXMIRE. It is not only much more efficient. There is the comparison I gave you in the beginning, in my remarks about Russia. But if it were less efficient from a social standpoint, from the standpoint of the kind of wholesome life the children have to grow up in, it would be well worth making a sacrifice economically. We don't have to make that sacrifice because it is in fact more efficient.

The motivation is no intense for a farmer to work hard, his wife, his kids, to really be productive on the farm that there isn't anything like that, and we ought to do everything we can to preserve it.

Mr. JOHNSON. The basic difference between those of us like you and me and the others who are willing to sit by and let the corporate crowd take over is that we are willing to do a little planning.

We are willing to make some long-range moves to protect the family farm system.

The other crowd over there sits around and worships the market as the solution to all of the problems that exist in rural America, the market orientation that we keep hearing so much about. Just to let the market forces get to work, they say, and we will solve all the problems in agriculture.

We don't believe that that is going to save the family farmer, and that is inherent, I think, in the testimony we have presented here today.

Chairman PROXMIRE. I want to thank both of you gentlemen very, very much, for an excellent presentation.

The committe will stand in recess until tomorrow morning at 10 o'clock when we will reconvene in this room to hear the Secretary of the Treasury, John Connally.

(Whereupon, at 1 p.m., the committee recessed, to reconvene at 10 a.m., Wednesday, February 16, 1972.)

THE 1972 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 16, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Bentsen, Javits, Miller, and Percy; and Representatives Boggs, Reuss, Griffiths, Moorhead, Widnall, Conable, and Brown.

Also present: John R. Stark, executive director; James W. Knowles, director of research; Loughlin F. McHugh, senior economist; John R. Karlik and Courtenay M. Slater, economists; Lucy A. Falcone and Jerry J. Jasinowski, research economists; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The committee will come to order.

This morning we are pleased and happy to have as our witness the chief economic spokesman for the President, Secretary of the Treasury John Connally, and Under Secretary of the Treasury for Monetary Affairs Paul Volcker.

Mr. Connally, we are delighted to have you. It is unfortunately a rare pleasure. We know how very busy you are. We invited you to come before a subcommittee of this committee on foreign economic policy in June, for a mid-year economic review of the full committee in July, for a review of the new economic policy after the President made his historic announcement August 15, in August and September, and in October on the oil import quotas.

We realize, of course, you couldn't be expected to come to all of these. I know how tremendously busy you have been and how often you have been up here on the Hill. But I am deeply disappointed you said no to all of them. And I would hope that you give this committee's request for attendance somewhat more sympathetic consideration than results have indicated you have, especially with respect to the new economic policy. This was the most important economic announcement in 10, 15, or 20 years. This is the economic policy committee of the Congress, a joint committee. If we have any function at all, it is to analyze and consider the economic proposals of the administration and then to make our own recommendations.

Absent your presence, it is very difficult for us to do that. I know how very busy you are. I don't mean to be critical. You have had to go to Europe often. You have had to travel to the Far East. You have been enormously busy domestically with our domestic problems. But I would hope that in the future you would try your best to come before our committee when you can.

We are very honored to have you here this morning. Last year the administration attracted much attention by its highly optimistic forecast for the gross national product. I think it is fair to say that the GNP forecast became notorious for its unfounded optimism. This year the administration's forecast is much closer to that of private forecasters and has engendered much controversy. Just because the administration forecast has received concurrence from private forecasters does not mean the forecast is right.

As administration witnesses took trouble to point out during last year's annual hearings, the past concensus forecasts proved often to be inaccurate. I would like to quote John Maynard Keynes who, speaking of the 1931 forecast, said, "The spokesmen of the business world, though not as gay and foolish as a year ago, still, it seems to me, are far too optimistic and have no sound basis for their optimistic talk. They predict a business recovery 6 months hence and a year hence for no better reasons, so far as I can discover. So many months are surely long enough for something to happen."

I am not suggesting that the economy is in as bad a shape as it was in 1931. However, I do suggest that we may again be guilty of basing optimism on nothing sounder than the feeling that things have been so bad so long it must be time for them to get better.

The administration used to have game plans. Now they have medicine. The President has referred to deficit spending as necessary medicine. In 1969, the economy neded only a coach on the sidelines, but in 1972 it needs a doctor and a hospital.

Administration spokesmen keep saying that things are getting better. The low point of the recession has been dated as November 1970, 15 months ago. Yet in his testimony last week, Chairman Burns spoke of the economy as still being in the early stages of the recovery. He spoke, too, of the delicately poised state of consumer confidence. We have an economic recovery which has remained in the early stages for 15 months; an economic recovery where retail sales are below what they were 3 months ago; an economic recovery in which production is still below its 1969 level, well below.

In sum, I find it hard to be optimistic about the economic outlook. If I understand the administration prescription for a sick economy, it is this: There will be a one-shot fiscal stimulus in the first half of this calendar year. By the second half of this year, the private economy will have bounded back and will provide the driving force for economic recovery.

The budget will then move in the direction of restraint, and no further medicine will be needed.

Secretary Connally, I wish to convey to you my concern that you may be administering the wrong dose of the wrong medicine at the wrong time. This economy has been sick a long time. Unemployment has remained at 6 percent for 14 months. Massive doses of temporary fiscal stimulus is not the cure. Government can and should do something about employment, but it should create jobs that are useful jobs.

It seems to me that the best way to do this is through an expanded program of public service employment. I think, as a witness said the other day, the time has come when the creation of jobs must be as much a part of public policy as building highways, provision of public assistance, or the defense of the Nation.

We must be prepared to stick with such a program as long as unemployment is excessive.

Secretary Connally, I have examined your prepared statement. It is a fine statement. I am disappointed it says so little about employment. I found almost nothing in the President's report, the Council's report, or in your statement which tells me what there is in the administration program that is going to create the jobs we need so badly. I want to pursue this with you in detail during the discussion period. It is always a pleasure to have you here. You may proceed with your statement in your own way, unless other members have a statement to make.

Mr. Conable.

Representative CONABLE. Obviously, the Secretary can speak for himself on economic matters touched on, but I would like to take strong exception to the question of his availability to the Members of Congress.

We have had no more eloquent public or accessible Secretary of the Treasury in my memory. I suspect he spends a great deal of time before Congress at the same time that he is administering a very difficult set of economic programs and dealing with a very complex set of economic issues.

The fact that this committee sometimes thinks it would be nice to have a hearing on short notice before a comparatively small handful of members of the committee doesn't necessarily mean that he can alter his very important plans or schedule to be immediately accessible under all circumstances.

When we plan, as we are here, to talk about something that is clearly within his responsibility, I am sure the Secretary will always be available.

Chairman PROXMIRE. Well, I don't want to turn this into a debate here at the table, but I would say, Mr. Conable, I could understand the Secretary's absence in June for the foreign economic policy hearings, the midyear economic review, and the foreign oil quotas.

But in August or September he should have been here on the new economic policy.

These economic policies are the most important before the country. This was the only committee that held hearings for 2 months on it. This was our principal responsibility. As I say, we had some fine witnesses up, but the Secretary of the Treasury is the No. 1 economic spokesman for the administration.

I envy you for being so much in demand, Mr. Secretary. I say this in very good spirit.

Senator BENTSEN. Mr. Chairman, let me further say that this Secretary has been, I think, substantially available to the Congress before innumerable committees of the Congress, and has been forthright and candid in his delivery.

Senator MILLER. Mr. Chairman, I would like to make a comment or two, just so we have the stage fully set. I believe there has been a lot of emphasis on unemployment in the last 2 or 3 years. I suppose one of the reasons for the emphasis has been the contrast of this with the 3-percent unemployment rate for the preceding year, a rate which actually was probably regarded as more than full employment.

Back a few years, at the time we had a full-fledged war on your backs and we were getting casualties at the rate of 500 a week, that was one thing. I frankly think that 2 or 3 years ago the economy of this country was a lot sicker than we thought. I don't know of any economist who realized that we were as sick as we really were. We were sick, yes. And when we started to move from a wartime to a peacetime economy, the pain that went along with it, which assuredly was worth it, was not foreseen to be as difficult as it became. But the pain was there.

When we talk about unemployment, we have to understand that you simply cannot move from a wartime to a peacetime economy, reduce the Armed Forces by roughly 1,200,000 men, throw upward of 2 million people out of jobs because of cancellations and cutbacks in Defense and space contracts, and attribute this to anything more than a sickness, but perhaps a necessary sickness, in moving from a wartime to a peacetime economy.

I don't know of anybody who would like to go back to 500 casualties a week as the price of having 3 percent unemployment. But I think we ought to have this in perspective when we look at the problem. The problem is here and I don't think we ought to go around blaming anybody about it.

What we are interested in is where we go from here and what is being done. That is what I would hope to get from the Secretary.

Chairman PROXMIRE. Mr. Secretary, it is all yours.

STATEMENT OF HON. JOHN B. CONNALLY, JR., SECRETARY OF THE TREASURY, ACCOMPANIED BY PAUL A. VOLCKER, UNDER SECRETARY FOR MONETARY AFFAIRS; EDGAR FIEDLER, ASSISTANT SECRETARY FOR ECONOMIC POLICY; AND EDWIN S. COHEN, ASSISTANT SECRETARY FOR TAX POLICY

Secretary CONNALLY. Mr. Chairman, may I first express my appreciation for the opportunity to appear before this distinguished committee. I think I should comment on your remarks to this extent: Obviously, I, individually, and as a member of the Treasury team, try to respond—not just try, but we do respond—to every congressional committee that we possibly can. At times I cannot appear for one reason or another, but you get a much better witness, really, in either Under Secretary Volcker or Under Secretary Walker.

Chairman PROXMIRE. We never do that. We never get a better witness.

Secretary CONNALLY. Frankly, we always feel that it is part of our responsibility, and not just a matter of courtesy or deference, to appear before the committees and, frankly, to do as the Members of Congress do, use these committees as an opportunity to voice our programs, our philosophy, our ideas.

I am grateful for the opportunity to do so here today.

Before I proceed with the reading of my statement, you have already introduced Mr. Volcker, the Under Secretary for Monetary Affairs. I would like to present to the committee, on my right, Mr. Edgar Fiedler, the Assistant Secretary of the Treasury for Economic Policy, and on the extreme left Mr. Edwin Cohen, the Assistant Secretary of the Treasury for Tax Policy.

If I may now, Mr. Chairman, I would like to present my statement, unless it is the wish of the committee that it merely be filed.

Chairman PROXMIRE. No. It is a brief statement. We will be glad to have you read it. If you do abbreviate it, the entire statement will be printed in full in the record.

Secretary CONNALLY. Mr. Chairman and distinguished members of the committee, as I said a moment ago, it is always a great pleasure to meet with this committee. These annual sessions on the President's Economic Report provide a valuable opportunity to examine the full range of our economic policies, both domestic and foreign. My prepared statement is relatively brief and concentrates on what seem to me to be the major issues.

This year we meet some 6 months after President Nixon's broad and courageous economic actions of last August. The new economic program announced at that time was designed to move the economy toward goals we all desire: more jobs, less inflation, higher productivity, and a stronger international competitive position. While it has not all been smooth sailing since last August, I am confident we are on the right course and making good progress.

Your committee is already familiar with the official economic projections for 1972. I need not dwell on the details. Gross national product is expected to rise this year by about 9½ percent, or by nearly $100 billion. Of this, real growth is expected to be roughly 6 percent while prices may rise by about 3¼ percent. These figures compare with 2.7 percent real growth and 4.6 percent inflation in 1971.

The official projections are realistic and attainable. They lie well within the consensus range of private forecasts. Recent reports show that confidence in these forecasts is growing. From all indications, this should be a year of strong economic expansion.

Fiscal and monetary policies are very much a part of the improved economic picture. Both are counted on to contribute importantly to the economic expansion. Given our present circumstances—with unemployment still near 6 percent, and with inflationary pressures diminishing—strongly stimulative policies are fully appropriate.

Calculated on a full employment basis, the fiscal stimulus translates into a budget deficit of some $8 bilion in the current fiscal year, to be followed by approximate balance in fiscal 1973.

What we actually expect, of course, are budget deficits of almost $39 billion this fiscal year and $25½ billion next year. Sizable deficits are inevitable given the slack in the economy and the administration's determination to eliminate it. Any attempt to force the budget into balance at this time would only force the economy further out of balance. I will not, however, pretend to be happy with deficits of this size. The sooner they are gone, the better.

Fortunately, the Government's financing needs arising out of these deficits will not impinge on overloaded credit markets, as was the case in some earlier years. Last year a record volume of funds—perhaps $150 billion—was raised by all private and public borrowers in U.S. financial markets at generally falling interest rates. An ample flow of credit shoud continue through the balance of this year.

We believe that Federal borrowing requirements, sizable as they are, can be met without a pronounced upward impact on yields as we continue to make progress in curbing inflation.

Domestic economic policy has two prime ojectives this year: to reduce both the rate of unemployment and the rate of inflation. A 6-percent rate of unemployment—nearly 5 million people—is clearly excessive. We must do better and we will do better. By the end of this year, we expect to reduce the unemployment rate to the neighborhood of 5 percent.

THE STABILIZATION PROGRAM

On the price front, we have a good chance to achieve our goal of moderating the rate of inflation to below 3 percent by the end of this year. The wage-price freeze was a resounding success, but that doesn't tell us how phase II is doing.

At present we are seeing the price bubble that was expected in the first months after the freeze. Once this interim period is behind us—in a month or two—we can begin looking for the true impact of the phase II controls.

One interesting set of figures on the stabilization program—while some of these have been reported, they have not received much attention—relates to the first 41 prenotification pay settlements approved by the Pay Board. These approvals are comprised of 26 new settlements covering half a million workers and 15 settlements involving retroactive and deferred payments covering 800,000 workers, including the coal and aerospace settlements, both of which called for increases in excess of the general 5.5 percent guideline and both of which received very great attention.

However, in total these 41 settlements showed an average increase in pay of 5.9 percent. The increases in existing contracts and those involving retroactive pay averaged 6¾ percent, while the average increase on new contracts was just 4½ percent.

Now these figures are significant, not because they tell us what the average pay settlement is likely to be for all of 1972; this is too small a sample for that. These averages are significant, rather, because they indicate the wide range of results we are sure to experience during the phase II controls.

Even before phase II got underway, we knew there would be some settlements in excess of the general guidelines that would be approved by the Pay Board. By the same reasoning, we should also expect—and this is what many people forget—that some settlements will fall below the general standard. I am told, in fact, that there have been a few labor contracts negotiated recently that called for no increase in wages (though none of these was included in the 41 settlements mentioned above).

What this reminds us, it seems to me, is that our economy is one that always exhibits great diversity of wage and price experience. We must, therefore, be careful to judge the stabilization program not on any one or handful of decisions, but on the basic thrust and results of the program over an extended period of time.

The Pay Board and the Price Commission are wrestling with a large number of difficult problems. They deserve our full support. In my opinion, there simply is no satisfactory alternative to making these controls work. The stabilization program can be dispensed with only when the threat of serious inflation has been eliminated. We cannot allow inflation to become a way of life.

In the last analysis, our domestic objectives translate into a need for less inflation, more jobs, and higher productivity. That requires a strongly expanding economy and high levels of investment in modern plant, equipment and techniques. This good performance domestically will also provide the foundation for a much more competitive performance in international markets.

INTERNATIONAL DEVELOPMENTS

These past 6 months have been a very difficult period in the international as well as the domestic economic sphere—a period of searching reassessments, major changes and strenuous international bargaining. But initial progress has been made, and I am confident that we are now on the right path. I admit to some optimism about the future.

The problems we faced on August 15 were indeed formidable. The difficulty was not just that we confronted a seriously deteriorating balance in trade and payments and a dangerous strain on our reserve assets. Those were the symptoms of our problem.

The fundamental issue was how to revise the habits and institutions that had allowed the problem to arise. That required changing people's ways of thinking, revising basic premises, and modernizing outmoded but entrenched structures and institutions. Inevitably that is a slow and labored process. It will take a long time to complete. But a beginning has been made.

Our approach has covered the entire range of trade policy, financial policy, and military burden sharing.

In trade policy, our objective has been to assure fair access for our exporters in international markets. We have sought this progress not through defensive or protectionist measures, but through programs aimed at expanding trade and removing inequities that may once have been acceptable but which are inappropriate in light of today's economic realities.

We followed a dual approach—negotiations with our major trading partners, the European Community, Japan and Canada—to resolve certain short-term obstructions at the earliest possible date, and more comprehensive negotiations looking toward the removal of more intractable trade barriers in 1972 and 1973.

The short-term negotiations have brought mixed results. The Japanese Government has announced certain trade liberalization steps of immediate and tangible value to the United States. The European Community has agreed to some limited measures. Regrettably, however, negotiations with Canada have not been brought to a successful conclusion, and we will seek appropriate means of reducing imbalances in our trade agreements with that country.

Looking ahead, both Japan and the European Community have agreed to join with the United States and others in more comprehensive negotiations commencing in 1973 and to continue solving trade problems in 1972.

In defense financing, we have sought to maintain fully the strength of our alliances, while proposing that our allies carry a larger share of the common defense burden in keeping with the great improvement in their financial strength. There have been some results.

Last December our European NATO partners announced increases of about $1 billion in their defense contribution for 1972. They will do this by increasing the weapons they make available to the alliance.

Also, in Germany, where most of our forces are concentrated, a substantial portion of our local currency expenditures are now covered through an offset agreement with the Germany Government.

Nonetheless, the burden-sharing problem has not yet been solved, and our military expenditures represent a large cost to our balance of payments. We must work toward more comprehensive arrangements for equitable sharing of this burden, to neutralize the balance-of-payments issue and allow the alliance to plan its forces solely on the basis of security criteria.

In the monetary sphere, after 4 months of intensive bargaining, the United States and 10 other industrial nations negotiated a realinement of the pattern of exchange rates. Legislation is now before the Congress to implement the U.S. portion of that realinement. The realinement provides the dollar a competitive improvement of approximately 12 percent against its major competitors—leaving aside Canada, whose exchange rate is floating and thus cannot be included in the measurement.

The Smithsonian Agreement also introduced some badly needed flexibility in the system by widening the margins within which exchange rates can fluctuate, and brought agreement to begin work promptly on longer term reform of the international monetary system.

There has been much debate about whether that 12 percent change in the pattern of exchange rates is too little, to much, or just right to restore market stability and international payments equilibrium. There have also been calculations purporting to measure the benefits which it might bring to the U.S. balance of payments. I have seen widely varying estimates of the first-year benefit to our trade and current accounts, and widely varying estimates also of the eventual benefit after the rates have been in operation for 2 or 3 years.

I have no great confidence in such estimates. Economic science has not progressed to the point where anyone can determine the precise pattern of exchange rates that will produce world payments equilibrium. Nor can anybody forecast with accuracy the trade effects which will result from the recent realinement.

Clearly the 12-percent exchange rate realinement provides an important opportunity for improving our balance of payments but it does not determine how well we shall make use of that opportunity. Our progress toward a viable position will depend on how well we manage our economy—on our ability to stimulate expansion without rekindling inflation. Much will also depend on our ability to gain full access to international markets through more equitable and balanced trading arrangements. Progress will also depend on how vigorously our producers compete both in the U.S. market and overseas.

I can assure you that in the negotiations on this exchange rate realinement last December there were many who were concerned that the realinement agreed to might yield too great a competitive advantage to the United States. Needless to say, we on our side saw the problem differently. Inevitably, with vital interests at stake all around, tough bargaining occurred.

In the end I think it was encouraging that the settlement reached was accepted by all parties—and the general public as well—as a fair settlement that benefited all nations. It was my view in December that the settlement had made a real contribution toward the achievement of a lasting equilibrium in world trade and payments. That is still my view.

The Smithsonian agreement was not expected to bring an instant and miraculous turnaround in our balance of payments. Experience with exchange rate changes by other nations had warned us that the initial effects may even be perverse, until traders can take account of the new rates in commercial decisions. Time is needed for our exporters to seek out new markets, and for our importers to find new sources of supply.

We would therefore expect the U.S. balance of payments to remain in substantial underlying deficit throughout 1972, although significantly less than last year's basic deficit of $\$10\frac{3}{4}$ billion.

But we should begin to see effects of the new rate structure before the end of 1972, even though the full effects may not be felt for 2 years or more. Over time other policies now coming into effect will also help—both the new domestic international sales corporations and the job development credit will be helpful in increasing the attractiveness of investing in the United States rather than abroad.

Since August 15 we have laid a foundation for restoring a stable international financial system and for restoring the strong external position we need to permit us to play our proper role as a provider of aid, as a supplier of capital, and as a defender of the free world.

We must now build on that foundation. We must manage our domestic economy soundly, without inflation. We must press for more intensive negotiations to eliminate overseas trade barriers and improve burden sharing. In short, we must not relax but, rather, push ahead.

In conclusion, let me repeat the four primary economic goals of this administration for 1972:

More jobs;

Less inflation;

Higher productivity; and

A better balanced international economic position.

At the same time, I want to make clear my belief that the Congress and the American people should not now—or ever—assume that these economic problems should just be turned over to the Federal Government for solution. Because Government, by itself, does not have the solutions. The Congress does not have them. The administration does not have them. It will take all the Nation—working together—to provide the solutions.

I am one of those who has never believed that all of the wisdom in this Nation resides on the banks of the Potomac River in Washington, D.C. I do not think it has; I do not think it will.

I am one of those who believes in the vitality and productive capacity and ingenuity and enterprise of this Nation—as a whole.

Despite all our difficulties, we still live in a nation that all the world envies. And we shall continue in leadership if we work for productivity and growth and do not let our problems—economic or otherwise—deter us from reaching for a greater future for this land.

Chairman PROXMIRE. Thank you, Mr. Secretary.

Mr. Secretary, do you plan to propose any tax increases of any kind?

Secretary CONNALLY. Not at this time, no, sir. We have no plans to submit any new tax proposals to the Congress.

Chairman PROXMIRE. Mr. Schultz appeared before this committee and said that it was his best judgment that there would be no such request during the year. Would you affirm that same position?

Secretary CONNALLY. Yes. I just did.

Chairman PROXMIRE. This means the value added tax that has been discussed would not be proposed until after 1972?

Secretary CONNALLY. I don't know anybody who has proposed it.

Chairman PROXMIRE. I say if it is proposed, it would not be proposed until after 1972?

Secretary CONNALLY. Yes.

Chairman PROXMIRE. Mr. Secretary, as far as I can see, the administration job creation program consists of an $8 billion unemployment deficit for one fiscal year. Whether this policy succeeds depends on the causes of this deficit, how the money is being spent.

Can you specify the expenditures which are producing the full employment deficit this year, how many jobs these expenditures are creating?

Secretary CONNALLY. First I want to take exception, Mr. Chairman, to your statement that the only action we have taken with respect to the creation of jobs has been the deficit proposed in the budget.

I think everything we have done has been directed toward job creation. We have taken an enormous number of steps. There has just been a tax decrease to stimulate demand in this country. We repealed the excise tax on automobiles to encourage production of automobiles and to provide employment.

We have instituted a public service employment program to provide jobs directly for people and there have been, of those 150,000, approximately 140,000 that have already been employed in public service roles by State and local governments.

We have expanded the number of people on federally assisted manpower programs to record levels. There are about $4 billion appropriated by the Congress, administered by the administration, now in manpower training programs.

We have established computerized job banks to match up job seekers and job vacancies.

We have proposed welfare reforms.

We have proposed special revenue sharing for manpower programs to make them more effective.

We have proposed revision of the minimum wage system to remove obstacles to the employment of young and inexperienced workers.

We have upset the whole international monetary system, in a sense, in order to provide greater opportunities for American products to be sold in the world markets, and that will provide jobs for Americans at home.

As a matter of fact, since June of last year, we have indeed created 1,700,000 new jobs in this country and today there are 80,636,000 people working, the highest number in the history of the United States.

So for you to say, or to leave the inference, that this administration is not concerned with unemployment is indeed a misstatement, because we are. It is a matter of very great concern to the administration, as I know it is to you, Mr. Chairman, and to this committee and to the Congress.

We still have 5.9 percent unemployed. I think we are dealing with a new phenomenon in American employment figures. Because of that, the President has asked the Treasury Department to head up a special study involving eight agencies of the Government to analyze these unemployment figures, to determine why, when we have such a high number of employed people in the country, over 80,600,000, when we can produce 1,700,000 jobs in 7 months, why does it not affect the rate of unemployment by even one-tenth of 1 percent.

So we have that study underway now. Clearly, the immediate answer is that there are a large number of people coming into the labor force. There are more married women coming into the labor force. Younger people are coming into the labor force in unprecedented numbers.

This reflects not only an economic condition, but also in my judgment a social change in this society. The thing we are trying to get to is not to be governed entirely by a bald figure of 6 percent unemployed or any other percentage of unemployed. It is significant that compared to the 5.9 percent rate for total unemployment, about 17 percent was the rate for young people and about 10 percent was the rate for blacks.

This clearly indicates that there is something more involved here than just a sheer statistic. It indicates that perhaps we have, in addition to an employment problem and an economic problem, that we have perhaps a social problem involved here—a social problem of opportunity, a social problem of jobs, a social problem of training, and so forth. So we have to look at the causes of this unemployment.

If you take the unemployment of male adults, heads of families, you get down to an unemployment rate of 3 percent. So we can't be carried away by an unemployment figure of, say, 6 percent, and take fiscal and monetary actions just on the basis of that, without understanding what that 6 percent is comprised of.

Chairman Proxmire. I want to get to that, Mr. Secretary. You haven't been responsive to my question. First, let me say that repealing the excise tax on automobiles, on the basis of all the evidence we have, has produced no jobs at all. The automobile industry itself indicated in spite of the fact they were the principal beneficiaries of the new economic policy if any industry was, no new jobs were created but the people working there worked longer hours.

As far as public service jobs are concerned, the President vetoed the first public job proposal by the Congress. We have a number of very ambitious proposals made by Members of the Senate, and prominent Members in the House, which certainly haven't been supported by the administration.

The administration did finally agree, reluctantly, to a public service employment program.

Also I might point out, Mr. Secretary, that the unemployment of married men has increased at a more rapid rate, even though it is low, even though it is 3.2 or 3.4 percent—it was 1.8 percent——

Secretary CONNALLY. 1.8 percent, Mr. Chairman, in the maximum buildup period of Vietnam. You can't compare the conditions that exist today with what existed in 1966, 1967, and 1968 when you had a massive buildup in this country of military goods for the prosecution of the war in Vietnam.

Chairman PROXMIRE. What I am saying is that this is a high rate of unemployment for married men on the basis of our past experience.

My question was this: I wanted you to specify, if you could, the expenditure increases which are producing jobs. You say that your program is producing jobs. You say all the expenditures do. But there is a great difference in the number of jobs produced per dollar of expenditure.

For example, in agriculture price supports, increased military pay, transfer payments, produced far less than public service employment. Public works, far less. This is the kind of analysis, it seems to me, that would be very useful to us, so we could zero in on those expenditures which would produce jobs, since, as you say, the President is very anxious to reduce unemployment. I am not faulting him on that intention.

I am just saying we don't have the policy or program to do it.

Secretary CONNALLY. Mr. Chairman, as you well know better than I, when you have an expansionary budget of this kind, in 1972 in particular, all of the expenditures tend to increase employment.

You obviously can take out items, such as military pay, and it might not create quite as much as public service employment programs. But the entire effect of this type of a budget is to provide for expansion and to creat jobs, create job opportunities. There is no question about that.

Chairman PROXMIRE. I just challenge its effectiveness.

Secretary CONNALLY. The basic difference, I think, is in philosophy. The philosophy of this administration is that it is the primary responsibility of the private sector to provide jobs in the United States, and that this Government ought not to adopt the attitude that it is the responsibility of the Federal Government to hire all the people who don't have jobs in this country.

When we get to that point, I think we are in real serious trouble. We are not proposing that. We are not going to propose it. We are not going to support it.

Chairman PROXMIRE. You were most emphatic in saying you were not going to support price controls or that you would never cut loose some gold. It seems to me that whereas the people of the United States may not stand still for a guaranteed annual income, I question that very much.

But when it comes to the Government as employer of last resort, I think that is something else. This is right in the Puritan ethic. This is something we believe in. If a man wants a job, he should have an opportunity to get it and there is no other institution in our society except the Federal Government that can assure the opportunity.

Secretary CONNALLY. I don't think we ought to go to the point of the Federal Government hiring him.

Chairman PROXMIRE. Let me ask you to state for the record your definition of full employment. Can you tell us when you think we might reach a full employment goal?

Secretary CONNALLY. I think that is a concept that no one can define even to their own satisfaction, much less everybody else's. My idea of full employment would be to have an economic condition existing in this country where all people who are able, who have skills, who want to work, have an opportunity to find a job. That would be my analysis of it.

Chairman PROXMIRE. Let me say what other people have been saying. Erza Solomon in testimony before the committee last week, a member of the Council of Economic Advisers, said:

> I am perfectly willing to buy the four percent unemplyoment that has been used in this country for computing the full employment budget. It has been in effect for 10 years. I see no reason to change that. It has always been a tentative target. I would speak of it as the rate we would like to get to.

George Shultz who appeared said:

> The definition we have used in calculating full employment is a rough four percent unemployment level. We have to be constantly alert as to how we are going to go about getting the genuinely full employment. That is the situation where I think anybody who wants a job and is willing to work realistically can find a job, whether that is a young person, a woman or a man. It is hard to pin a percentage on that. Certainly if we work at this it would be lower than four percent.

Those are fine statements. They are nice and clear. They sound very good on the public record. Now I want to quote from a staff study by your Department, the Treasury Department:[1]

> Over the next few years a four percent unemployment rate as a national goal is not feasible without significant inflation. This might apply even if some new fundamental approaches in manpower training not now in sight were tried.

That is a most pessimistic statement in light of what we have heard from the head of the Office of Management and Budget and the Council of Economic Advisers.

Do you share the views of your staff on that question?

Secretary CONNALLY. Mr. Chairman, I would strongly recommend that we try to find out who gave you that document and ask him to come up here and defend it. I have not read that document. It is a working paper that certainly bears no stamp of approval from the Treasury Department.

Chairman PROXMIRE. Do you repudiate it? It was prepared by Herman I. Liebling.

Secretary CONNALLY. I don't have any comment on it. I don't know whether I am for it or against it.

Chairman PROXMIRE. I read you the quotation. I asked you if you share the view that a 4-percent unemployment goal is unrealistic and we can't achieve it?

Secretary CONNALLY. I think the best answer to that is what you just read from Mr. Shultz and Mr. Solomon. I have testified time and again that 4 percent is the assumption made in the preparation of the budget on a full employment basis. That is the assumption used by the administration. We see no reason to change it. I think that is the best answer I can give you.

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[1] See article entitled "The Unemployed: Who, Where, and Why," beginning on p. 376.

Chairman PROXMIRE. You were emphatic about a year or so ago in indicating we had never gotten that low except in wartime, and you thought it was unrealistic to talk about it.

Secretary CONNALLY. No, I didn't say that. What I said, Mr. Chairman, was that the idea that 4 percent unemployment was a norm was a fallacy. That is what I said.

Chairman PROXMIRE. Nobody argues it is a norm. It is our goal.

Secretary CONNALLY. I have no argument with the goal. I have no argument with that. I agree with you. That ought to be our goal. Our goal should be greater than that. My personal goal is not 4 percent. My personal goal is that we have an economic condition in this country without inflation where anybody that wants a job can get a job, so you are talking about zero unemployment.

Chairman PROXMIRE. Without inflation it is the problem. We have to reconcile that. We have to make a decision.

Secretary CONNALLY. I understand.

Chairman PROXMIRE. Is it consistent to expect to get to the 4 percent unemployment with reasonable price stability?

Secretary CONNALLY. It has to be very carefully done.

Chairman PROXMIRE. Do you think it can be done?

Secretary CONNALLY. I think it can be done but it has to be very carefully done. I must say past experience doesn't indicate it will be easy to do.

Chairman PROXMIRE. I am delighted to give that view.

Secretary CONNALLY. May I finish?

Chairman PROXMIRE. Yes.

Secretary CONNALLY. I am simply saying that to reach that without inflation is going to be extremely difficult. I said that it is a goal, something that I think we should seek, but I don't think we should kid ourselves that we will reach it easily. It hasn't been done. Past experience doesn't indicate you get to it unless you have at least a degree of inflation building, strongly building, when you get to that point.

Chairman PROXMIRE. Mr. Widnall.

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Secretary, a number of both liberal and conservative economists, including economists within the administration, have stated that they doubt we can attain noninflationary growth at 4 percent unemployment by the use of conventional demand measures alone.

Nevertheless, the administration uses 4 percent as a full employment measure when presented its slim full employment budget surplus for fiscal year 1973.

If there are conflicts, how can you say 4 percent is too low a figure, and yet it is the figure we should use to calculate the full employment budget?

Secretary CONNALLY. I think, Mr. Widnall, we get down to the question of semantics here. My answer to it would be that we are not relying solely on just—the economist's term—"demand" to try to get us to that point, but we have, in effect, changed somewhat the structure of the operations of the Government in order to try to reach it.

I don't think there is anything inconsistent. I think the explanation that we have to continue to give is that we have to be careful that we don't delude ourselves that we are going to be able to reach the 4 percent unemployment without coming very close to again starting the fires of inflation.

This is just the question I responded to from the chairman.

Representative WIDNALL. Would you comment on the view held by many that if we tried to increase our productivity this will throw more people out of work?

Secretary CONNALLY. I just don't happen to believe that. I think our only hope is to increase our productivity, to expand this economy, to make our products more competitive, and, if we can, it will mean the enlargement, the expansion of plants, the building of new plants, and will provide additional employment.

If you adopt the theory that you are going to create unemployment by increasing productivity, we might as well throw in the towel now. I just don't subscribe to that theory.

Representative WIDNALL. Don't we have a situation existing in the country now that we didn't have before, a large part of our economy being based on service industries?

Secretary CONNALLY. Yes, sir. It is constantly growing.

Representative WIDNALL. That is, rather than production.

Secretary CONNALLY. About two-thirds of the work force in America is now employed in what are classified as service industries, the highest in the history of the country, and it is going to increase.

Representative WIDNALL. So that you just can't truly compare what happened 10 years ago as against this year because of the nature of the economy.

Secretary CONNALLY. No, you cannot, in many different ways. You cannot compare what happened 10 years ago. The unemployment figures of 10 years ago are vastly different from what they are today. The entire competitive situation of American industry 10 years ago and today are not even comparable. They are not even in the same league. We have to recognize that we are living in a very rapidly changing economic structure.

If we assume that we are going to drift along, as we have for the past decade, we are going to be confronted with the same problems, that we can solve them by the same theories and solutions. We couldn't be more wrong. We are going to be in deep trouble.

Representative WIDNALL. Some economists have tried to make the case that the United States cannot improve its productivity by the large percentage increases achieved by countries such as Japan who are farther behind us in their capital development.

What kind of strides do you believe we can make?

Secretary CONNALLY. I think if the Nation really puts its mind to it, if we really were compelled by a sense of urgency and necessity on the part of both management and labor, and assuming that we had certain management skills of enormous breadth available in the country, we might achieve a productivity increase in a very short period of time of 25 percent. I think that is possible.

Representative WIDNALL. As much as 25 percent?

Secretary CONNALLY. Yes. I would not want to do it under the existing circumstances. I made a number of very basic assumptions. But it is possible for us to do it.

Representative WIDNALL. Have you had any studies within the Treasury to back up that?

Secretary CONNALLY. No, sir; we don't. Not that I am aware of.

Representative WIDNALL. As you are well aware, there has been severe pressure against the dollar in the international exchange markets, with the price of gold on the free market going up to $50 per ounce, a record high.

In a recent speech before the Mid-Winter Trust Conference of the American Bankers Association, a former Treasury Under Secretary criticized the administration and the Federal Reserve for pursuing an interest rate policy in recent weeks which has brought more pressure against the dollar. Can you comment upon that charge?

Secretary CONNALLY. I will be glad to, Mr. Widnall.

I think Chairman Burns probably made more cogent comments on it than I can make when he appeared before the committee last week. I will simply say that it is part of our problem in this country today to bring down interest rates. We have more to concern ourselves with than what the international bankers and the central bankers of Europe think about our interest rates.

There is no question but that the low interest rates, particularly the short-term rates in this country, tend to create a disparity between our interest rates and the interest rates in Europe. There is a great disparity. This, in the first place, resulted in a considerable outflow of money from the United States last year. It prevents a reflow of some of this money this year. But you have to balance equities. You have to try to solve a great many problems at one time.

The thing we need in this country, in my judgment, is continued pressure to bring down interest rates, but not necessarily short-term rates. Short-term rates have gotten quite low. Treasury bill rates this last week, I believe, hit a low of 2.92, which is about the lowest they have been since 1963. But the intermediate and long-term interest rates in the United States are still too high, in my judgment, and the only way we are going to bring those interest rates down is to keep fighting to dispel the idea that we are inevitably linked with inflation, and to purge from the American mind the idea that the only future the United States has is one of inflation.

If we can ever get this idea across, if we can, in effect, slow this inflation, which we are desperately trying to do, and I think with considerable success, we will squeeze the inflation out of these interest rates and I think they will come down. That is about the only comment I have on it.

Representative WIDNALL. It still seems to me that the matter of the confidence of the American people is the No. 1 consideration right now. What disturbs me a great deal is the way economic reports change; many of them are favorable regarding improvement of the economy. However, as reported in the press time and again, these favorable developments are reported with a great, big "but" which casts a doubt on what has happened and shaking the confidence of the people.

I just don't understand the emphasis all the time in the press on "but," just as though they don't want us to succeed, they don't want us to improve conditions, they don't want the economy to grow.

I just can't fathom it at all from anyone who has an interest in the country and the welfare of our citizens.

Secretary CONNALLY. I think part of it can be explained, Mr. Widnall, if you want a comment from me, by the fact that good news is rarely big news. It is always the bad news that grabs the headlines and makes the big stories. It is the dramatic news. I think that is part of the answer.

Representative WIDNALL. Thank you, Mr. Secretary.

Chairman PROXMIRE. Congressman Reuss.

Representative REUSS. Thank you, Mr. Chairman.

Welcome, Mr. Secretary.

Yesterday, the Government announced that the 1971 balance of payments deficit on an official settlement basis was in excess of $29 billion. That is the greatest deficit, I believe, ever suffered by any country in the world. You have testified here this morning that in 1972, this year, the U.S. balance of payments will remain in substantial underlying deficit.

My question, Mr. Secretary, is this: With reference to such problems as the overhang of dollars that foreign central banks now somewhat unwillingly hold, and in reference to the issue that has been raised of the return to some form of convertibility for the dollar, what is the action program of the U.S. monetary authorities for 1972 to insure peace and stability in the monetary system? What are you going to do?

Secretary CONNALLY. Well, I think the most effective thing we can do, Congressmen Reuss, is to try to get our own house in order, to do the very things we are doing. I think we have to try to have the necessary economic expansion in this country. I think we have to have a slowing of inflation in this country. I think we have to have increased employment in this country. I think we have to have increased productivity in this country.

Representative REUSS. Let's stipulate that full employment without inflation at home is the first and greatest commitment. What about the international monetary scene?

Secretary CONNALLY. This all has an impact.

Representative REUSS. Surely.

Secretary CONNALLY. I think if we can do this, I think you are going to find that at the end of 1972 we did a better job of managing our economy than any major industrial nation in the world.

I think during this year you will see a substantial reflow of dollars back to the United States. I think American business interests will come to the conclusion that they can indeed make expanded investments in this country without fear of inflation completely eating them up in the years ahead. I think other nations, on the other hand, are being plagued by the same thing we are and that we have been. They are being plagued now with rising costs, rising wages, rising expectations on the part of all their people, the necessity for putting a great deal of their resources into social programs, into environmental programs, and other things of this sort.

Other nations are trailing us because their standard of living is not what ours is. But when they start diverting some of their resources toward the curing of their own social problems and their own social ills, frankly, that is going to have an impact on their ability to compete with us.

With the exchange-rate realinement that has taken place, I think the overall situation that we will encounter in 1972 is going to be greatly improved.

Representative REUSS. We agree that it is important to get to full employment without inflation in this country. But are you suggesting that we treat the problem of the $50 billion overhang in foreign official hands, the problem of flexibility, the problem of gold, with benign neglect this year?

Secretary CONNALLY. No, Mr. Reuss. I don't want to get back into this business of benign neglect. We were confronted with that all last year. I think we clearly demonstrated that we think we live in a family of nations, that we are not unmindful of the problems that the outflow of dollars has created for other Governments.

On the other hand, if you are asking me whether or not we are going to start meeting to provide an overall, long-range restructuring of the International Monetary Fund and allied institutions, the answer is yes, we certainly will begin those negotiations.

If you are asking me——

Representative REUSS. When?

Secretary CONNALLY. We will do it at the appropriate time this year in the not too distant future. I don't want to put a timetable on it because I won't know until the date is set for any meetings.

If you are asking me whether we anticipate we will go back to the convertibility of the dollar this year, my answer is no, I don't anticipate that at all. I don't want talk to get started in the United States that we are going back to convertibility of the dollar this year, because we are not going to. We made that clear to every major country of the world.

If they expected us to talk about the convertibility of the dollar, and some did, I simply said we would ask for three times the realinement we were asking for. It would be sheer folly for this Nation to go back or consider going back to the convertibility of the dollar unless and until we are certain that we have improved our trade situation and our balance-of-payments situation to where we can afford it. Otherwise, we are back in the same trap we just got out of.

Representative REUSS. Let's talk about gold, where you have repeatedly said, and I think correctly, that the role of gold as a reserve asset should be diminished. On December 30, 1969, we signed up on the South African IMF Gold Agreement, over my opposition.

Under that agreement, the IMF undertakes to buy from South Africa whatever gold South Africa says it needs for foreign exchange beyond what can be satisfied by the sale of its current production.

That agreement also contains the proviso: "This decision shall be subject to review whenever this is requested because of a major change in circumstances."

My question is, doesn't the closing of the gold window on August 15, and the subsequent Smithsonian agreement, constitute a major change in circumstances, and shouldn't you, accordingly, promptly ask for a review of that December 30, 1969, decision?

Secretary CONNALLY. Let me ask Under Secretary Volcker to respond to that, Mr. Reuss. I think he can give a better answer than I can.

Mr. VOLCKER. I certainly think those events could be a reason for review. In which direction, of course, is the question that arises. There may be requests from others for such a review. I would say that agreement has been working extraordinarily well, Mr. Reuss, from all the information we have. South Africans have been selling their full gold production into the market during this period of some turbulence. I think that has been helpful.

Representative REUSS. Haven't they also sold gold to the IMF in the last 3 years, during the agreement, under the clause I just specified?

Mr. VOLCKER. The agreement hasn't been in effect for 3 years.

Representative REUSS. Well, since it has been.

Mr. VOLCKER. They have sold some gold to the IMF since the arrangement has been in effect, but not recently.

Representative REUSS. To the extent they have sold that gold to the IMF, hasn't that meant that that gold, if sold on the free market, would have caused a lower price of gold in the free market and, hence, less nervousness, less turbulence, and less trouble generally?

Mr. VOLCKER. There hasn't been any gold sold to the IMF, to the best of my recollection, since August 15, during this period of turbulence and concern to which you refer.

Representative REUSS. Prior to August 15——

Mr. VOLCKER. Prior to August 15, at times there were sales.

Representative REUSS. I am talking about the monetary mess.

Mr. VOLCKER. We were not brought to our knees by the turbulence; not at all. I want to make sure the record reflects this clearly. There was no turbulence in the gold market that brought us to our knees. We were brought to the suspension of the convertibility of the dollar by the deterioration in our trade position, by speculation in the foreign exchange markets, not by speculation in the gold market, which was acting very calmly all during this period.

Representative REUSS. How much gold did the IMF buy from South Africa during calendar 1970?

Mr. VOLCKER. I don't recall that number. I could supply that.

Representative REUSS. Wasn't it close to $1 billion worth?

Mr. VOLCKER. Not that I recall, no.

Representative REUSS. Would you fill in for the record the amounts? While I am delighted that the Treasury recognizes a major change in circumstances has occurred and hence this agreement should be reviewed, I am distressed here that maybe you want to review it in a way which will introduce more gold into the international monetary system.

Mr. VOLCKER. I did not suggest that. I suggested that could be the position of some people, not of the U.S. Government. Certainly not.

(The following information was subsequently supplied for the record:)

The IMF bought $672 million of gold from South Africa in connection with the operation of the Agreement with South Africa for calendar year 1970. This includes $32.5 million purchased on January 2, 1971. For the year 1971 the IMF brought $105 million, all pertaining to operation of the Agreement in the first six months of the year. South Africa also paid $30 million in gold to the IMF in July 1971 to cover the 25 percent of its quota increase mandatorily payable in gold.

Representative REUSS. You are starting to make me happy again. Is it then the position of the U.S. Government that we should promptly discontinue the December 30, 1969, South African Gold Agreement? I would hope that would be our position. Is it?

Mr. VOLCKER. I don't know what you mean by discontinuing. Replace it with what? If you say replace with an agreement that the IMF under no conditions would buy any gold——

Representative REUSS. Replace it with the March 1968 two-tier gold agreement, which says that gold is steam in the radiator and none comes in and none comes out——

Mr. VOLCKER. We have been through this before, Mr. Reuss. Unfortunately, that March 1968 agreement did not settle the role of South African gold in the system and there was a large difference of view as to how to handle the problem of South African gold.

We arrived at what I think was a satisfactory arrangement that has been helpful during this period. If you ask me from the standpoint of the United States whether it wouldn't be preferable to have an agreement where under no conditions South Africa sold gold to the IMF, I would agree with you. Whether all the other countries in the world would agree with that at this point, I don't know. We can test that out. I would be skeptical whether that position would be easily accepted by other governments. It is an admirable position for the United States to take.

Representative REUSS. Mr. Chairman, my time being almost up, I would like to present several questions to be answered by the Secretary for the record.

Chairman PROXMIRE. Without objection, would you answer those when you receive the record?

(The information to be furnished follows:)

RESPONSE OF HON. JOHN B. CONNALLY, JR., TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE REUSS

Question 1. On February 10, the New York Times published an article based on an interview with Otmar Emminger, a Director of West Germany's Central Bank. In this interview, Mr. Emminger apparently charged that the United States was "unjustifiably" and "unwarrantedly" hindering the operations of the International Monetary Fund. He said that the refusal of the United States to make a contribution to the Fund of $300 or $400 million was preventing other countries from repaying their debts to the IMF. During the interim, while the dollar remains inconvertible, shouldn't the United States do everything it can to insure that the international monetary system functions as smootly as possible? It seems to me that we certainly could afford a $300, $400 or even $500 million payment to the IMF to help that organization discharge its responsibilities aand to help debtors repay their loans. Do you agree?

Answer. It would be inappropriate to comment on the *New York Times* article reporting on an interview with Dr. Emminger. All countries participating at the Smithsonian meetings last December were aware that the United States was in no position to resume convertibility. The question of convertibility is to be taken up with other aspects of longer-term reform of the monetary system. The question of IMF-related transactions is a different, and more limited question, not of convertibility but of facilitating IMF operations.

With respect to IMF operations *per se*, it is not correct that any countries have been prevented from repaying their debts to the IMF. To date repayments and new drawings have been fairly evenly matched, so that under present arrangements, repayments have been made smoothly.

A technical problem may arise over the next few months; because repayments are expected to exceed new drawings substantially. The bulk of these repayments would normally be made in dollars, but the IMF cannot accept additional dollars in the normal course in such repayments because its dollar holdings already exceed the limiting 75 percent of quota. Repaying countries will have to obtain other currencies that are currently acceptable to the IMF. The net impact of these transactions will be some redistribution of dollar holdings abroad and some reduction of the IMF reserve positions of countries whose currencies are used in repayment.

A number of suggestions have been put forward as to how these effects might be moderated. We expect to engage in continuing discussions with the IMF and other countries on how IMF operations might best be handled in the future.

Question 2. When the United States in two years or so once again agrees to begin paying for a portion of future payments deficits by depleting our reserves, isn't it important that we have some guarantees from other nations—particularly surplus countries—that they will adjust their exchange rates promptly to insure against any future chronic U.S. deficits? How can we insure greater flexibility for dollar exchange rates in the future and a wider latitude for the U.S. to devalue on its own initiative when this country under all foreseeable circumstances will continue to occupy a predominant position in the international economy and the dollar will continue to be used as the chief intervention currency?

Answer. The question of convertibility is to be discussed in the context of longer-term reform of the international monetary system. As noted in the Smithsonian Agreement of the Group of Ten, there is a close link between the various aspects of monetary reform. We agree that judgments regarding the possible resumption of convertibility should be made only with a clear view of arrangements in the other areas including, importantly, those mentioned in Mr. Reuss' question—adjustment responsibilities of surplus countries, the degree of exchange rate flexibility and the role of the dollar in the system.

Question 3. Can you outline what other conditions you believe must be fulfilled before even a limited form of dollar convertibility can be restored?

Answer. We have not developed any formulas or conditions that could be used as a basis for a decision on whether to resume even limited dollar convertibility. Certainly our balance of payments position is a critical factor. Beyond that, we would want to have a clear view of the prospects in the other major areas of longer-term monetary reform mentioned in the Smithsonian Agreement:

The monetary means and division of responsibility for defending stable exchange rates;

The proper role of gold, reserve currencies and SDRs in the system;

The appropriate volume of liquidity;

The appropriate exchange rate margins and suitable degree of flexibility; and

Other measures to deal with short-term capital.

These issues need to be approached in parallel. Views internationally vary widely on each point, and it will probably take a considerable period of discussion before we are able to see the shape of the new system as a whole clearly enough to consider the kind of commitment entailed by convertibility.

Question 4. Mr. Secretary, as you know, preliminary Treasury statistics show that there were 112 Americans with reported adjusted gross incomes in excess of $200,000 for the 1970 taxable year who paid absolutely no Federal income tax. These 112 non-taxpayers of course just represent the tip of the iceberg. Tax-free interest on state and local bonds is not even reported at all. Furthermore, "adjusted gross income" does not include ½ of all long-term capital gains, the excess of percentage depletion over cost depletion, farm losses, or a variety of other items which are subtracted before we even get to "adjusted gross income." Thus, many of these 112 non-taxpayers probably had much higher income than appears in the Treasury statistics, and many other non-taxpayers with actual incomes in excess of $200,000 do not appear at all.

In order to get some idea of this larger picture, could you supply the following information for the record:

The number of taxpayers with amended adjusted gross incomes (as defined in Table 5 of the 1968 Treasury Tax Reform Studies and Proposals," p. 81—i.e. statutory adjusted gross income plus the excluded ½ of long-term capital gains) *in excess of $200,000 who paid taxes for 1970 at an effective tax rate (as defined in the 1968 Studies) of 14 percent or less. Please break this down into three categories: 1) amended adjusted gross income from $200,000–$500,000, 2) from $500,000–$1,000,000, and 3) $1,000,000 and over.*

Answer. The information requested by Congressman Reuss would not ordinarily be available until late summer when the full *Statistics of Income* sample become available in a usable form. It is possible to secure some information earlier based upon a smaller sample. We are in process of reviewing the available data and attempting to determine whether results based upon the smaller sample would be of value. We expect to have some preliminary results in about a month or six weeks.

Chairman PROXMIRE. Senator Miller.

Senator MILLER. Thank you, Mr. Chairman.

Mr. Secretary, there has been a lot of talk about unemployment. Would it not be fair to say that one way of getting a perspective on this would be to say that it is better for the people of this country to have a 6-percent unemployment rate during peacetime than a 3-percent unemployment rate during wartime?

Secretary CONNALLY. If that is the only choice you have, Senator, I would have to go with the 6 percent in peacetime.

Senator MILLER. That I would hope would be the feeling of most people in this country. That doesn't mean that we should be satisfied with it.

Secretary CONNALLY. That is right.

Senator MILLER. And the administration is not satisfied with it, and they are trying to do something about it.

Secretary CONNALLY. That is correct.

Senator MILLER. But for somebody to come along and compare a 3-percent unemployment rate during a time of war with a 6-percent rate during peacetime, and criticize the latter, is not facing up to reality, is it?

Secretary CONNALLY. When we talk about 3-percent unemployment, I don't know how far back in history you would have to go to find that figure.

Senator MILLER. We had that, I believe, in 1968.

Secretary CONNALLY. It would have to be during the Korean war.

Senator MILLER. I believe we had a 3-percent unemployment rate during the peak of the Vietnam war, too.

Secretary CONNALLY. I think it was 3.3 percent.

Senator MILLER. Has the Treasury Department or any office in the administration that you know of made any rough calculation of the number of jobs that are tied into this foreign trade balance? For example, as I recall, we had a $7.5 billion favorable balance of trade in 1964. Last year we had practically nothing.

Has anyone calculated the number of jobs that would be in existence today, the number of people who would be working, if we were back at the $7.5 billion favorable trade balance; or has anybody said, "Well, the target of this administration is to improve our favorable trade balance by $1 billion in 1972, $2 billion in 1973. How many jobs would be tied in with that objective?"

Secretary CONNALLY. I am not sure we have any such figure. I certainly don't recall any, Senator. Let Mr. Volcker respond.

Mr. VOLCKER. There are very broad and rather arbitrary rules of thumb that can relate improvements in the trade balance to improvements in the employment situation. Obviously, if you export more and import less, these are certain job implications in the United States. There have been various calculations that $1 billion in the trade balance will produce 30,000, 40,000, 50,000 jobs. I think as rules of thumb, those are fair appraisals.

Senator MILLER. If you could get something on that and supply it for the record, Mr. Volcker, I think it would be helpful. I think everybody understands that if we have a favorable trade balance, we will have more people working in this country than if we have an unfavorable balance.

Secretary CONNALLY. There is no doubt about that.

Senator MILLER. For example, suppose our trade balance should improve by $2 billion. Would that mean that unemployment in this country might go down by a half of 1 percent? We would like to get something on that, if you can find it.

Mr. VOLCKER. It wouldn't go down by that much, the size of improvement that you suggest.

Senator MILLER. I beg your pardon?

Mr. VOLCKER. It wouldn't go down by half a percent by a $2 billion improvent in the trade balance. It would go down, all other things being equal. We can give you calculations on that.

Senator MILLER. That would be fine.

(The following information was subsequently supplied for the record:)

There is no doubt that exchange rate realignment should materially assist in the effort to reestablish satisfactory levels of employment in the United States. We estimate that every $1 billion improvement in the trade balance should bring us about 60,000 jobs.

Unfortunately there is no way to predict the amount of improvement in our trade balance which will occur as a result of the realignment. Estimates have differed widely and the Treasury does not feel that any of these estimates merits its endorsement.

If, for purposes of illustration, we assume that the improvement in our trade balance may ultimately be $8 billion, as is implied in analyses which have been put forward by some observers, including international institutions, the number of jobs created should be in the range of 500,000.

This estimate takes into account not only the added employment in the production of goods directly for export and for use in lieu of imports but also the indirect employment in producing goods which ultimately become a part of those goods produced for export or in substitution for imports. This estimate is geared to the economic circumstances we face over the next two years as the economy moves toward satisfactory levels of employment and allows for the multiplier effect on other domestic income. In short, we expect an improvement in the trade balance to enable the U.S. to restore satisfactory employment levels in a shorter period of time and with less resort to expansionary fiscal and monetary policy than would otherwise be necessary.

Trade in agricultural products and raw materials is likely to derive less benefit from the exchange realinement than trade in manufactured products. Consequently, most of the benefits are likely to be in manufacturing and the service industries associated with manufacturing.

When one attempts to identify particular industries in which job gains might be expected, however, estimating difficulties multiply rapidly. One would expect benefits in heavy industry, machinery and perhaps automobiles because trade in these products is a very important part of our total international trade in manufactured goods. U.S. trade in manufactured products is very highly diversified, however. For instance, no single manufacturing industry accounts for as much as 4 percent of total export employment. Moreover, an important part of the gain in jobs arises from the multiplier effect of the increase in income. For these reasons we would expect the benefits to be widely scattered throughout the economy.

Senator MILLER. Mr. Secretary, in your statement, you referred to last year's basic deficit in the balance of payments of $10¾ billion. How does that tie in with this reported official settlement deficit of $29.6 billion?

Secretary CONNALLY. I am trying to find the precise figures. Obviously, you are talking about different things. The basic balance includes your merchandise trade balance——

Mr. VOLCKER. The basic balance includes, Senator, the current account—including the trade balance and interest payments, tourist expenditures, military expenditures, all the other current items—plus long-term capital, such as direct investment and investment in stocks and bonds in either direction.

The official settlements balance is an all-inclusive figure and it includes short-term capital. Last year we had very large flows of short-term capital, either Americans placing funds abroad short term or foreigners that had short-term capital in the United States withdrawing that capital.

Senator MILLER. What was the nature of the American short-term investment overseas?

Mr. VOLCKER. Well, it takes a wide variety of channels.

The other point I would make, which is the best response I can make to your question, is that we had a very large item in the balance-of-payments accounts last year that affects the difference between those two items, called errors and omissions.

In other words, we just don't know. That swelled to very large proportions last year. The normal assumption is, and I am sure last year it was correct, that these so-called errors and omissions reflect largely unrecorded movements of short-term capital. For instance, an exporter will delay receipt of the money due to him, or an importer will advance payments, and our statistical reporting network does not pick that up very easily.

Undoubtedly, a large volume of this kind of so-called leads and lags was going on last year because people anticipated exchange rate changes. So they were in a sense hedging or speculating. Through these diverse channels, most of which are unfortunately not identified in the statistics, they were speculating. So while we can be quite confident that there were large movements of short-term capital, we can't identify them precisely in answer to a question because the statistical reporting just isn't good enough.

Senator MILLER. How much of this worsening that has occurred would be attributable to the export of U.S. capital?

Mr. VOLCKER. If you look at worsening in terms of the official settlements balance, the overall figure that swelled up to roughly $30 billion, the vast bulk of that deterioration is unquestionably due to United States and foreign capital movements.

I think more meaningfully, you should look at the basic balance. This is an attempt to come to the underlying trends, to look at the underlying picture. We had a deterioration in the neighborhood of $7 billion last year. About $5 billion of that, as I recall, was in the trade accounts. That, of course, is the alarming, dangerous trend that was proceeding not just last year but that accelerated last year. It had proceeded under inflationary pressures ever since the mid-1960's. It had reached the point last year, with the trade accounts moving into deficit and deteriorating at a very sharp rate of speed, that really forced the kind of drastic measures that were taken last summer to reverse that deterioration.

I think we ought to probably keep focused on the trade position, the current accounts position, and the basic balance rather than these gyrations in the more comprehensive, in a sense, official settlements balance.

Senator MILLER. Thank you very much.

Mr. Cohen, there have been some accounts recently in newspapers that a number of individuals had very high incomes in 1971 or in 1970—1970, I believe it was—and didn't pay any Federal income tax.

When we passed the Tax Reform Act of 1969, I think it was our feeling that we had pretty well closed down all the loopholes except one, and that was the tax exemption for State and local school district bonds.

What is the Treasury's view toward these reports and whether or not the Tax Reform Act of 1969 did pretty well close all the loopholes, except for the one I mentioned so that we could go to the American people and say that everybody is going to have to pay some tax when they have a large amount of income, unless there is something like a loss carryover, an operating loss carryover, or something like that, or did we miss some of these loopholes?

Mr. COHEN. Senator Miller, this figure that was released originally of 112 individuals with adjusted gross income in excess of $200,000 who paid no tax in 1970 is a figure which came from a preliminary computer run in connection with the preparation of statistical data which the Internal Revenue Service does every year for publication.

Out of 75 million individual returns that are filed we take a sample of 500,000 returns to prepare statistics of income. This includes every return with a gross income above $200,000. In connection with each return we note, among other things, the gross income and whether a tax was paid. So when you run the computer you can easily throw out the number of cases at any income level in which there was gross income but no tax.

This is before audit of the returns. Audits of these returns are in process at the present time.

I would say this: We probably never will get to a situation in which there will be tax paid by every individual with gross income above $200,000 because we allow, intentionally, deductions for various items, charitable contributions, State income taxes paid, State property taxes, interest payments, casualty deductions, and so on.

Senator MILLER. You said gross income. Did you mean adjusted gross income?

Mr. COHEN. Adjusted gross income. But that is, in effect, business and investment and salary income without deductions for what we call personal deductions, such as taxes paid, medical expenses, charitable contributions, casualty losses, alimony, and things of that kind.

In 1969, before the Tax Reform Act took effect, we had 300 such returns with adjusted gross income above $200,000 that paid no Federal income tax. In 1970, our preliminary figures show only 112. That is seven-tenths of 1 percent of the total number of returns, over 15,000 returns that showed gross income above $200,000. All the rest paid tax.

More significantly, as to the amount of the income on these returns with gross income above $200,000 that showed no tax, the aggregate adjusted gross income dropped from $279 million in 1969 to $46 million in 1970, less than 17 percent of the total in 1969.

We have pulled in from the field copies of all of these 112 returns. The first data was preliminary and we find there were some errors in classification that have now been checked for the preparation of final data. To summarize briefly, we found that eight of these 112 returns ought not to have been in this category. For example, three of them actually paid tax which wasn't noted in the initial transcript. Three of them were delinquent returns from prior years that were mixed in with the 1970 returns. One was a duplicate. One did have, as you suggested, a net operating loss from a prior year.

If you take out those eight, you had 104. Of the 104, six paid income tax, mostly on salaries, to foreign countries, and we allow credit against U.S. income tax for foreign income tax paid. So these persons actually paid substantial taxes but to foreign countries. That left 98.

Of the 98, 12 were due principally to deductions for State income tax for prior years paid by taxpayers who are on a cash basis.

This kind of situation can exist where, for example, in 1969 a man had a large capital gain, far above his income for 1970, and paid in 1970 a State income tax on the 1969 capital gain.

There are some other reasons why this can happen, but generally I think it is due to the payment of State income taxes in the following year, a quite natural thing, that can wipe out the man's lower income for 1970.

If you subtract those 12, that leaves 86. We had, in addition, 19 pages of miscellaneous deductions, most of which are going to have to be audited pretty carefully, including one case with gambling losses deducted, against gambling income, in excess of $400,000—a return merely reporting gambling gains of some $400,000 and gambling losses of $400,000, by a taxpayer with whom the Internal Revenue Service has a controversy every year.

Two cases showed theft casualties. One involved the theft of cash in an amount in excess of $300,000 that has to be audited. Three of them showed loss of securities pledged to secure loans made by banks or other persons to other individuals, as accommodation collateral. We don't know whether these deductions are allowable, or whether they were capital losses or not, until they are audited.

Six of them showed large bad debt deductions that have to be audited. One of them, for example, shows a payment in settlement of litigation in excess of $1 million deducted, and may or may not be allowable.

When you go through this list, there are about 19 miscellaneous cases of this kind, and they may well not be properly includable when audited. That would leave you with 67.

Thirteen others showed large charitable contributions deductions. In 1966, the last full year on which we had data when the Tax Reform Act was passed in 1969, we had 49 individuals who took the unlimited charitable contribution deduction, a provision originally put in for a nun, all of whose income went to charity. There were none of those in 1970 because in the 1969 act we cut it back to a maximum deduction of 80 percent of adjusted gross income gradually to go down to 50 percent. Only two persons took deductions, in this group of 112, in excess of the 50 percent of adjusted gross income permitted by the new law for persons generally, and one of those was a fiscal year return not affected by the 1970 act. Hence, I think that change has been effective.

The biggest bloc of cases is the remaining 54 which consist of cases of large gross income against which there is offset large interest deductions. You will recall our discussing this type of case at some length in 1969, and it represents almost half the cases here.

In some instances it is quite legitimate, for a person to borrow money, pay interest, use the money to invest in stocks and bonds or real estate, and have gross income in excess of $200,000.

There was one return, for example, with some $600,000 of dividends and interest income and more than $600,000 of interest expense. That doesn't seem to be an abuse, but it is simply an expense, an offsetting expense of producing the income.

In other cases, however, it appears from a look at the returns initially that the provisions that we enacted in 1969 will result in the payment of the minimum tax when the returns are audited. We think it will be in the range of 16 of these persons, just looking at the returns before any audits, that will fairly clearly owe minimum tax that will be collected on audit. We will have to await the results of those audits to know whether there are any further changes we need with respect to interest.

I think in sum, Senator, the provisions of the 1969 act have had a very marked effect and when we get through with the audit of these returns we will see that in all the cases, or substantially all the cases, in which properly the tax should be collected, it will have been collected.

Chairman PROXMIRE. Mr. Cohen, we want to thank you for a very fine, detailed, and entertaining as well as informative answer. Unfortunately, the hour is 11:30 now. We have at least an hour and 10 minutes of questioning here. Senator Percy is coming and he wants to question, also. I would appreciate it if both the questions and the answers—and I may set a bad example myself—can be as concise as possible.

I understand Senator Bentsen will yield to Senator Javits.

Senator JAVITS. I would like to ask unanimous consent to submit my questions in writing to the Secretary.

(The following information was subsequently supplied for the record:)

U.S. SENATE,
Washington, D.C., February 18, 1972.

Hon. JOHN CONNALLY,
Secretary of the Treasury,
Washington, D.C.

DEAR MR. SECRETARY: I am sorry that I had to leave the Joint Economic Committee hearing before you had completed your fine testimony on February 16. I had to keep a previous speaking engagement where I developed a theme which might interest the Treasury. It concerned the linking of future SDR creation with development assistance and the positive effect such a linkage would have on U.S. exports and in turn on job creation.

Before I left the hearings, I did indicate that I would submit some questions in writing for your written response that then would be included in the formal hearings record. The formal questions that I would like to ask on behalf of the Joint Economic Committee are:

Could you give the Committee your views on the various provisions of the Hartke-Burke bill: 1) repealing the foreign tax credit, and making payment of foreign taxes by multinational corporations merely deductible; imposing stricter depreciation rules for foreign investment; imposing taxes upon income received by U.S. companies for transfers of technology. 2) creation of a Foreign Trade and Investment Commission, with strong powers to regulate imports. 3) widening the scope of import quotas to cover more goods. 4) tightening of anti-dumping and countervailing duty laws. 5) relaxing the criteria for escape clause assistance. 6) enabling the President to regulate capital transfers, including transfers of technology, if he determined that the effect of the transaction would be to decrease domestic employment. 7) repeal of sections 806 and 807 of the Tariff Schedule that permit U.S. corporations to reimport goods that have been assembled in low-wage countries, paying duty only on the value added. (8) more visible labeling on the origin of foreign made goods, or products with components made overseas.

I understand that you indicated your opposition to Hartke-Burke in general terms later in the hearing. I do think that it would be useful to have a more complete response for the record. I have also written to Chairman Burns of the Federal Reserve System on this matter.

With warm regards,

Sincerely,

JACOB K. JAVITS.

RESPONSE OF HON. JOHN B. CONNALLY, JR., TO ABOVE LETTER FROM SENATOR JAVITS

We have been engaged in a study of the many specific provisions of the Hartke-Burke bill, and we would not wish to comment in detail on these various specific provisions until that study has been completed. However, I would say, in general, as I replied to Congressman Conable's question on this matter at the hearing before the Joint Economic Committee on February 16, 1972, that we would be opposed to the bill. I said at that time:

"It is our very strong position that we can't, in the face of whatever problems we have, take a protectionist attitude. You just can't build a wall around the United States. We have to solve this problem some other way. That is what we have been trying to do for the last six months, with a concerted effort."

Senator JAVITS. I wonder whether Senator Bentsen would let me ask one question which would have a short answer.

Mr. Secretary, how soon do you want your gold legislation and why? Do you want it without, which I know you do, any trade or similar amendments?

Secretary CONNALLY. We want it as soon as the Congress can reasonably act on it. Why do we want it as soon as we can reasonably have it? Because it is a commitment that we have made to submit it to the Congress. We want to use every effort that we can to see that the Congress receives it well and favorably.

We think it will have a salutary effect in international monetary markets. In response to the third portion of your question, we most certainly want a clean bill.

Senator JAVITS. When you say as soon as possible, can you give us an outside date?

Secretary CONNALLY. I wouldn't want to put a date on it, but I would certainly hope that it could take priority in some of the committees. It seems to me it is a fairly simple bill. It should not need a great deal of time spent in hearings or debate even.

Senator JAVITS. Have we made a commitment for a date?

Secretary CONNALLY. No. We have not made a commitment for a date.

Senator JAVITS. Thank you very much.

Chairman PROXMIRE. Senator Bentsen.

Senator BENTSEN. Thank you. Mr. Chairman.

I, for one, want to congratulate the Secretary on some of the affirmative and positive steps he has taken in trying to help get this economy back on the move again. I am convinced it was dead in the water as of last summer. We see some encouraging signs now. I certainly am not going to be one to criticize him for taking some of the steps that a number of us have recommended.

I congratulate him on it. I am thinking particularly of the August 6 report of our balance-of-payments subcommittee where we recommended a suspension of the convertibility of the dollar.

On August 15, the administration acted. I think that is an amazing response to a request of the Congress.

Secretary CONNALLY. And very prompt, too, Senator.

Senator BENTSEN. I would like to deal for a moment with this question of productivity which concerns us. In the new exchange rates, the Smithsonian agreement gives us a respite, a breather, but it really doesn't get to the crux of our problem, the long-term problem, the question of curbing inflation. I know some things have been done and steps have been taken to increase productivity in this country. But does the administration or does the Treasury have any other additional affirmative steps where they deal with it with specificity insofar as the Congress is concerned on legislation or by Executive order?

Secretary CONNALLY. Senator, I don't recall that we have anything pending that is yet to be submitted to the Congress on this.

We have within the administration a concerted effort, representing business and labor and the administration, in the form of a productivity commission, where we are trying as best we know how to stimulate productivity in every way we know.

I don't recall any legislation that we have to send up to the Congress on this point. I don't need to recount, Senator, things that you already know, but I think at least for the record we want to point out that much of what you did last fall, in your tax relief measures, were acts designed to stimulate the purchase of new equipment. The job development credit was designed for that purpose; the depreciation changes made last year were designed for that purpose, to try to stimulate plant expansion, new facilities and equipment; the DISC proposal that Congress acted on last year certainly was designed to encourage the building of plants at home, providing jobs at home, to export products abroad.

So a great many things have already transpired but they haven't had time to really make an impact in the economy.

Senator BENTSEN. On the investment tax credit in particular, have you seen much in the way of utilization of it yet?

Secretary CONNALLY. Frankly, not as much as I had hoped, although every forecast, including our own Government forecast, indicates there will be approximately a 9-percent increase in plant and equipment spending this year compared to a 2.2-percent increase last year. This has been buttressed by the industrial projections by McGraw-Hill and others that range from 7 to 10 percent.

So we are all in the same league, that there will be a substantial increase in 1972 over 1971. But it hasn't yet occurred. I must say it hasn't yet occurred.

Senator BENTSEN. That is my concern, because that is my understanding of the current numbers. We have seen a substantial reduction in short-term interest rates, which we are pleased to see, but we have seen quite a lag in the reduction of long-term rates.

You have made reference to the concern of financial institutions for continued inflation and, therefore, their reluctance to go into long-term reductions. Yet on the other hand, financial institutions, many of them, have substantial sums of money today to invest and severe restrictions on how they can utilize those funds that forces them, to a degree, into long-term money. It precludes them from going into equity markets in a substantial degree.

How does this add up for the balance of the year? When Mr. Burns was before us he felt that we would see a reduction in long-term rates during this year. Would you be in accord with that?

Secretary CONNALLY. Yes, sir. I must say in fairness, Senator, that we have already seen some reductions in long-term rates in the last 18 months. I have forgotten the exact period. There has been a decline of roughly three-quarters of a percentage point in long-term rates over the last several months.

Senator BENTSEN. I am interested in your average pay increase figures in your statement. BLS figures this in two or three ways. One is by including benefits, and then they have a series which excludes benefits. They publish a series on first-year increases and a series which spreads the increases over the life of the contract.

For the record, in the interest of saving time, would you put those into the record advising which one of the indices was used?

Secretary CONNALLY. I will be delighted to. I am sure these were just for the first year, the acts approved by the Commission, itself.

Mr. FIEDLER. These are figures directly from the Pay Board, Senator, and do not relate directly to the type of data that are collected and published by the Bureau of Labor Statistics.

Senator BENTSEN. I am trying to correlate this information.

Secretary CONNALLY. We will correlate this for you and put it into the record.

Senator BENTSEN. Can you give us similar figures on the price increases that have been granted by the Price Commission?

Mr. FIEDLER. Yes, sir.

Secretary CONNALLY. I can tell you now that the price increases that have been sought in general, Senator, by the class I companies, the big companies, approximately 1,500 major concerns in America that are in the prenotification category, the Price Commission, to the extent that they have asked for price increases, and there have been approximately 1,000 of them who have asked for some price increases—1,000 out of 1,500. Their requests for price increases have averaged 3½ percent.

The Price Commission, in the cases in which they have acted on those prenotifiers' requests, averaged 3 percent. They have cut them from 3½ to 3 percent. So that much I can give you now.

But we will be delighted to supply for the record any additional information that is available.

Senator BENTSEN. Will you further supply for the record the prenotification pay settlements you referred to in your statement?

Secretary CONNALLY. Yes, sir.

(The following information was subsequently supplied for the record:)

The data on pay increases to which I refer are quite different from any of the wage information regularly reported by the Bureau of Labor Statistics. The figures cited are from the records of the Pay Board, and represent the first 41 pay actions submitted by employers in the prenotification category and acted on by the Pay Board. An itemized list is attached.

The Price Commission has received 5,318 price prenotifications through February 22: these filings requested an average increase of 3.5 percent. As of that date, the Commission had approved 1,737 applications calling for an average price increase of 3.1 percent when calculated on the applicable sales of the companies (a total of $212 billion) and an average increase of 1.6 percent when calculated on the total sales of the companies granted increases ($399 billion).

PAY INCREASES FOR PRENOTIFICATION EMPLOYERS ACTED UPON BY THE PAY BOARD THROUGH FEB. 4, 1972

Name and city	Percent increase	Type of adjustment	Number of employees	Effective date
City of Chicago, Chicago, Ill	3.93	W/S	42,000	Jan. 1, 1972
Raytheon Co., Lexington, Mass	4.45	W/S	5,000	Do.
Equitable Life Assurance Society of the United States, New York, N.Y.	5.35	W/S	13,000	Do.
Dan River, Inc., Greenville, S.C	5.389	W/S	8,000	Jan. 3, 1972
J. C. Penney, New York, N.Y	.68	Pension savings	50,000	Jan. 1, 1972
		Profit sharing	85,000	
Genesco, Inc., Nashville, Tenn	2.72	W/S	12,828	Jan. 27, 1972
S. S. Kresge, Detroit, Mich	(1)	Pension	11,450	Feb. 1, 1972
Ford Motor Co., Dearborn, Mich	3.0	Mgt. pay	10,500	Jan. 1, 1972
Bituminous Coal, Washington, D.C	11.2	W/S	90,000	Nov. 12, 1971
Weyerhaeuser Co., Tacoma, Wash	5.5	W/S	9,250	Dec. 27, 1971
Eastman Kodak Co., Rochester, N.Y	6.4	Exec. salary (tandem)	15,638	Jan. 1, 1972
Hillsborough County Public Schools, Tampa, Fla	5.23	Teacher pay	5,045	Nov. 15, 1971
Texas Instrument Co., Dallas, Tex	4.7	W/S	7,977	Jan. 20, 1972
Springs Mills, Inc., Fort Mill, S.C	5.1	W/S	17,746	Jan. 23, 1972
Railway Signalmen, Washington, D.C	[2] 5.0	W/S	10,000	Oct. 1, 1971
United Aircraft Corp., East Hartford, Conn	[3] 7.6	W/S (catchup)	16,700	Dec. 1, 1972
North American Rockwell, El Segundo, Calif	8.3	W/S	10,700	Dec. 6, 1971
	5.5	W/S	19,212	Do.
	8.3	W/S	7,927	Do.
McDonnell Douglas, St. Louis, Mo	8.3	W/S	28,504	Dec. 12, 1971
Boeing Co., Seattle, Wash	8.3	W/S	18,000	Dec. 13, 1971
LTV Aerospace Corp. Dallas, Tex	8.3	W/S	6,567	Nov. 30, 1971
Lockheed Aircraft Corp., Burbank, Calif	8.3	W/S	33,500	Dec. 10, 1971
	5.5	W/S	26,184	Do.
	8.3	W/S	1,968	Do.
United Transportation Union, Cleveland, Ohio:				
In 1971	9	Retroactive W/S	180,000	Apr. 1, 1971
In 1972	10			
Eastman Kodak Co., Rochester, N.Y	6.5	do	36,500	Oct. 4, 1971
Baltimore Gas & Electric Co., Baltimore, Md	5.5	W/S	6,909	Jan. 3, 1972
Oklahoma State Merit System, Oklahoma City, Okla	2	W/S	7,000	Jan. 1, 1972
St. Louis Public School System, St. Louis, Mo	6.4	W/S	7,000	Aug. 13, 1972
Motorola, Inc., Franklin Park, Ill	5.5	W/S	36,740	Jan. 10, 1972
George A. Hormel & Co., Austin, Minn	6.3	W/S	5,090	Sept. 6, 1971
National Railway Labor Conference, Washington, D.C.	5	W/S	227,225	Oct. 1, 1971
John Morrell & Co., Chicago, Ill	6.05	W/S	6,340	Sept. 6, 1971
General Electric, New York, N.Y.:				
Union	2.1	W/S	131,471	Oct. 25, 1971
Nonunion	2.3	W/S	66,381	
Fairfax County Public School, Fairfax, Va	5.3	W/S	6,900	Jan. 31, 1972
Massachusetts, Commonwealth of Boston, Boston, Mass.	2.9	W/S	7,000	Aug. 15, to Nov. 14, 1971
Montgomery County Public Schools, Rockville, Md	5.0	W/S	7,256	Aug. 16, 1971
The Arrow Co., New York, N.Y	5.5	W/S	5,000	Aug. 30, 1971
Food Employers Council, Inc., Los Angeles, Calif	5.3	W/S	5,000	Nov. 1, 1971
Oscar-Mayer & Co., Madison, Wis	4.96	W/S	5,000	Sept. 6, 1971
Commonwealth of Pennsylvania, Harrisburg, Pa	(4)	W/S	81,000	Nov. 14, 1972
Wilson & Co., Inc., Oklahoma City, Okla	6.35	Retroactive W/S	9,090	Sept. 6, 1971
County of Santa Clara, San Jose, Calif	2.9	do	7,400	Aug. 5, 1971
Armour & Co., Phoenix, Ariz	6.0	do	9,000	Sept. 6, 1971

[1] One-twelfth of 1 percent.
[2] The Railway Signalmen contract also provided for increases of 2.6 percent on Jan. 1, 1971, and 2.9 percent on Apr. 1, 1971; payment of these increases was also approved.
[3] Exception.
[4] Prior approval not required.

Senator BENTSEN. I have no further questions.

Chairman PROXMIRE. Mr. Conable.

Representative CONABLE. Mr. Secretary, after all the questions that have been asked, I have only a few pieces to pick up. As usual, you have been performing in virtuoso style. I would like to come back to the 4-percent unemployment rate as a potential full employment level. Would it be fair to summarize your position on this to be that 4 percent is a good goal, but that to try to achieve it in this year would involve pressing perhaps so hard that we would rekindle the fires of inflation to a degree that would in the long run be unacceptable?

Secretary CONNALLY. That is correct.

Representative CONABLE. In other words, the fact that we may not be able to achieve 4 percent this year doesn't mean that you are abandoning that as a goal?

Secretary CONNALLY. Not at all.

Representative CONABLE. I would like to ask you a little more about your comments about phase II controls. To what extent does Treasury stay in touch with what is happening in the Pay Board and the Price Board?

Secretary CONNALLY. Mr. Conable, we obviously try to keep as informed as we can, both, I suppose, out of curiosity and beyond that we are concerned about the actions of it because of the impact on the whole economy that concerns the Treasury.

More specifically, we certainly try to keep informed because I still am chairman of the Cost of Living Council, and the Cost of Living Council is vitally concerned about the operation of the Price Commission and the Pay Board.

Representative CONABLE. The Cost of Living Council has a somewhat shadowy relationship to these two Boards, however. It doesn't have the veto power, for instance.

Secretary CONNALLY. We have taken the posture from the very beginning that the Cost of Living Council does not oversee the Price Commission or the Pay Board to the extent that we try to follow or direct or advise on case-by-case situations. We take the position that we have given them the responsibility in their respective areas and all we do is, over a period of months, have an overview of how well they are performing to achieve the goals which we have given them.

Representative CONABLE. I wonder if you can spell out the reason for your belief that the price level bulge expected in the first months after the freeze is going to exist only during an interim period which you say is going to be behind us in a month or two.

Is there some basis for deciding that perhaps by April all retroactive decisions will be made? Is that the basis?

Secretary CONNALLY. What I intended to convey by that statement was that the principal bubble should have passed by that period of time; yes.

During the 90-day absolute freeze period we obviously blocked everything, both in terms of wages and prices. We have assumed that the moment that relaxation occurred, there was going to be a surge of both price increases and wage increases to the extent that they were justified, and that this would occur in probably the first 90 or 120 days at least, following the termination of the freeze.

Representative CONABLE. The processing of this surge of applications is proceeding to your satisfaction?

Secretary CONNALLY. Yes, I think it is. This is not to say that I am happy with every one of the decisions, but at the same time I don't want to be on record as being critical of the Pay Board and Price Commission because under the circumstances I think they have done an excellent job. You take the coal—well, I don't want to get into it.

Representative CONABLE. The longshoremen either?

Secretary CONNALLY. I will let my statement stand. I have already commented too much on the coal situation.

Representative CONABLE. You agree, don't you, that the credibility of the whole process requires that we settle down as quickly as possible?

Secretary CONNALLY. Yes. Congressman, the American people, who are today somewhat critical of the Pay Board and the Price Commission, are critical not because they are exercising restraint but, frankly, they are critical because they are not being tougher. That is the basis for the principal complaints today.

We have to try to get across that when you set a 5.5-percent increase in wages as a standard, every wage, big and little, union and nonunion, in whatever business or whatever stratum of the economic system it comes can't be precisely 5.5. A few have been above. A great many have been below. We hope we can average 5.5, and I think we will; it is the same thing on prices. When we talk about a goal of 2½ to 3 percent, some increases will justifiably be above that amount and some businesses, who don't deserve any price increase, won't get it.

We have to think in terms of averages in this economy where millions of transactions occur every day.

Representative CONABLE. Mr. Secretary, there is every indication that there is going to to be a major legislative onslaught on the multinational corporation with efforts to restrict investments abroad, on the theory that this is one way to keep the United States from exporting jobs. I would like to ask if Treasury has been doing any study of this problem.

Certainly, your balance of payments will be very much affected, short term and long term, if we change our policy with respect to the free flow of capital among nations.

Are you aware of any studies that are going on that will inform us about the facts of employment in multinational corporations, the statistics about export and import impact of multinational corporations and so forth?

Secretary CONNALLY. I don't recall we have any specific studies. I am not aware of any impending legislation either. But I think the position of the Treasury is going to be quite clear. As it now stands, it is our position that the present controls restraining capital flows administered by Treasury, Commerce, and the Federal Reserve ought to be relaxed and ought to be abolished.

Representative CONABLE. I am sure you are familiar with the Burke-Harke bill?

Secretary CONNALLY. Is that what you are referring to? I am sorry, that didn't immediately come to mind because that goes much further than just controlling capital flows.

But we would be opposed to it. It is our very strong position that we can't, in the face of whatever problems we have, take a protectionist attitude. You just can't build a wall around the United States. We have to solve this problem some other way. That is what we have been trying to do for the last 6 months, with a concerted effort.

Representative CONABLE. One of the most repeated economic arguments in favor of such restrictive measures, of course, has to do with the continuing imbalance of payments. Of course, you have presided over major negotiating efforts leading to the realinement of currencies. And there are Ambassador Eberle's efforts to improve our trade relationships, also. When can we expect to see the benefits of this in terms of a substantially reduced balance-of-payments deficit?

Secretary CONNALLY. I think you are looking at an improvement that will begin to show in the latter part of this year. I think it will be the fall of 1973 before you begin to get anything approaching the real impact. During that time, 1972 and 1973, I would hope we could proceed with further trade negotiations that will improve the competitive position of American products.

Representative CONABLE. It must be understood, however, that the improvement will not be immediate, is that correct?

Secretary CONNALLY. It is not going to be immediate. It never has been and we are wrong to assume it will be.

Representative CONABLE. Is any reduction in the imbalance of payments going to seriously affect Treasury's efforts to finance the deficit that we are going to have?

Secretary CONNALLY. No.

Representative CONABLE. We have been financing our deficit abroad to a substantial extent.

Secretary CONNALLY. Because of the deficit we are looking to financing about $38 billion this spring, but because of the very conditions that bring about the deficit budget in the first place, namely, the slack in economic activity in the country, there is sufficient money available, particularly short-term funds, so that I think we can finance what we need to finance without any general upward thrust in interest rates or without doing any damage at all to the private sector in terms of the availability of money to meet their needs.

I was using the deficit figure of $38 billion plus. I am incorrect. We won't have to have that much financing.

Representative CONABLE. This is so even though we can anticipate that this deficit will not be financed abroad anywhere near the extent it has been last year?

Secretary CONNALLY. Probably not.

Mr. VOLCKER. I would just make one comment on that, Mr. Conable. It is true that during the past year or 18 months we have financed a substantial portion of our deficit abroad. But this money in substantial part flowed out of the United States in the first place and otherwise would have been invested in U.S. securities in the United States.

It may not have been invested in just the same form. It may not have all been invested so easily in Treasury securities. You can exaggerate this problem greatly if you just look at the amount of foreign securities that foreigners bought. A more or less equivalent amount of securities of some form presumably would have been bought by Americans in the absence of the balance-of-payments deficit.

So while we are not looking for a balance-of-payments deficit in that same sense, when we look ahead, and we won't have the direct financing by foreigners, presumably that money will be available in the U.S. market in some form or another.

Representative CONABLE. Thank you, Mr. Chairman.

Chairman PROXMIRE. Congressman Moorhead.

Representative MOORHEAD. Thank you, Mr. Chairman.

Mr. Secretary, in your testimony you make the statement that the Japanese have taken certain trade steps. Can you tell us what sort of steps they were and what sort of steps we wanted them to take that they did not?

Secretary CONNALLY. Mr. Moorhead, let me supply for the record, if I may, the details of this. They are quite lengthy, quite voluminous, touching a great many different products. Some involve quotas, some involve reduction of tariffs, and various other things. But I can give you a summary of it.

Much of it includes agricultural products, fruit juices, live beef animals, an abolishment of their tariff on soybeans, which represents about $325 billion in trade. They had, as I recall, a 5-percent tariff on soybeans. That has been abolished. They have reduced their internal commodity tax on automobiles, I believe, from 40 percent and 30 percent to 20 percent. There has been a whole list of actions on their part dealing with aircraft parts, computers, computer parts. It would fill two or three pages of things that they have done. The net effect of it, and this is an approximation, is that it will probably affect some $600 to $650 million of trade.

But I must say that we were quite pleased with the actions of the Japanese. This is not to say we didn't ask for more, because we did. They sure didn't give us all we asked them for. Frankly, we don't think they gave us all we deserve. I will say that in all candor. Yet I must also say in frankness that they were sympathetic, considerate, and they went about as far as they thought they could go at the time. I really can't tell you the whole list.

Chairman PROXMIRE. If the Congressman would yield, without objection, Mr. Secretary, we would appreciate a more complete and comprehensive list.

Secretary CONNALLY. I will be delighted.

(The following information was subsequently supplied for the record:)

JOINT STATEMENT ON INTERNATIONAL ECONOMIC RELATIONS, FEBRUARY 9, 1972:

Japan and the United States today made the following declaration and agreed to communicate the declaration to the Director General of the GATT for transmittal to the contracting parties. Other contracting parties are invited to associate themselves with this declaration to the extent and at the time which they would deem appropriate.

Japan and the United States recognize the need for proceeding with a comprehensive review of international economic relations with a view to negotiating improvements in it in the light of structural changes which have taken place in recent years. The review shall cover *inter alia* all elements of trade, including measures which impede or distort agricultural, raw material and industrial trade. Special attention shall be given to the problems of developing countries.

Japan and the United States will seek to utilize every opportunity in the GATT for the settlement of trade problems, the removal of which would lessen current trade distortions, and will strive for further progress with respect to those matters now being discussed in the GATT Committee on Trade in industrial Products and the GATT Agricultural Committee. Japan and the United States agree that progress in GATT in solving some problems in 1972 could facilitate the way in the GATT for a new major initiative for dealing with longer term trade problems. To this end, they also agree in 1972 to analyze and evaluate in the GATT alternative techniques and modalities for multilateral negotiation of long term problems affecting all elements of world trade.

Japan and the United States undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT begining in 1973 (subject to such internal authorization as may be required) with a view to the expansion and liberalization of world trade, improvement in the international framework for the conduct of commercial relations, and improvements in the standard of living of the people of the world. These multilateral negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible.

JAPAN

Agricultural Products

SOYBEANS AND SOYBEAN PRODUCTS

Japan will eliminate its 2.40 yen per kilogram duty (ad valorem equivalent of 5.6 percent) on soybeans April 1, 1972. This tariff elimination is of major importance, since soybeans are the largest single U.S. export to Japan. In 1970, Japan imported $366 million of soybeans, of which the United States supplied $330 million. It is expected that the duty elimination will increase U.S. soybean exports to Japan.

Japan will reduce its duty on soybean oil by approximately 10 percent—from 28 yen per kilogram to 25 yen per kilogram for oil of an acid value not exceeding 0.6 and from 20 yen per kilogram to 17 yen per kilogram for oil of an acid value exceeding 0.6. Japan's imports of soybean oil in 1970 were valued at $1.4 million, of which $1.2 million was supplied by the United States. Japan will also eliminate its 5 percent duty on soybean meal for human consumption. These actions will have limited effect on increasing U.S. exports. The major export interest of the United States in soybean products is soybean meal for animal feed which already enters Japan free of duty.

CITRUS PRODUCTS

Japan will increase the size of its import quotas for fresh oranges, and orange and grapefruit juice in Japan Fiscal Year (JFY) 1972 (April 1, 1972–March 31, 1973). The orange quota will be increased from 7,800 MT* to 12,000 MT. The United States is the major supplier of Japan's fresh orange imports. In calendar year 1970 the United States shipped 4,044 metric tons worth $1.4 million out of a total of 4,313 metric tons imported by Japan. Most of the new quota is likely to be filled from U.S. sources.

Japan will establish a 2,500 metric ton quota for orange juice (single-strength; or 500 metric tons of concentrate on a 5 to 1 concentrate basis), a 1,500 metric ton quota for certain other juices (primarily grapefruit juice) and maintain a 500 metric ton quota for orange and pineapple juice for hotel use, in JFY 1972, for a total of 4,500 metric tons (single-strength basis). The totals were 3,000 metric tons in JFY 1970 and 1,500 metric tons in JFY 1971. The United States is the major supplier of these juices ($543,000 or 1,870 MT out of $634,000 total imports in 1970).

LIVESTOCK AND MEAT

Japan will establish a 2,500 metric ton quota for orange juice (single-strength; feeder cattle by producer organizations for JFY 1972. Japan had increased the duty on feeder cattle from free to about 100 percent ad valorem equivalent when the import quota was removed on October 1, 1971.

The current 500 metric tons quota for high quality beef destined for hotel use will be increased by Japan to 1,000 metric tons in JFY 1972. U.S. high quality beef exports to Japan were 435 MT worth $1.4 million in 1970.

OTHER AGRICULTURAL PRODUCTS

Japan will eliminate its 2.5 percent duty on inedible tallow by April 1, 1972. Japan imported $53.4 million worth of inedible tallow in calendar year 1970 of which $39.3 million were supplied by the United States.

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*MT=metric ton=2,204.6 lbs.

Also of benefit to U.S. exporters will be a reduction in the duty on turkey meat from 15 percent to 10 percent. Japan will implement this action on April 1, 1972. Japan imported $480,000 worth of turkey meat from the United States in 1970 out of total turkey meat imports of $500,000.

Japan will remove its import quota restriction on tomato puree and tomato paste on April 1, 1972. Of total Japanese imports of $929,000 in 1970, the United States supplied only $42,000 worth of these products.

Japan will reduce its tariffs by an average of 10 percent on approximately 10 other agricultural products of interest to the United States (Annex B). The United States exported $6 million of these products to Japan in 1970.

Industrial Products and Administrative Nontariff Barriers to Trade

IMPORT QUOTAS

Japan removed on February 1, 1972, without an increase in duty, its import quota restrictions on light aircraft (under 20,000 lbs.) and parts, computer peripheral equipment except memory and terminal devices (see Annex A), radar apparatus for aircraft (for ground and airborne use), radio navigational aid apparatus for aircraft, and radio remote control apparatus for aircraft (for ground and airborne use). U.S. exports to Japan of these items in 1970 were valued at approximately $66 million. Japan will also remove on the same date its import quota restrictions on light and heavy oil and sulfur, but increase its duties on these items. Japan imported $21.7 million of light and heavy oil from the United States in 1970. In response to a U.S. request that Japan establish a plan and timetable for the elimination of its remaining quantitative import restrictions on agricultural and industrial items inconsistent with Japan's GATT obligations, Japan stated it would make its best efforts to do so.

A U.S. technical team will visit Japan later this year to discuss possible ways by which Japan could ease and eventually remove its import quota restrictions on computers, computer memory and terminal devices and computer parts.

TARIFFS

Japan will reduce by 10 percent its tariffs on computers, computer peripheral equipment, machine tools, color photographic film and X-ray film. These items together accounted for about $215 million in Japan's imports from the United States in 1970. Japan also stated its intention to reduce its tariffs by an average of about 10 percent on other industrial products covering about $60 million in its 1970 imports from the United States (see Annex B). The items of significance to the United States include organic surface active agents; image projectors and parts; air conditioners; refrigerators; cosmetics; photo enlargers, reducers and apparatus for developing and printing and gramaphones and record players. Japan will also reduce its tariff on automobiles from 10 percent to 8 percent.

AUTOMOBILE EXCISE TAX

Japan will reduce on April 1, 1972, its internal excise tax on large-sized and medium-sized cars—now 40 percent and 30 percent, respectively—to 20 percent. This action will largely remove the de facto discrimination which subjects the larger U.S. automobiles to a disproportionately higher tax rate. The current 15 percent rate for small cars will remain. No U.S.-produced small cars fall into the 15 percent category because they do not meet the criteria, which are based on cylinder capacity, wheel base, and width limitations, for the lower rate. Japan imported $23 million of automobiles from the United States in 1970.

AUTOMATIC IMPORT QUOTA SYSTEM (AIQ)

Japan reduced the number of items under its AIQ system to zero in February 1972. The AIQ system required that certain products freed from import quota control (IQ system) would still undergo "automatic" government licensing. This system provided an opportunity for Japanese Government officials to use "administrative guidance" against imports. The number of items under the AIQ system had been reduced earlier from 253 in January 1969 to 11 in October 1971. Three items, including heavy hydrogen, will continue to be controlled by other means.

IMPORTATION, WHOLESALE AND SERVICE FACILITIES IN JAPAN

Japan will approve, in principle, the establishment of wholly-owned foreign sales subsidiaries which engage in importation and wholesale activities (warehousing sales to wholesale and retail outlets) and service facilities in Japan, except for computers and related activities and petroleum distribution. Japan will also, in principle, automatically approve the receiving and remittance of funds by foreign branches engaged in these activities. The liberalization of Japanese restrictions in this area will be of considerable help in promoting the sale and distribution of American products in Japan. Japan noted that it does not consider the cutting of film and blending or mixing of cosmetics as wholesale activities but as manufacturing activities.

STANDARD METHOD OF SETTLEMENT REQUIREMENT

Payments for all imports into Japan must be made within 120 days of customs clearance and cannot be prepaid, unless an exception is granted by the Japanese Ministry of International Trade and Industry (MITI). Japan will henceforth approve individual applications for consignment or prepayment contracts on a case-by-case basis. This action will enable U.S. suppliers to conclude consignment sales contracts for such purposes as floor display, stock or demonstration.

ANNEX A

COMPUTER PERIPHERAL EQUIPMENT

To be liberalized but their terminal devices will not be liberalized

Input Machines, Output Machines and Input/Output Machines:
- Card Reader
- Card Punch
- Line Printer
- Paper Tape Reader
- Paper Tape Punch
- Paper Tape Reader Punch
- Optical Character Reader
- Optical Mark Reader
- Magnetic Ink Character Reader
- Character Display
- Graphic Display
- Audio Response Unit
- Plotter
- Computer Input Micro Filmer
- Computer Output Micro Filmer
- Etc.

Control Units:
- Input-Output Control Unit
- Communication Control Unit
- Magnetic Disc Control Unit
- Magnetic Drum Control Unit
- Magnetic Tape Converter
- Magnetic Tape Printer

Not to be liberalized

Memory Equipment:
- Magnetic Disc Memory Equipment
- Magnetic Disk Pack Memory Equipment
- Magnetic Tape Equipment
- Magnetic Drum Equipment
- Etc.

NOTE: Terminal devices are such input machines, output machines, input-output machines and control units as are connected to the main body of computers by telecommunication circuits.

ANNEX B

TARIFF REDUCTION AND ELIMINATION SCHEDULED ON APR. 1, 1972

[Illustrative list]

Tariff item	Description of products	Rates of duty presently in force	Proposed rates of duty
Ex 01.02	Feeder cattle	45,000 yen/head	T.Q. Primary rate.: free. Secondary rate 45,000 yen/head.
Ex 02.02	Turkeys, fresh, chilled or frozen	15 percent	10 percent.
Ex 07.01	Onions, fresh or chilled	10 percent	
	Value for customs duty of not more than 51 yen/kg		Do.
	More than 51 yen/kg. but not more than 56.1 yen/kg		56.1 yen/kg. minus value for customs duty.
	More than 56.1 yen/kg		Free.
09.01-1-(2)	Coffee (roasted)	35 percent	30 percent.
09.02-1-(1)	Black tea: put up for sale by retail	do	Do.
09.02-1-(3)	Other black tea	20 percent	5 percent.
10.02	Rye	15 percent	Do.
12.01-1	Soybeans	2.4 yen/kg	Free.
12.01-3	Rapeseeds and mustard seeds	4 yen/kg	Do.
12.01-7	Safflower seeds	2.5 percent	Do.
12.07-2	Insect flower	20 percent	T.Q. Primary rate: free. Secondary rate: 20 percent.
15.02-1	Beef tallow	2.5 percent	Free.
15.02-2	Sheep tallow, goat tallow, etc	do	Do.
15.07-1-(1)	Soybean oil of an acid value exceeding 0.6	28 yen/kg	17 yen/kg.
15.07-1-(2)	Soybean oil of an acid value not exceeding 0.6	do	25 yen/kg.
15.07-2-(1)	Ground-nut oil of an acid value exceeding 0.6	20 yen/kg	17 yen/kg.
15.01-2-(2)	do	28 yen/kg	25 yen/kg.
15.07-3-(1)	Rapeseed oil and mustard seed oil of an acid value exceeding 0.6.	20 yen/kg	17 yen/kg.
15.07-3-(2)	do	28 yen/kg	25 yen/kg.
15.07-4-(1)	Sunflower seed oil of an acid value exceeding 0.6	20 yen/kg	17 yen/kg.
15.07-4-(2)	do	28 yen/kg	25 yen/kg.
Ex 15.07-5	Cotton seed oil of an acid value exceeding 0.6	20 yen/kg	17 yen/kg.
15.07-14-(1)	Other fixed vegetable oils of an acid value exceeding 0.6.	do	Do.
15.07-14-(2)	do	28 yen/kg	25 yen/kg.
21.03-1	Mustard flour and prepared mustard (put up for sale by retail).	30 percent	25 percent.
21.03-2	Mustard flour and prepared mustard (other)	25 percent	20 percent.
22.03	Beer made from malt	20 percent	10 yen/l.
x 22.05-2	Wine of fresh grapes and grape must with fermentation arrested by the addition of alcohol (in containers of capacity more than 150 liters, excluding sparkling wines).	400 yen/l	200 yen/l.
22.09-1-(1)A	Whiskey (of an alcoholic strength of 50° or higher, excluding those in containers of a capacity less than 2 liters).	660 yen/l	590 yen/l.
22.09-1-(1)B	Other whiskey	550 yen/l	490 yen/l.
22.09-1-(2)A	Brandy (of an alcoholic strength of 50° or higher, excluding those in containers of a capacity less than 2 liters).	780 yen/l	550 yen/l.
23.04-1	Oil-cake and other residues resulting from the extraction of soya bean oil.	5 percent	Free.
Ex 28.04-4	Phosphorus	7.5 percent	3.75 percent.
33.06-1	Perfumed water including eau de cologne and the like.	25 percent	15 percent.
33.06-3	Perfumed hair oil, cream, pomade, rouges and other preparations of oils, fats or waxes.	15 to 25 percent	Do.
Ex 33.06-5	Manicure preparations, shaving preparations and incenses.	20 percent	Do.
Ex 33.06-5	Other perfumery, cosmetics and toilet preparations.	15 to 17.5 percent	Do.
34.02-1	Organic surface-active agents and surface-active preparations.	17.5 percent	10 percent.
37.01-1	X-ray plates and film in the flat	20 percent	18 percent.
Ex 37.02-1-(2)	Cinematographic film in rolls for X-ray	15 percent	13.5 percent.
37.02-2-(1)	X-ray film in rolls	20 percent	18 percent.
37.01-2-(1)	Color plates and color film in the flat	23 percent	20 percent.
37.02-1-(1)A	Cinematographic color film in rolls, not more than 30 mm. in width, reversal.	26 percent	23 percent.
37.02-1-(1)B	Cinematographic color film in rolls, other	23 percent	20 percent.
37.02-2-(2)	Color film in rolls, other	26 percent	23 percent.
Ex 39.03-2-(4)	Hamcasings and similar products, in tubes of a flattened width not less than 90 mm.	10 percent	Free.
Ex 75.03	Wrought plates, sheets and strip of aluminum (for use as roof sheets of containers for foreign trade purposes, not less than 2.3 m. in width).	18 percent	Do.

ANNEX B—Continued

TARIFF REDUCTION AND ELIMINATION SCHEDULED ON APR. 1, 1972—Continued

[Illustrative list]

Tariff item	Description of products	Rates of duty presently in force	Proposed rates of duty
77.01-1-(1)	Unwrought magnesium of: not more than 278.26 yen/kg.	Not more than 286.95 yen/kg., 15 percent; more than 286.95 yen/kg. but not more than 330 yen/kg.	15 percent.
77.01-1-(2)	More than 278.26 yen/kg. but not more than 320 yen/kg.	330 yen/kg. minus value for customs duty.	32 yen minus value for customs duty.
77.01-1-(3)	More than 320 yen/kg	More than 330 yen/kg., free.	Free.
84.12-1	Air conditioning machines (for motor vehicles)	15 percent	10 percent.
34.12-2	Air conditioning machines (other)	do	Do.
4.15-1	Refrigerating cabinets, self-contained refrigerating units.	7.5 percent	5 percent.
84.41-1-(2)	Sewing machines, completed set or separated head (other than for domestic purposes).	7.5 to 12.5 percent	7.5 percent.
84.45-1	Machine tools whose function is to remove metal or metallic carbides.	15, 12.5, 10, 7.5 percent.	13.5, 11, 9, 6.5 percent.
Ex 84.52-1 (1)	Digital type electronic computers	15 percent	13.5 percent.
Ex 84.53-1, 84.51-1-(1). Ex 84.52-1-(1). Ex 84.53-1, 84.53-2. Ex 84.54-1. Ex 85.22-1.	Peripheral apparatus of digital type electronic computers.	25 percent	22.5 percent.
84.59-7-(1)	Machinery and mechanical appliances not falling within any other items thereof.	7.5 to 10 percent	7.5 percent.
Ex 84.61	Taps, cocks, valves and similar appliances for pipes, boiler, tanks, vats and the like.	7.5 to 10 and 15 to 20 percent.	7.5 and 15 percent.
85.01-2-(2)	Electric motors (of a weight more than 500 kg.)	10 percent	7.5 percent.
85.01-4-(1)	Silicon rectifiers and silicon rectifying apparatus	do	Do.
85.06-1	Electromechanical domestic appliances, with self-contained electric motor:		
	(1) Fans	7.5 percent	5 percent.
	(2) Vacuum cleaners, floor polishers, food mixers, etc.	do	Do.
85.06-2	Other electromechanical domestic appliances, with self-contained electric motor.	do	Do.
85.07	Shavers and hair clippers, with self-contained electric motor.	do	Do.
85.12	Electric instantaneous or storage water heaters and immersion heaters, electric hair dressing appliances, etc.	do	Do.
85.15-1	Radio-broadcast receivers (including chassis)	do	Do.
85.15-2	Television receivers (including chassis)	do	Do.
87.02-1	Motor vehicles for the transport of persons:		
	(1) Not more than 270 cm. in wheel base	10 percent	8 percent.
	(2) More than 270 cm. but not more than 304.8 cm. in wheel base.	do	Do.
	(3) More than 304.8 cm. in wheel base	do	Do.
90.07-1-(2)	Cameras for photoengraving, X-rays, copying documents etc.	15 percent	7.5 percent.
90.07-1-(3)	Other cameras	do	Do.
90.07-2	Parts and accessories of cameras	do	Do.
90.07-3	Photographic flashing apparatus	do	Do.
90.08-1-(1)	Cinematographic projectors for film of a width not more than 20 mm.	10 percent	5 percent.
	Cinematographic cameras for film of a width not more than 20 mm.	15 percent	7.5 percent.
90.08-1-(2)	Other cinematographic cameras, projectors, parts and accessories thereof.	10 percent	5 percent.
90.08-2	Cinematographic sound recorders and sound reproducers; parts and accessories thereof.	do	Do.
90.09-1	Image projectors; parts and accessories thereof	do	Do.
90.09-2	Photographic enlargers and reducers; parts and accessories thereof.	do	Do.
90.10-1	Apparatus and equipment, photographic or cinematographic, of a kind used for developing, printing, etc.	do	Do.
90.10-2	Contact type photocopying apparatus, etc	do	Do.
90.17	Medical, dental, surgical and veterinary instruments and appliances.	7.5 to 10 percent	7.5 percent.
90.18	Mechanotherapy appliances; message apparatus, psychological aptitude testing apparatus; artificial respiration, ozone therapy, etc.	do	Do.
90.28-1	Electrical measuring, checking instruments and apparatus.	7.5 to 15 percent	Do.
91.01-1	Wristwatches etc. (not more than 6,000 yen per piece in value for customs duty).	15 percent	Do.
91.01-2	Wristwatches etc. (other)	20 percent	10 percent.
92.11	Gramophones and record players	7.5 percent	5 percent.

Representative MOORHEAD. Again in your testimony, you mention beginning work promptly on a longer term reform of the international monetary system. Can you give us any idea of what the goal of this reform will be, in your opinion? Would it be more flexibility in rates?

Secretary CONNALLY. Basically, it is going to require a restructuring of the international monetary system which largely has been underwritten by and based on the dollar. The dollar has been the reserve currency. It has largely carried the burden of making the system work, in my judgment. Other countries take the position that we have gotten advantages because of that. In any event, it now appears that it is going to be the general view of most nations that they want to use special drawing rights as the reserve currency of the world, and that no future system will rely on a country's currency as a reserve currency of the world. I think it is the view of most countries, not all of them, that there be wider margins, wider bands, within which exchange rates fluctuate under the rules of the international monetary system. There will be a great number of things, such as dealing with short-term capital flows.

There will probably be an incredible number of problems that arise that have to be talked about and argued over and ultimately decided. We are looking for a system, so far as we are concerned, that will provide the stability and yet will be flexible enough to permit national governments to live through expansionary periods, even booms and recessions, without having an impact on the international monetary system to such an extent that it throws it completely out of kilter.

Representative MOORHEAD. The administration has repeatedly stated that it allocates more budget funds to human resources than it does to the military. But if we take the budget and exclude trust fund outlays from the total outlays, you come up with a figure of 44 percent of the budget going to national defense and only 24 percent to human resources. Doesn't this analysis of the budget indicate that this administration is not initiating a new balance of expenditures for human resources?

Secretary CONNALLY. No, I don't think it indicates that at all. I think if you look at the budget, why shouldn't we talk about the trust funds? They are part of it. If you look at the budget, for the first time 42 percent of the budget—whether they are controllables or uncontrollables is beside the point, but it is a question of what resources go to what purposes—and 42 percent go to social programs, with 35 percent going to national defense.

This is the first time in the long history of the United States that this type of commitment of resources to social programs has exceeded our commitment to national defense.

Representative MOORHEAD. The point I was trying to get across is that trust funds are not initiated by this administration. They are programs to which this administration was committed.

Secretary CONNALLY. You certainly can initiate changes in benefits and there have been changes in benefits in every session of the Congress, on which the administration has made recommendations. Every administration has made them. If you are just going to talk about controllable items, then you are talking about a very small part of the total budget. I don't know what those figures would be, if you talked about just controllable items. You have to look at the whole budget.

Representative MOORHEAD. The point I am making, Mr. Secretary, is that I think the administration has been claiming that there has been this increase in human resources payments and not so much in defense. Let me try some other.

The 1973 budget shows the Department of Defense increasing from what was $73.6 bilion in fiscal 1971 to $81.8 billion in fiscal 1973. If we subtract the Vietnam war expenses from these two figures, $12.6 billion in 1971 and $5 billion in 1973, the total increase in non-Vietnam defense obligations for those two different years amounts to $16 billion. This is a 25-percent increase. I don't think we can point to the human resources and show that kind of expansion. There is no $16 billion increase of human resources.

Secretary CONNALLY. Congressman, you subtract the cost of Vietnam activities in order to reach a figure. If you are going to do that, you can subtract anything. Subtract the last military pay bill and you get a lower percentage. But this administration, Congressman, is not going to apologize for the new obligational authority—and that is the figure you are talking about, the $81.8 billion—for defense. The administration takes the position that this Nation cannot permit its military establishment to be dismantled at this point in history. There is no question about it. There is no question but what this administration has recommended an increase in obligational authority to upgrade the military establishment of this country to provide for our defense and for the security shield of the free world. There is no question about that. But I submit to you if you will take the overall program, and if you will look at the commitment of resources to social programs, this is an enormous increase and there has been every single year.

Representative MOORHEAD. Let me assure, Mr. Secretary, there is nobody in this committee or in this Congress that doesn't believe we should have an adequate national defense. What we are concerned about is that we don't spend any more than is necessary. The figures, when you subtract the cost of the Vietnam war, show that there has been a tremendous increase in non-Vietnam defense expenditures. We just want to know that we are sure we are not expanding.

We say we want to be sure that every dollar of that is necessary for defense. The size of the increase makes us suspicous.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Congressman Brown.

Representative BROWN. Mr. Secretary, it is nice to have you before us again to discuss problems that I think are of interest at all levels of our economy and society.

I want to spend a little time on foreign trade. The percentage of our gross national product to foreign trade is relatively small compared to the percentage of gross national product involved in foreign trade of other major industrial nations. Is our foreign trade percentage of our GNP going to increase as we go down the road in the next few years? Is that where we are heading, that we are going to become increasingly the factory for other nations of the world?

Secretary CONNALLY. I am not sure I could answer that. I think if there is a $64 question, that may be it.

Admittedly, exports amount to only about 4½ percent of our GNP. That is the lowest of any major industrial nation in the world. I would hope that we could increase our productivity. I would hope we could increase our competitiveness so that we certainly could expand our exports to such a point that we could continue to provide the economic, the political and the military leadership of the world. If we are going to continue to have the approximately 9 percent of our GNP committed to military defense, military costs, which is more than twice as much as any other industrialized nation of the world, if we have to provide the military shield for the Free World, if we are going to continue our military and economic aid programs to the developing nation of the world, which we ought to continue, these represent enormous costs. How do you get them back?

It seems to me if we take on unusual burdens of this magnitude, then we are going to have to get it back through trade. This simply means we are going to have to export more than we import.

Representative BROWN. If that is the case, won't the economic competition increasingly irritate our philosophic or political allies in the world, particularly those with whom we are economic competitors, where their percentage of foreign trade to their GNP is quite high? Are we going to have an increasingly complex political or international philosophic-political problem that this economic program on our part compounds? I am not faulting——

Secretary CONNALLY. Yes, I think the answer to that is yes. I think our answer is that we have to do it with good grace, reason and logic. But we are going to have an increasing and continuing disagreement.

Representative BROWN. As I read some of the foreign press and even some of the domestic press reporting some of the attitudes of foreign nations, you are sort of a focal point of that irritation at this stage of the game, and my question is, in that regard, what trade-offs do you think we can make in that delicate problem?

Secretary CONNALLY. My reaction to that is that a pearl first starts as an irritation in an oyster. If I can be the irritant that ultimately produces equality in our trade with nations around the world, then it will have been worth it. I am not an irritant because I want to be. But inevitably we come into conflict for the simple reason that other nations over the past 20 years have lived on surpluses that are the direct counterpart of our deficits.

We have reached the point where we say to them very plainly and clearly:

> It has been nice, fellows, but we can't live with these deficits. We have to have a surplus.

So we have said we have had it one way for 20 years, and now we want to work the other side of the street for a while. Obviously, it is not going to please them. Then everyone of them will start trading with each other, because they all recognize something has to be done. They all know we can't live with this. They all know what happened. Each one of them wants to give up as little as possible in relation to his neighbors. So, of course, this is going to be a source of concern, and even of irritation, and some disagreement. But we have to learn to live with it, just like we learn to live with differences here at home.

Representative BROWN. I won't push the pearl analogy or suggest that the problem become a shell game, but let me ask of one area that you haven't mentioned.

You talked about the trade-offs earlier with reference to the defensive cover, or military defensive cover, that might have to be shared. What about moves into developing nations and the beginning of a real competition so that we can-raise the standards elsewhere in the world? Are we going to have to ask that kind of support also from our industrialized philosophical allies?

Secretary CONNALLY. Yes, Congressman, we are. In many cases they are doing well right now, as a matter of fact, on a percentage basis. On a percentage basis, some of the smaller nations are doing as well as we are in aid to developing countries. I must say that in all fairness. Through the multilateral institutions and their own bilateral aid, many of them, at least on the face of it, are doing quite well in the type of programs that we are now discussing.

Representative BROWN. As we get into the particular multinational investments of the U.S. industry, will this increased percentage of our foreign trade activity be located in the United States to the same degree it has been in the past, or are we likely to see more of it located abroad?

Secretary CONNALLY. We would hope to encourage more of it at home. This was basically the reason for the DISC proposal, where the Congress, I think very wisely, provided that American companies could form subsidiaries at home to produce products for overseas sales and have a deferral on 50 percent of the income from those sales.

It was an incentive, an encouragement, so that American companies could produce, could build or expand here at home to build products for overseas trade.

Representative BROWN. To the extent that that is to be done, I think probably the laboring men will be very pleased with it, but to the extent that it is not done there, has been some obvious political disenchantment in the labor movement with the whole concept of free trade. Of course, that has political impact in our society. It seems to me that one of the other choices, then, becomes some method to encourage productivity gains in this country, either by impact on the labor movement itself, which is restrictive in some senses of breaking down the monopoly within the labor movement, or an increasing labor supply, which doesn't seem to be a problem at the moment with the unemployment we have; or perhaps some kind of a tax rate which would encourage the investment in technological development in this country that would still leave the laboring men's income quite high while reducing the cost of producing products in the United States.

Is there down the road, then, likely to be some kind of an encouragement in that area, the technological development, or in the way of tax breaks? We don't seem to be operating on an equivalent basis with other countries of the world in that regard, or at least some major industrial countries.

Secretary CONNALLY. This was one of the strong arguments, as you know, Mr. Brown, for the job development tax credit that Congress passed, which has just become effective. This was also one of the strong arguments for the depreciation changes made by the administration last year.

There is no question but what there has to be a comprehensive approach to the problem. Management is going to have to be more aggressive in the utilization of its capital. American industry is going to have to update and modernize its plant and equipment.

Labor, on the other hand, is going to have to contribute by carefully examining its work rules and its contribution to productivity and, thus, the decrease in the unit cost of products made in this country.

Government is trying to be more than responsible. Government is trying to lead the way in encouraging the very things that you are talking about. We have given a great deal of thought to what further stimultants can be given in this field of research and development, recognizing that much of the trade surplus that we have had over the past several years has largely come from the highly sophisticated industries.

We are losing that advantage in terms of the technological advancement that we had made and the advantage that we had over other countries. We have substantially lost it.

Representative BROWN. This really is the thrust of my question, the high technology industries and research and development in the technology field.

Secretary CONNALLY. We have looked and we are still looking. We have not come up with a program. The President asked us months and months ago to look at it. We have come to a point where we have not yet been able to devise a system or a formula or an incentive, whatever you call it, that we think would produce the desired results that would make sense. We are still working on it. The President's 1973 budget adds in excess of $1 billion in Government-funded research and development, but we recognize at the same time that Government cannot efficiently or effectively do the research and development for the American free enterprise system. The various companies, concerns, and industries have to do it for themselves. I don't know yet what the answer is, very frankly. We have spent months working on this, and we haven't come to an acceptable answer.

Representative BROWN. If it must be done, and if Government can't do it for industry, the inference would be that you are exploring it in the area of tax benefits and tax credits beyond the accelerated depreciation rates or the investment tax credit which applies to any investment.

Secretary CONNALLY. That is right. This is the rationalization that we now have. We gave the accelerated depreciation rates. We got a job development credit. Frankly, this is all politically that I think you can justify on behalf of business. They can use those benefits for increased research and development, or whatever purpose they want, really.

Representative BROWN. I would have to conclude from your remarks that we have a big selling job to do not only abroad but at home and I am glad to have the world's best salesman on the job.

Secretary CONNALLY. Thank you.

Chairman PROXMIRE. Mrs. Griffiths.

Representative GRIFFITHS. I would like to pursue this inquiry, if I may. Currently, over 500 major companies made more profit in 1971 than in 1970. When I observed this, I thought what a rough time those people will have in the next labor negotiations.

Why doesn't Treasury make a study of what any of those 500 companies made in profit in the United States as opposed to profits in other countries and show the relative labor cost, the relative cost of materials, the cost of plant and equipment, and the taxes paid?

Wouldn't that be a worthwhile thing to do? At least some of us ought to know where we are. Against what are we competing in the world?

Secretary CONNALLY. It would be an enormous undertaking. We don't have such a study. We don't have the figures really at this point in time to make those studies. Obviously, if it were made it would be revealing. There is no question about that.

I am not sure that I understood your remarks, but profits last year, as a percent of the gross national product, I believe, were the lowest that they have been—that is, in the last 2 years, 1970 and 1971—the lowest since 1938.

Representative GRIFFITHS. But more than 500 companies made greater profits in 1971 than in 1970. Of those 500 companies, certainly some of them, to my knowledge, do business abroad.

Secretary CONNALLY. Yes.

Representative GRIFFITHS. These people are moving their places out of this country or out of the big industrial areas into small places where labor is not as expensive as here, and where they are getting a little better deal.

Now I would like to ask you this: It is my understanding that Japan has built a company in the Midwest, that they have put up a plant in the Midwest, to make a small, neat gadget that is used by American industry.

There is only one other producer in America. The Japanese asked permission to bring in 17 technicians and that permission was granted. It was then discovered that those 17 technicians will run the entire plant, as opposed to the fact that the American company employs more than 300 people. In the next negotiations with the companies which have made the profits, the increasing profits, if their labor people look at it and say, "Well, we won't ask for anything more because they may go abroad if we do that," are they saving that capital so that the people can choose? Either they go abroad, the management takes the company aboard, or the management makes a further choice of further automating the plant. So you are out of a job no matter which direction you go. That is, the laboring people will be.

Don't you think that some of these facts ought to be put once and forever before the American public so they would have some idea of which way we are going and what choices there are to be?

Secretary CONNALLY. Yes, ma'am, I certainly do. I must confess to you in all candor that I am not sure the American Government is organized to fully understand the impact of the situation that you are describing en masse, because we haven't had to cope with it before.

Representative GRIFFITHS. I think that is right, too. But while you are doing this, while you are trying to study—I think you ought to select five companies and try to figure this out—then I think you ought to show what would happen if you have to pick up American labor unemployment plus welfare, and what it is going to cost the taxpayer in America to do this, with what other choices are available and what the Government in the foreseeable future can contemplate doing.

I think we have to make decisions. I think somebody has to have some confidence that these are the choices and the Government is aware of them and the Government ought to be helping.

Secretary CONNALLY. I don't argue with what you are saying at all. I think we have to have a reappraisal. We have to first better understand the facts that we are dealing with on a worldwide basis from the standpoint of trade. Second, we have to have a reappraisal of what kind of a society we want. Next we have to determine what role Government is going to play. Do we adopt the Japanese system where decisions are reached by consensus among the parties concerned, a committee type of arrangement? Shall we have that close an alliance between business and Government in the United States? I would not think we would want to go that far. But beyond question, of all the industrialized nations we probably have less cooperation, if I can use that word, between Government and business of any of the industrialized nations. This goes to the whole problem of what kind of agreements are we going to permit businesses to enter into, what about our antitrust laws, and so on.

These are all things that we need to re-examine, very frankly, because we are operating in a competitive world.

Let me give you a classic example. We passed in this country the Aeronautics Act, I believe, in 1938, though the date is not important. At that time the whole Nation was consumed with competition. We were writing laws that there had to be competition in everything that we did. So today, without going into all the ramifications, on the North Atlantic route we have competition between Pan American and TWA, two privately owned American airlines. We have insisted over all these years that there be fierce competition between them.

During that period of time, though, when we have sold 85 percent of all the commercial aircraft in the world, there have arisen innumerable other airlines, so that today those two compete not just with each other but they compete with 26 other airlines flying the same routes, and the other 26 are all partially or wholly owned by the governments of their countries.

Those governments may get involved in scheduling rates, landing rights, and so forth. So here we are saying we have two airlines, and you fellows go out and do the best you can, just fight it out. But who do we send them to fight with? We send them to fight with 26 governments.

This is the sort of thing that we have to take another look at. It permeates this whole society. It permeates our whole industrial complex. So we have to make up our minds what we are willing to do.

Representative GRIFFITHS. But I think from some place Government ought to get some cold, hard facts and say, "Gentlemen, this is what the whole problem is." We are obviously on a road to somewhere.

Secretary CONNALLY. We are trying to do that.

Representative GRIFFITHS. We ought to have some facts before we apply the brakes or change the course or direction. Everybody ought to have a chance to speak up. It seems to me that we are really flying blind. We are attempting a few little things and they don't work. We are in a whirl that is beyond our imagination.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Mr. Secretary, I am sorry not to have been here before, but your colleague Peter Peterson's nomination was before the Commerce committee.

I think you will be interested in the fact that there were a great many favorable comments made by the Senators of that committee on our new economic policy and the new position of firmness we are taking with our trading partners.

Mr. Peterson praised your boldness, creativity, imagination and toughness, and I join him. He gave much credit to you for the imaginative program that has now been brought about in a revaluation of currencies, which will help our currency situation a great deal.

Secretary CONNALLY. Senator, may I interrupt just long enough to say that I couldn't be more pleased with Mr. Peterson's appointment. He has done all the things you said he has done. He has brought imagination, energy, and understanding to a very difficult assignment, the Council on International Economic Policy, and he now goes to Commerce where I think he can make an invaluable contribution to the problems that exist in this country today. I hope the committee receives him favorably and that the Senate will.

Senator PERCY. We appreciate your putting that on the record. I have known him for a long, long time, and I think he is a gifted man, and his appointment comes at a crucial time.

Chairman PROXMIRE. If the Senator will yield, Mr. Peterson will testify before this committee next Tuesday.

Senator PERCY. In talking with people back home, I have found, among labor and business alike in a cross section of citizens, deep concern about our budget deficits—more intensive concern than I ever expected.

I have cosponsored a bill which will put an absolute ceiling on Federal spending. I worked with Senator Williams in 1968 to put that expenditure limitation bill through and also to place a ceiling on Government hiring. I think that policy resulted in our first surplus. Do you feel that such a bill, such a restraint on the part of the Congress, is needed?

Secretary CONNALLY. Yes, sir.

Senator PERCY. Anytime we exceed the overall budget account in our appropriation bills, we must find another place to cut that amount, a lower priority, or find additional revenue, so that we do not exceed the present budgeted deficit, which is termed the $700 billion full employment surplus.

Secretary CONNALLY. I heartily concur with that position.

Senator PERCY. I notice in your testimony you have named increasing productivity as one of our major goals. Figures will certainly bear out that we are not holding our own in world markets.

I have been told that it is unwise to disagree with a major publication if you are in politics unless you own it or intend to buy it. But I strongly disagree with a February Fortune Magazine article by Sanford Rose. It is a good article, but I think some of the conclusions are erroneous. Mr. Rose argued that the stagnancy we saw in productivity in the late 1960's was cyclical and the current upturn is not long term but short term. His counsel is, "Don't worry about this; that productivity improvement will take care of itself."

Is this your judgment? Do you think our economy is attaining its potential in productivity at the present time, and we needn't worry about it—that it will continue in the future as it traditionally has in the past?

Secretary CONNALLY. No. I disagree with that violently. I think we live in a world where the traditional economic forces do not have free play, where they are not going to have free play.

The economic forces are tempered and altered by political decisions in every major industrial country in the world, and even more so perhaps in the developing countries in the world.

I think perhaps less here than anywhere else in the world, however. But to assume that we can just forget about productivity, that it is going to take care of itself, I think is a very great fallacy.

Senator PERCY. Would you be specific about some of the obstacles you see now to increasing productivity in the United States, or earlier obstacles that have slowed down our productivity growth rate to the point where in recent years it averaged only 2.1 percent per year against 14.2 percent for Japan?

Secretary CONNALLY. I am not prepared to try to point out an all-inclusive list of things, but I would say that the responsibility is perhaps shared by everyone. I think government has been unresponsive in anticipating the changing conditions of this world of trade, so we have not provided the necessary leadership over the past years to industry. We have not been helpful to them.

Second, I don't think management has recognized quite what his happening to it in terms of modernization of its plant, utilization of capital, and, frankly, in showing in many cases enough boldness in preparing for the future.

I think labor on the other hand has not been aware of many of the problems that its work rules and practices contribute to—toward increasing the unit cost of products and slowing down the growth of productivity in this country.

I frankly think that there is enough blame to be shared by everybody—labor, management, and government.

Senator PERCY. Then would it be your recommendation that labor and management today instead of being preoccupied with looking upon themselves as adversaries trying to get the largest slice of too small a pie, should get on the same side of the table and start working cooperatively as they do today in Japan, as we did 25 years ago with productivity councils in this country.

There were 5,000 of these councils across the country, thousands of representatives of labor and management sitting down with millions of workers to see what could be done to increase output, to cut down absenteeism, to discuss all of those factors that contribute to cost but have nothing to do with the value of a product.

Today, shoddy American merchanise many times prevents U.S. sales and allows inroads into our markets.

Do you think these productivity councils can be set up across the country, department by department, plant by plant, industry by industry? Can we once again get that spirit of working together in a battle, an economic battle, rather than against each other?

Secretary CONNALLY. Senator, I frankly think that is the greatest hope for the solution of our problems. The Productivity Commission is looking toward this very thing of setting up productivity councils across this land, just as you described. I think there is an awareness in the minds of management and labor now that really their problems are not so much with each other in the future, but their combined problems are with competitors from abroad.

We are living in a different world. I think it has come on us fairly suddenly. During the 1960's I think we were preoccupied with Vietnam. We were in good times, high employment, high profits. We were doing well. I am not being critical of anybody. I am simply saying I think these are the facts. We were preoccupied and didn't fully understand what forces were underlying the expansion that has occurred around the world.

We have suddenly, now, come to a realization of it. It is a rude awakening. It is a rude shock for us. But I think it is a real shock and I don't think it is going to go away. I think we have to transform many of our customs, many of our practices, at the government level, the management level and the labor level.

If you two gentlemen will forgive me, I will refer to something I feel very strongly about. I want to use it only as an illustration, not to be argumentative. I don't recall how every one voted, though I do know how Senator Proxmire voted.

As I said in response to Mr. Brown a moment ago, our great hope over the last several years has been in selling products to the world that came out of high technology, in which we had an advantage. Yet the Congress last year turned its back on the development of an SST. I am just using this as an example.

There were other factors involved. But we have been selling 85 percent of all the commercial aircraft in the world. If we don't get into the field of the supersonic transport, somebody else is going to supply it. Maybe we don't have to do it. I think we do, but that is beside the point.

The point is that we have to make up our minds that the advantages that we have had have been eroded and depleted, so that we have to look at our own activities and we have to look at activities of others to see, first, that we are doing all that we can to help ourselves, and, second, we have to see that others are not using their influence and powers to discriminate against American products.

Senator PERCY. I have two additional questions I would like to ask, Mr. Secretary, but I would like to yield to the Chairman at this time.

Chairman PROXMIRE. I wish we had a couple of hours so we could debate the SST.

Secretary CONNALLY. I don't want to debate.

Chairman PROXMIRE. Senator Percy did a marvelous job in that, in saving the taxpayer's money.

I would like to ask you about something else. Mr. Secretary, all the fine adjectives that Senator Percy used and you used about Mr. Peterson have been true when applied to you, but you have been getting away with murder in relying on the short memory of the American people in the notion that somehow we can't get unemployment down to the 4 percent neighborhood without inflation in peacetime.

We don't have to go back very far, to the 19th century or the 1920's. Take the recent peacetime period. I guess we Democrats don't refer to it because Eisenhower was President. Take 1953, 1954, 1955, 1956, and 1957, five peacetime years, Eisenhower years. Unemployment averaged 4.3 percent and inflation averaged 1 percent. 1953 was 2.9 percent unemployment, 1954 was 5.5 percent, 1955 was 4.4 percent, 1956 was 4.3 percent, and 1957 was 4.3 percent. And the average inflation during that period, as I say, was 1 percent. It was .7 percent in 1953, .5 percent in 1954, and so on.

Under these circumstances, it seems to me that we just are much too pessimistic about the notion that we cannot do a far better job than we are doing now.

As a matter of fact, on any historical basis the present record is appalling. This is, I think, the first time in economic history when we have had this kind of an economic discomfort index, as Sylvia Porter referred to it, when you add the unemployment rate to the inflationary rate and get both unemployment and inflation at such a high level.

Secretary CONNALLY. Senator, again, I don't want to be picayunish or argumentative here, but we talk about 4 percent. You just told me the average was 4.3 percent. If you give me that kind of latitude in all my future figures, I will go with you. I will accede to you.

Chairman PROXMIRE. We will be delighted. I am sure the whole country would, if you get it down to 4.3 percent with 1 percent inflation.

Secretary CONNALLY. In only 3 peacetime years since World War II have we had less than 4 percent unemployment. Again, the argument is not over whether that is a goal. It is a goal. I am not being pessimistic. I am an optimist. I don't think we can reach it this year, to be candid with you.

Chairman PROXMIRE. I am saying that the economic policies in the last 3 years overall just have been dismal failures. I say that with great respect for you. I think you represent a real breath of fresh air, vigor, and imagination in our Government. But I still say that as a result of the 3 years of this administration, with the unemployment and inflation, it seems to me that it takes a salesman like you, a real Pearl Connally to get the job done.

Secretary CONNALLY. Mr. Chairman, I suppose the reason you like for me to appear instead of Charls Walker or Paul Volcker is that they are both economists and they would argue that many of the problems of 1969, 1970, and 1971 were the direct result of the economic policies of 1966, 1967 and 1968.

Chairman PROXMIRE. I would like to find the basis for your optimistic forecast for 1972. Again, I recognize that optimism is shared by many private forecasters but I remain skeptical. Retail sales fell in December. If the early estimates are correct, sales will remain at the low level in January, seasonally adjusted. Industrial production rose only 3 percent in January, a smaller gain than in either of the 2 previous months. Industrial production is still 3.5 percent below 1969 and in a growing country that is not much of a record. New car sales, which are supposed to be the real bellweather and enjoying the greatest benefits of new economic policy, picked up for the time during the price freeze, but in December sales of domestic cars fell to the lowest level of any month since 1971. Housing starts have been high but it seems unlikely that they could rise much higher. They could fall back. New plant and equipment spending is supposed to pick up about 9 percent this year. But for a supposedly recovery period, that is not satisfactory.

I believe you made the same point recently. This leaves the consumer and nobody knows how much consumers will be deciding to step up their spending. We are hopeful, but none of the surveys that I have seen suggest a strong pickup in consumer buying plans.

I don't see any pattern for a vigorous recovery. Where is the strength that leads you to a forecast of 6 percent growth in real output this year?

Secretary CONNALLY. As you well know, this is a result of a very, very comprehensive evaluation of a great many factors, Mr. Chairman, that goes through the entire Government, the Office of Management and Budget, the Council of Economic Advisers, the Federal Reserve, the

Treasury. They massage every figure, every forecast, everything in the world, to get to this figure of anticipated growth.

Chairman PROXMIRE. I have gone thorugh a whole series of the principle indicators and I don't see much hope in any of them. Where do you see it?

Secretary CONNALLY. I see it in a great many places. First there has been an increase in wages and earnings. In the second place there has been a great increase in savings. Notwithstanding that retail sales were down a bit, as you say, in December, they were still high.

You talk about car sales being down in December, but relative to what? They had the greatest year in the history of the automobile industry last year, for heaven's sake, in total sales. You could be pessimistic about such things, I guess. If you don't have a record week or a record month in every category in every month, you could be.

But you can't expect records every week. We ought not lead the American people to expect it. Here is the Wall Street Journal of this morning:

> Sales of new U.S. cars in early February climbed 5.1 percent, daily rate the third best ever.

Take housing—sure, it can't increase forever. In December it was running at the rate of 2.5 million a year. The total for last year was over 2 million units. We think it will be a little better than that this year, about 2.2 million. But there will be weeks and there will be months when the starts will perhaps be down. There will always be something you can pick at.

Chairman PROXMIRE. You miss my point. You point out that, after all, car sales were great last year. They are unlikely to improve very much over that this year. Housing was a good year last year and not much likely to improve. Where is the improvement? That is what I am talking about. We have far more people coming into the work force.

Secretary CONNALLY. There are 80,600,000 employed at higher wages than ever before. Disposable income is up, considerably up. It is now averaging about $106 a week, the highest ever in history. So disposable income is up. This is going to create demand. Savings are up. Interest rates are going down. The housing boom is on. The leading indicators certainly indicate we have an expansion.

I am not trying to tell you that we are going to have an enormous boom. I think that would be wrong. I don't think we are. I don't think we ought to expect one. I don't think we ought to have one. I think we are going to have a slow, steady, strong expansion. That doesn't mean that every single element in the society is going to enjoy it. But overall, we are going to have it and that is what it ought to be. We don't want too strong a surge because then you will get too steep a dip.

Chairman PROXMIRE. We need a pretty substantial increase in production if we are going to get the unemployment rate down. You seem to be out of line with the consensus on unemployment, unless this 5-percent neighborhood is a whale of a big neighborhood, much bigger than the 5.3. Every capable private forecaster has similar GNP forecasts yet predict unemployment rates stil up around 5.5 percent at the end of the year. It seems to me that quite possibly both productivity gains, if we get them—and you, Senator Percy and I are all concerned that we get them—that productivity gains plus the entry into the work force would result in a 6-percent increase or 6.5-percent increase in real GNP with very little if any diminution in unemployment.

After all, if you get a 4-percent increase in productivity, which would be pretty modest, and a 2-percent increase in the work force, there is no basis for any improvement in unemployment. It will be the same. It will be 6 percent at the end of the year.

Secretary CONNALLY. I don't think there is going to be any great, dramatic drop in unemployment. I have said that consistently. I think it will be in the neighborhood of 5 percent and I suspect it might be a little above 5 percent. There is no question about that. This is not satisfactory, but we might as well face the facts of life and try not to kid ourselves or the country. This, nevertheless, will be a 1-percent drop.

Chairman PROXMIRE. Wait a minute. If it is much above 5 percent it is not a 1-percent drop.

Secretary CONNALLY. It is 5.9 percent now and you are giving me three-tenths of a percent leeway.

Chairman PROXMIRE. Even a pearl can't make six-tenths of a percent into 1 percent.

Secretary CONNALLY. As you know, Mr. Chairman, you look at this whole picture and you have 80,636,000 people employed. Sure, you have 5.9 percent unemployment. But when have you ever had that many people employed in America when you had 6 percent unemployment? It is not critical as it was in the 1930's, 1940's, and 1950's. When you had a 6 percent unemployed you had a great many homeowners, family heads, out of work. You don't have that now.

Chairman PROXMIRE. We have about 75 percent more than we had in 1969.

Secretary CONNALLY. That is right. But I don't want to start another war just to get a few more people employed.

Chairman PROXMIRE. As I pointed out, we don't need a war. We have a peacetime history with a record of price stability and for lower unemployment very recently in the 1950's.

Yesterday we had Secretary Butz before us, another man of outstanding ability although I voted against his confirmation. He said that he expected hourly earnings to increase 7 percent, wages to increase 7 percent, in 1972. They increased in 1971 over 1970 by 6.3 percent. How can you make much progress on inflation if we are going to get a 7-percent increase in wages? I must say as I look at what the Pay Board has been doing I don't share your optimism about their effectiveness or about the final result.

Secretary CONNALLY. I haven't seen his testimony but if you subtract your productivity gains from that you get very little inflationary factor. I assume that is what he is doing.

Chairman PROXMIRE. It depends on what your productivity is. We had a 3.4-percent increase in productivity increase last year, a 6.3-percent increase in earnings, and a high rate of inflation, which we all accept as too high.

It was much better during the freeze period. Now you are trying to go to 2.5-percent inflation. I don't see how you can do that if you have a 7-percent increase in wages. I got that also from Governor Burns, that he thought that a 7-percent was likely, and the 7 percent would be a very tough inflationary factor.

Secretary CONNALLY. I can't reconcile the figures. I can't argue with you because I don't know what you are talking about.

Chairman PROXMIRE. You gave us figures on the increase so far in pay as approved by the Pay Board. You indicated they were around 5.4 percent. The difficulty here, of course, is that that statistic is very suspect. It includes, for example, a small fraction of one-half of 1-percent increase for fringe benefits for General Electric employees. It includes a lot of this kind of thing. Later on in the year we can expect these employees to get a much bigger increase. But if you have a 5.4-percent increase during the first 5 months, since August 15, it would seem to me that you are likely to get at least a 7-percent increase during the year. Do you follow me?

Secretary CONNALLY. Mr. Chairman, I told you at the outset that I didn't think we could draw any particular conclusions from the 41 cases and cautioned against it for the very reason you now point out, that it is too small a sample.

Chairman PROXMIRE. It is not just too small a sample. It is a sample based on the accumulated results so far, and we are less than halfway through the year since August 15.

Secretary CONNALLY. I agree.

Chairman PROXMIRE. I would assume from the way the Pay Board is operating that 7 percent is a pretty modest estimate of the final result.

Secretary CONNALLY. I think on the other hand that the general feeling is that confidence is building in the Pay Board all over the country and in their capacity to deal with these problems.

Chairman PROXMIRE. Mr. Connally, let me shift quickly to one other area. I am quite disturbed by the revenue priorities that have been established by the administration. The President said, "In 1973 individuals will pay $22 billion less in Federal income taxes than they would if the tax rate and structure were the same as those in existence when I took office."

While the implication is that this returns power to the people, it appears to be that very little goes to the average family. Take a look at what else has been happening. First, social insurance and payroll taxes, which are much more regressive than income tax, have increased from 16 percent to 29 percent of total revenues in fiscal 1973. That is, from 1960 to 1973. Second, corporation income taxes have fallen from 23 percent of the total revenues in fiscal year 1960 to only 16 percent of total revenues in fiscal year 1973. This is the corporation income tax which was once this country's second source of revenue going down to our third source of revenue, and below the most regressive form, social security taxes.

Third, we have been recently told that Congress will be asked to enact a $13 billion value added tax, which will be more regressive than either the individual or the corporate tax. Taken together, these changes constitute a fundamental shift in the tax system. Is this by design, or are we just blundering into this?

Secretary CONNALLY. You give me a poor choice of alternatives. If I have to select between those two, I will say neither.

Chairman PROXMIRE. Just like you never did beat your wife.

Secretary CONNALLY. Right. This is a beat-your-wife question if I ever heard one. The truth of the matter is that the social security taxes have gone up. That is correct. So have the benefits. It is reaching a point where I think everyone is going to have to take a look at it. The corporate taxes have gone down as a percentage. Why? Simply because, as we pointed out earlier, they don't pay taxes when they don't make profits. If you want to confiscate them, by confiscatory tax rates, that is something else. But we are not going to recommend that.

Last year and the year before, they had the lowest profits in terms of GNP than they have had, as I pointed out earlier, since 1938.

Chairman PROXMIRE. You get a Democratic administration and get higher profits. I am talking about something else.

Secretary CONNALLY. Your third point is a false assignment of priority. This is the passage of the value added tax you mentioned, which I told you we have not proposed. No decision has been made to do that. We have not proposed it.

Chairman PROXMIRE. I have never seen so many trial balloons. We have had at least five or six trial balloons, front page stories in papers. I know Mr. Nixon has nothing to do with what the papers anywhere print, but those stories coming out of the White House are from somebody on value added, or the Treasury Department.

Secretary CONNALLY. I don't think the Treasury Department has been putting out any particular information, though this tax has been studied for over 2 years. You assume that it is a regressive tax. If you look at it in all of its worst aspects, it can be a regressive tax, but it doesn't have to be. It depends on how you design it.

Chairman PROXMIRE. No matter how you design it, it has to be more regressive than the income tax.

Secretary CONNALLY. It depends on how you design the income tax.

Chairman PROXMIRE. If you fellows are going to redesign the income tax to make it more regressive than the value added, I will have to take my hat off to you.

Secretary CONNALLY. I will not make these categorical statements. But it is important to us to examine all types of taxation, which we are doing. We are looking at the value added tax because it is in every other industrial nation in the world. They love it.

Chairman PROXMIRE. I am sure that the people you talk to love it, but I am not sure that the rank-and-file workers do.

Secretary CONNALLY. You don't know who I talk to, Mr. Chairman, so I don't know why you would make such a statement.

Chairman PROXMIRE. From the leaders.

Secretary CONNALLY. Be that as it may, I don't see anything inherently wrong with the Treasury Department trying to acquaint itself with systems of taxation that exist around the world. We have done it and will continue to do it. I assume if the time ever comes that we decide to make a recommendation to the President about the value added tax, pro and con, that will be known. But we haven't done that. We have reached no conclusions whatsoever, and certainly the administration hasn't.

Chairman PROXMIRE. Senator Percy.

Senator PERCY. Mr. Secretary, isn't it true that without talking about possibilities in the future but just by looking at the actual record today of this administration's tax policy, it has been anything but regressive? The bills the administration has proposed in fact include decreases in taxes for lower income people, and would result in millions of people being taken off the tax rolls. The increases in the social security benefits all have been to benefit low-income people, and have given very little benefit to high-income people. Wouldn't the facts bear that out?

Secretary CONNALLY. No question about it. Taxes have been reduced, as the President said, by about $22 billion since he took office, most of it in the lower income families, and many millions of families have been exempted from taxes completely. As I recall, during the same period corporate taxes have gone up $3.5 billion. I am perfectly willing for this administration to stand on the record of what has been done.

If you want to engage in forensics of what might happen, then we would be in a completely different realm. But if you want to judge, it seems to me you should judge on the basis of performance.

Senator PERCY. I think the administration could be chastised if it did not have in the mill someplace along the line studies of a number of alternatives that are available for future implementation. These studies give us a chance to review these proposals, to talk them over and digest them. It has been perfectly clear that there will be no presentation to the Congress this year that will affect this year's taxes. So what we are talking about is in the future we have plenty of time to contemplate and see what its effect certainly would be.

I think it might be well as we wind up this hearing to also clarify a point that Mrs. Griffiths made.

She indicated that there was a substantial increase in corporate profits in 1971 over 1970. But I think we ought to make perfectly clear that 1970 corporate profits were the lowest in three decades in the manufacturing industries. If we continued at that level of profit we couldn't finance anywhere near the level of Federal expenditures.

In fact, a large part of the deficit that we have shown is unrealized income that has not come in from corporations and was a great disappointment. I hope we wouldn't feel that because there has been an increase in these profits in 1971 over 1970 that this is something we should be concerned about. The increase ought to have been greater, and we expected a greater increase than we actually did receive.

I would like to comment on unemployment also. I think these figures are extremely important. We should put right on the record what unemployment has been in the years of this administration; 3.5 percent in 1969, 4.9 percent in 1970, and 5.9 percent in 1971. These contrast with 6.8 percent in 1958, 5.5 percent in 1959, 5.5 percent in 1960, 6.7 percent in 1961, 5.5 percent in 1962, 5.7 percent in 1963 and 5.2 percent in 1964.

If we do reach, lets say, even 5.5 percent, or hopefully closer to 5 percent—none of us wants to tolerate any unemployment if we can avoid it—I think when we have absorbed 1 million young men returning to civilian life from the Armed Forces and absorbed a 2.3 million employee cut out of space and military industries, this is a tremendous job, also taking into account the new young people coming into the labor market and the increasing number of women who want jobs.

So this has not been a dismal record at all, by those figures. I think we ought to clearly point that out.

My final question on productivity simply deals with an amendment to the Economic Stabilization Act I sponsored in December. The principle cosponsor was Senator Proxmire. This amendment was based on the argument that we were not trying to hold wages down in this country. So far as I am concerned, the sky is the limit on wages. provided there is an increase in productivity along with it.

What we are trying to say is we don't want an increase in prices because then wage increases don't mean anything. So we totally exempted from the Pay Board's jurisdiction any wage increases that are part of a plan that labor and management work out to increase productivity. The Board does not have jurisdiction.

I have a letter of support for that position from Judge Bolt. He has testified on it before this committee. Mr. Grayson has also supported it by letter and in testimony.

For the record, I would certainly appreciate your comments on this as the Chairman of the Cost of Living Council, because this provision—passed in the hurried days of December, accepted by the House and signed by the President—is not known to 1 percent of the businessmen or labor leaders in the country, and not one out of 1,000 citizens know that there is now no limitation on wage increases providing they are part of a plan that increases productivity. The sky is the limit. A 7-percent increase is modest compared to what could be earned in some industries if labor and management sit down and really increase productivity. We would appreciate your comments.

Secretary Connally. I just agree with that.

Senator Percy. Have you any further amplification?

Secretary Connally. No amplification, except this is one of the things that is grossly misunderstood and frequently distorted.

Certainly, if you get that type of productivity then you can have very substantial wage increases, in excess of the 5.5, and you still can hold prices down. This is the name of the game. You can't take just the one bare figure and say that you are in violation or you have done a great job or a poor job.

You have to view it in the context of how you got the figure and what is happening. Productivity is the name of the game, the reduction of unit cost.

Mr. Fiedler. There is one new force in this area which I do not think has received enough attention. That is the rules of the Price Commission, which may do more to focus the attention of business, management, and labor on productivity than has been done before.

That is the rule that requires an offset for productivity increases before any cost increases may be passed through in the form of price increases. This is making management stop, where they never have done so before, and try to calculate their productivity and try to see what they can do to enhance it.

We suddenly have a force, sort of, if you will, by way of the side door, for putting people's emphasis in the direction it ought to have been all along.

Senator Percy. Mr. Secretary, there is one area where you could be extremely helpful in your office. I made the guidelines for such pay incentive plans part of the legislative history for this amendment as an interpretation of what we meant. The Pay Board should lay down guidelines. They have said they will set these guidelines, but they have had so far a lot of other things to do. Anything you can do to expedite this matter would help a great deal.

I understand there are literally thousands of companies that would like to put in such plans, but they need guidelines laid down by the Pay Board. As long as it has been part of the law for 2 months now, we should try to break this log jam.

Lastly, I think I should comment about my grave unhappiness over the balance-of-payments progress. The extra $1 billion added by European nations has been a step in the right direction. But as the working Chairman of the Balance of Payments Subcommittee of NATO of the North Atlantic Assembly, I can't help but express dissatisfaction with the level of contribution being made particularly toward balance of payments.

The thought of having still 74,000 foreign nationals paid in dollars working for NATO, the idea of having us build buildings, runways, and roadways and pay taxes to the German Government when we don't pay taxes in this country for Federal property is extremely unsatisfactory. I think there is still another half billion dollars that could be easily picked up by our NATO allies rather than the United States when we simply can't afford it.

In your bargaining with them, I hope you will feel that you have the full backing and support of the Congress in saying they must contribute more to their own self-defense.

Thank you, Mr. Secretary.

Chairman PROXMIRE. Mr. Secretary, you have been very patient and the hour is late. I will take just 2 minutes.

First, Mr. Fiedler, you are absolutely right, of course, that business will become aware of productivity. Mr. Grayson testified before this committee and said that 50 to 75 percent of the big firms with gross sales of over $100 million knew something about productivity. The rest of the big firms didn't know anything about it and, of course, most the small firms haven't even considered it.

The point, however, that I want to make to you is that our price rules carry a disincentive against productivity increases. As a firm reveals productivity increases its price has to be lower, not higher. So there is an element here that is perverse, in going in the wrong direction.

In reply to what Senator Percy said, I can't help but point out that after both World War II and in the Korean war we had a better record of low unemployment and lower prices. There were 1 or 2 years after World War II when we had a dammed-up demand. But unemployment performed very well in both of those circumstances.

I would like to ask you for the record, because you are the expert on it, and every independent economist who has appeared has given a different view, than you do, just what effects have the administration tax policies had on people in various incomes?

Show us by quintile, the first 20 percent, and so forth. Show how the administration tax program has affected their overall taxes, including social security taxes. If you can show us that the policies of the administration have been progressive, I will be delighted to eat the economic indicators.

Secretary CONNALLY. May I supply a statement on that score for the record? I certainly can't tell you offhand what impact it has had on every segment.

Chairman PROXMIRE. For the record would be fine.[1] The final question would be, Do you have any plan at all for tax reform, for making our tax system less regressive, more progressive and particularly plugging loopholes?

Secretary CONNALLY. Mr. Chairman, when we get into a discussion such as this we obviously have to look back at what has happened. We have just talked about the changes that have occurred since 1969. In 1969, you went through a massive Tax Reform Act in the Congress. We are just beginning to digest that.

The American people haven't really coped with it yet. They are just filing the first returns. We are trying to determine whether or not people can even interpret it and understand it. Mr. Cohen earlier pointed out in response to a question, I believe by Senator Miller, what was happening with respect to the 112 people with adjusted gross incomes in excess of $200,000, and why these situations arose. We have had massive reforms. But each reform, in 1971 and in 1969, has resulted in a very substantial decrease in revenues to the Treasury. We like reform. We believe in reform. We believe in taxes equally applied in this country.

But, frankly, we can't stand any more decreases in revenue that inevitably result from tax reforms.

Chairman PROXMIRE. I will just interrupt to say I am talking about reforms. The 1971 act I don't view as a reform act. That opened up holes, rather than closed them.

Secretary CONNALLY. There were increases in standard deductions. There were a great many things in the 1971 act that were very, very beneficial to the low-income people, the average taxpayer in this country.

Chairman PROXMIRE. What I am talking about is we had very helpful testimony before this committee about 2 weeks ago, from a number of experts in this area whom I know you respect as professionals, who argued that our income taxes have become riddles with gaping loopholes.

They indicated in their view the 1971 act was even worse. I know there were, as you say, some provisions for lower income people, and also some incentives for investment and so forth.

What I am talking about is a reform system that makes the tax system more equitable. You don't have any plans for that, I take it?

Secretary CONNALLY I don't want to be put in the category of saying we don't have reforms——

Chairman PROXMIRE. Are you saying you don't have reforms?

Secretary CONNALLY. May I asnwer it in my way?

Chairman PROXMIRE. Yes.

Secretary CONNALLY. You asked me for a more equitable tax structure——

Chairman PROXMIRE. I asked you if you had a program.

Secretary CONNALLY. Do we have any proposals to ask for a change in the tax program this year? The answer is "No."

Chairman PROXMIRE. Or any time?

Secretary CONNALLY. I am sure yes, we probably will, but we don't have anything specific. Let me point out now when you talk about tax

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[1] The information requested will require detailed analysis, which has not yet been completed. This information will be furnished as soon as possible.

reforms and loopholes, what are you talking about? You have to define what a loophole is. We were just looking at 112 cases here which have been defined as resulting from loopholes.

Well, I don't think they are loopholes. In the first place, 12 of them didn't pay taxes as a result of paying their State income tax.

Chairman PROXMIRE. Do you believe that individuals with annual incomes over $1 million shouldn't pay income taxes?

Secretary CONNALLY. The loophole is that Congress has decided, and I think wisely, that a man can charge off his State income taxes. That is not a loophole. You provided that a man can take certain deductions for charitable contributions. That is not a loophole. You did it consciously. It is not a loophole.

Chairman PROXMIRE. I hope you are using this term "you" in terms of the Congress, and not this Senator.

Secretary CONNALLY. I am talking about the Congress. The Congress has decided they will allow interest deductions. That is not a loophole. charge off thefts and casualties, bad debts, payments in settlements of litigation, and 100 other items. These are not loopholes. They are provisions of the tax laws that in each case the Congress consciously passed to achieve a purpose.

Chairman PROXMIRE. We could go on and talk about the foreign oil royalties you can charge off as part of your tax credit.

Secretary CONNALLY. I will be delighted to talk about that if we have time.

Chairman PROXMIRE. The hour is late. The point I wanted to get at is we feel very strongly, I do and I think other members of the committee, that there hasn't been a real appraisal of whether or not these tax expenditures are efficient, whether they do the job. We have enacted them in the past and forgotten them. Some of them ought to be kept and maybe enlarged, but others should not be. We do need a far more systematic method of analysis, appraisal, evaluation, and then a willingness to change some of these things, to improve them, to try for more revenue.

We haven't done that, neither the Treasury nor the Congress.

Secretary CONNALLY. I agree, if you add to it an evaluation by both the Executive and the Congress on the efficacy of the programs—programs that the administration and the Congress have proposed—that are now in operation, on which we are spending billions of dollars. There has been no evaluation of these programs either. Now you are talking about something with which I can absolutely agree.

Chairman PROXMIRE. You are the No. 1 tax man in this country. That is an unhappy position to be in, but you are. I don't think there is anyone with a greater responsibility in the taxing area. I would hope this would come from the Treasury Department. It would be a great service to our country.

Mr. Secretary, thank you very much.

The committee will stand in recess until tomorrow morning at 10 o'clock, when we will hear the Secretary of Labor.

(Whereupon, at 1:10 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, February 17, 1972.)

(The following information was subsequently supplied for the record:)

RESPONSE OF HON. JOHN B. CONNALLY, JR., TO ADDITIONAL WRITTEN QUESTIONS POSED BY CHAIRMAN PROXMIRE

Question 1. It seems to me that the tax subsidy for State and local bonds is severely redistributive in favor of the rich. In our earlier tax subsidy testimony, we found that little of this subsidy went to individuals with incomes even as high as $50,000 a year. Yet those in the income class of over a million a year get $36,000 a year.

Does the Treasury have any intentions of redesigning this tax subsidy so as to aid State and local governments without providing such a tax windfall for the superrich?

Answer. The Treasury is not contemplating any steps to withdraw from State and local authorities the privilege of issuing securities which will be exempt from Federal income taxation. On the other hand, the Treasury is constantly reviewing the equity of the Federal income tax structure, and particularly the fact that some high income taxpayers pay low effective rates of tax. We have not, however, seen any proposal for redesigning the benefit given to state and local governments through the tax-exemption privilege, short of elimination of the privilege, which would alter the fact that high bracket taxpayers may receive tax-free income from available exempt obligations.

Question 2. The following is an advertisement that frequently appears in the classified section of the Washington Post:

> *Alexandria Tax Shelter—6 unit apartment house in historic Alexandria w/excel. appreciation possibilities, $51,000. Good financing. MACKLIN-HANSEN REALTORS.*

This ad appears to be the end result of the fast depreciation tax subsidy that is justified on the grounds that it will encourage housing production. But Mr. Stanley Surrey of the Harvard Law School has testified that this provision does not work as a subsidy and probably should be labeled a welfare payment. What is the Department of the Treasury doing in the evaluation of these tax shelters as appropriate provisions of the tax law?

Answer. Presumably the "tax shelter" involved in the advertisement relates to the opportunity to take depreciation on an investment while the investment will, according to the seller, appreciate in value.

The Congress made substantial reductions in the tax benefits for real estate investments in 1969. Taxes of the real estate industry were estimated to have been increased over $1 billion annually in the long run.

One of the changes made by the Tax Reform Act of 1969 was to cut back the then allowable 150 percent declining balance depreciation in the case of used buildings to straightline depreciation. However, the Congress decided that 125 percent declining balance depreciation could be taken for used residential buildings, if they have a life greater than 20 years. The apartment building cited in the ad may well fall in this latter category.

The Treasury has continued to examine tax benefits in this area. Preliminary work on the changing value of apartment houses over time was done for Treasury and reported on by Professor Paul Taubman at the December meeting of the Econometric Society. He concluded that typical patterns of depreciation are slower than those used for tax purposes and that the effect of this is to increase the supply of apartment houses and to reduce rents somewhat. Such an effect seems desirable, given the Nation's housing goals.

We are continuing to finance research in the housing investment process. Currently we are committed to a cooperative venture in this area with the Department of Housing and Urban Development.

Question 3. I would like to raise some questions about DISC. I have a copy of the new DISC handbook for exporters. Isn't this the first time in the history of the Treasury Department that a tax subsidy is aggressively being advertised?

Since the doors of the Treasury are being opened to exporters, it is important to know what all this is going to cost and what it is going to do. You earlier estimated it would cost $600 million annually and increase export sales $1.5 billion. Is it now possible that DISC could cost over $1 billion?

I am concerned about this high subsidy cost because the Committee has just received a study that estimates that other tax subsidies for foreign investment already cost about $5 billion annually. What is the total cost of tax subsidies for foreign investment?

Answer. When Congress enacts tax provisions for certain purposes, these provisions should be used. The more the investment credit is used, for example, the faster will be our economic recovery. In this spirit, the Treasury has in the past provided taxpayers with detailed information about using the favorable provisions enacted by the Congress for small business and farmers.

The DISC legislation provides a straightforward method of treating exports for tax purposes in a manner more equivalent to that available to many foreign competitors. These provisions are designed especially to encourage smaller businesses, which may have had little or no export experience, to export.

The DISC provisions, as enacted by the Congress, are quite complex. While larger companies might have the available manpower to decipher these complexities, many small and medium sized companies might have considerable difficulty in utilizing these provisions if no explanation of their operation were provided. The Treasury handbook on the DISC provisions is intended to help businessmen understand and use DISC in connection with their export efforts.

One of the serious economic problems faced by the United States is our deteriorating balance of trade. It is an important duty of the Department of the Treasury to make every effort to promote U.S. exports and the additional jobs that would result therefrom.

As indicated, our original estimate of the revenue cost of DISC was $600 million annually beginning after two years. An increase in export sales of $1.5 billion or more was predicted. As enacted, the Revenue Act of 1971 limited the DISC deferral to one-half of the DISC earnings and this would reduce the revenue cost and the minimum increase in export sales. We are hopeful, however, that the increase in exports will far exceed the minimum. At current export levels and on the basis of the DISC statute itself, the revenue loss would be about $200 million. This, of course, can be expected to grow. However, a $1 billion a year cost is quite unlikely.

Concern is expressed about the "high subsidy cost" of DISC because the Joint Economic Committee has just received a study that estimates that "other tax subsidies for foreign investments" already cost about $5 billion annually. It is important to note that the DISC legislation is designed to encourage new investments *in the United States* by providing tax encouragement for the export of goods manufactured in this country and that it does not provide benefits for investment abroad. The cost of the DISC program should not be added to the cost of other benefits that might be given to foreign investment.

You inquired what is the total cost of tax subsidies for foreign investment. Various provisions of our law which some people have charged constitute subsidies for foreign investment, when examined closely, amount to no more than provisions for achieving tax neutrality between domestic and foreign investment. The total of the tax subsides listed in the category "International Trade" in a recent staff study prepared for the use of the Joint Economic Committee total $400 million (Staff of the Joint Economic Comm., 92d Cong., 2d Sess., The Economics of Federal Subsidy Programs 31 (Comm. Print 1972)). We would be pleased to consider the $5 billion estimate if you furnish us with a copy of the study in which this estimate is made.

Question 4. You say that there will be no problem financing the $39 billion deficit. You point to a record volume of credit raised last year—$150 billion. Could you give us a breakdown of this figure? How much was due to Federal borrowing, corporate borrowing? How much for housing, etc.?

Answer. In considering the financing of the $38.8 billion unified budget deficit which is projected for FY 1972, it is important to note that a very large portion, approximately $25 billion, has already *been* financed.

The remaining FY 1972 market borrowing requirements will be met between now and mid-year in money and capital markets in which the supply of funds available for investment is large. The market has the capacity to accommodate the Treasury's borrowing without undue difficulty.

The Federal Reserve Board's preliminary flow of funds statistics for 1971 were recently released. These figures show that total funds raised in credit markets last year by nonfinancial borrowers totaled $151.1 billion. This figure may be broken down as follows:

	1971 billions	Percent
U.S. Government borrowing	$25.5	16.9
Residential mortgage borrowing	33.7	22.3
Commercial mortgage borrowing	9.5	6.3
Corporate equity shares	13.5	8.9
Corporate and foreign bonds	19.6	12.9
State and local government borrowing	18.5	12.2
Consumer credit	10.4	6.9
Bank loans to nonfinancial corporations	11.8	7.8
Other	8.6	5.7
Total	151.1	100.0

(The following memorandum was subsequently supplied for the record:)

THE SECRETARY OF THE TREASURY,
Washington, D.C., January 25, 1972.

Memorandum to: Secretary of Defense
Secretary of Agriculture
Secretary of Commerce
Secretary of Labor
Secretary of Health, Education, and Welfare
Chairman, Council of Economic Advisers

Subject: Task Force Study of Employment and Unemployment

In accordance with the President's directive last Thursday afternoon, we are to conduct a study of the present status of employment and unemployment in the United States. This study will include such questions as:

What do the unemployment and employment statistics tell us and what do they not tell us? Are our statistical methods sound? How consistent are the statistics over time?

What are the characteristics of the employed and unemployed? How are they distributed by age, sex, occupation, geography, etc? How have these characteristics changed over time, and how has this affected the unemployment rate? How long, typically, does it take a discharged worker to find a job? A Vietnam veteran?

What information do we have on the number of job vacancies? What are the reasons for the mismatch between available jobs and the unemployed?

What can be said about the Government's training efforts? How have they, and how will they affect the job market?

What are the disincentives to employment (unemployment compensation, welfare, minimum wage legislation, etc.) and how much impact do they have?

What changes in policy, or additional policies, if any, are needed to deal with the current situation?

Under Secretary Charls E. Walker will take the lead on behalf of the Treasury in conducting this study. Would each of you please designate a representative to take the principal responsibility for this study on your behalf. Please have him phone Dr. Walker at 964-2801. This study must be completed in a month, so it will be necessary to begin work as early this week as possible.

JOHN B. CONNALLY.

EMPLOYMENT/UNEMPLOYMENT STUDY

I. STATISTICAL UNDERPINNING

What do the employment and unemployment statistics measure? Is this what we want to know? What else do we want to know?

Are the statistical methods sound? Have they been consistent over time?

II. CHARACTERISTICS OF THE EMPLOYED AND UNEMPLOYED

What are the age, sex, color, occupation, geographic and other characteristics of the employed and unemployed? How have these characteristics changed over time? How has this affected the unemployment rate?

What is the duration of unemployment? How long does it take a discharged worker to find a job? A new entrant? A re-entrant? A Vietnam veteran? How have these time periods changed in recent years?

Can we measure the degree of attachment to the labor force? What has been the experience with part-time vs. full-time employment? Working wives and other second workers in a family? Moonlighting? What does this tell us about the unemployment figures?

III. DISINCENTIVES TO EMPLOYMENT

Does our economic system contain features, such as the minimum wage laws, that prevent job seekers from obtaining employment?

Does our economic system operate in way—e.g., because of welfare, unemployment compensation—that discourages people from seeking work?

What is the impact of these factors?

IV. JOB VACANCIES

How does the number of job vacancies compare to the number of unemployed? Why is there a mismatch? Because of skills (technology)? Geography?

What is and can be done to help the matching process? Labor market services? Job banks? Day care?

V. TRAINING

What is and can be done to retrain the unemployed to enable them to find work? How well are these programs working? What is the impact on the labor market?

VI. PUBLIC SERVICE EMPLOYMENT

What is and can be done to put the unemployed to work for the government, a la WPA? What benefit do the governments get? What benefits do the participants get? What is the impact on the labor market?

1972 EMPLOYMENT GROUP

Dr. Charls Walker, Under Secretary of Treasury; 184–2801.

Edgar R. Fiedler, Assistant Secretary for Economic Policy, Treasury; 184–2551.

Mr. Curtis Tarr, Director, Selective Service System; 343–7160.

Dr. Laurance Lynn, Assistant Secretary for Planning and Evaluation, Department of Health, Education, and Welfare; 13–34225.

Dr. John Palmer, HEW, Director for Manpower and Labor Market Policy Analysis; 13–37963.

Dr. Ezra Solomon, Member, CEA; 103–5046.

Dr. Michael Moskow, Deputy Under Secretary of Labor; 110–3463.

Mr. Carl W. Clewlow, Deputy Assistant, Secretary of Defense; 11–55348.

Mr. Don Paarlberg, Director, Agricultural Economics, Department of Agriculture; 111–5681.

Mr. Francis Kutish, Department of Agriculture, Staff Economist—Office of the Secretary; 111–7043.

Mr. James Lynn, Under Secretary of Commerce; 189–4625.

(The study referred to on p. 325 follows:)

THE UNEMPLOYED: WHO, WHERE, AND WHY

(Prepared by Herman I. Liebling, with the assistance of Roland Droitsch and James Russel)

The unemployed are mostly below 25 years of age, or female, or "disadvantaged". But, fiscal and monetary policy is used to reduce unemployment, job shortages rapidly develop in the skilled male 25 years and over category, which eventually puts pressure in the inflation boiler. As demand increases, it results more in advances of wages and prices than in higher real output or reduce unemployment. This is the central economic dilemma in the United States.

The above describes the constraints that were, or should have been, placed on the objectives of economic policy aimed at the inflation-unemployment dilemma of the post-World War II period. It explains the infrequency that unemployment has fallen below 5% over the last decade. Three main issues are posed by this summary of the problem.

(*a*) Was the relatively high unemployment rate an unexpected development in 1971, the second year of a recovery?

(*b*) Beyond 1972, is a 4% unemployment rate attainable in the near future without significant inflation? Should it serve as a national economic goal?

(*c*) Finally, what programs and policies in the public and private sectors might achieve better functioning of the labor markets towards the objective of improving the inflation-unemployment trade-off?

Recent experience might indicate that strong employment gains are still possible—notwithstanding the problems noted above. Employment rose by 1.7 million during the last half of 1971. But, it might be remembered that this developed in circumstances of cyclical recovery and may represent a temporary rate of gain. (Due to commensurate increases in the labor force in the last half of 1971, in part the result of the labor force entry of Vietnam veterans, the unemployment rate remained at 6%.)

In 1972, assuming a labor force increase around 1.5 million, the unemployment rate may be lowered to 5%, as stimulative fiscal and monetary policies take hold and economic growth accelerates.

But, that reduction of the unemployment rate might represent the maximum benefit from cyclical expansion without unleashing unwanted inflationary repercussions. The basic question would remain: Is a 4% unemployment rate too high a goal?

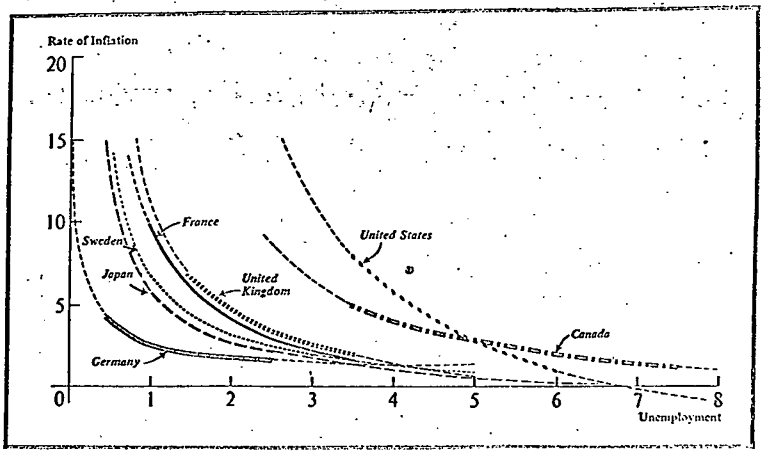
A SUMMARY OF THE CONCLUSIONS

Despite the benefit of considerable debate over the years between the so-called "structuralists" and "insufficiency of aggregate demand" theorists, much more analysis and study of the relevant issues remains to be done. Nevertheless, this paper advances some tentative conclusions:

> *Over the next few years, a 4% unemployment rate as a national goal is not feasible without significant inflation. This might apply even if some new fundamental approaches in manpower training, not now in sight, were tried.* Indeed, due to structural shifts in the labor force towards greater importance of the inexperienced and less trained groups, the consequences of a 4% unemployment rate right mean acceptance of 4% or more inflation. Any support by the price statistics to a spirit of inflationary expectations might worsen this result.

Chart 1

UNEMPLOYMENT AND INFLATION RATES, SELECTED INDUSTRIAL COUNTRIES
(in percent)



Source: Erich Spitäller, "Prices and Unemployment in Selected Industrial Countries," International Monetary Fund Staff Papers, November 1971.

Recent studies of the trade-off between prices and unemployment show the following pairing, based on the average of the results obtained by three independently derived econometric relationships:

Unemployment (percent, per annum):	*Inflation*
6	2
5½	2½
5	3
4½	3¼
4	4

This is a worse unemployment-inflation trade-off then in most other industrialized countries, as shown in Chart 1. Fundamentally, it expresses a worse mismatch of existing employment opportunities and skills than in the other countries, except possibly for Canada.

Elements of the Mismatch.—The mismatch has at least three dimensions:

Younger and less skilled groups normally show higher unemployment rates than the prime working age groups, as shown in Chart 6, because of no or inadequate work experience, as well as trials at numerous jobs in order to "find" themselves. These groups now comprise a larger percentage of the labor force and of unemployment than formerly. In fact, the 16–24-year age group and the part-time worker group in the labor force accounted for 55% of the unemployment in 1971. This was much more than in some year in the 1950s and 1960s when the percentage was less than half. (See Table 1.)

The occupational mix has contributed to a higher overall unemployment rate than formerly. Year in and year out, the skilled categories of workers experience low unemployment rates. In 1971, they were below 4%—as they have been over the years, as shown in Table 2. With younger groups in the labor force now of greater relative importance, the statistical result is to keep the unemployment rate higher than earlier. Beyond the statistics, it is clear that many institutional barriers—restriction of entry into unions, discrimination, overly-long apprenticeships, etc.—have contributed to what amounts to the development of a dual labor market situation. Normal equilibrating forces do not operate in these markets.

Some limit to the reduction in unemployment is provided by the persistence of high unemployment in some areas of the nation (e.g., Los Angeles, New Bedford, Atlantic City, Muskegon—where unemployment rates run 6% or higher year in and year out). There seems to be little relationship in areas of the country which have both high job vacancy rates and high unemployment rates, as shown in Chart 9. A second geographic aspect is the persistence of either high or low unemployment rates in cyclical expansion or recessions, as shown in tables 5 and 6.

This threefold factor breakdown of structural elements contributing to unemployment does not provide a theory of why unemployment rates might remain high (4½% to 5%), at "full employment". Some explanatory factors are:

Frictions have not responded to classical supply-demand equilibrium processes. If some labor markets perennially register low unemployment rates and some register high unemployment rates, some labor movement might be expected. The immobility between surplus and deficit areas apparently presents circumstances not explicable by classical economic theory.

While many jobs are available, they are considered relatively undesirable ("too many bad jobs and too few good jobs").

Systematic exclusion of disadvantaged workers from good jobs.

Lack of information concerning the job opportunities.

Approaches, Proposals, and Solutions to the Dilemma:

Subject to the constraint of avoiding inflation, macroeconomic policy can reduce the unemployment rate below 6% but probably not below 5% under current and expected circumstances of a high proportion of young people in the labor force. Of course, young people do not comprise the total of the unemployed—technological advances, shifts in demand, and other factors generate unemployment in other age groups. But, available remedies to unemployment in the young might apply to the older groups as well.

In 1956, the proportion of persons in the labor force under 25 years of age was 15.5%. In 1971, this proportion had risen to 22.2%. It will remain at that percentage in 1975 and in 1980. Against this perspective, efforts to reduce employment rates could be directed primarily to the young. And, among them, special efforts should be directed to those who are disadvantaged by color, because unemployment rates are so high in this group—even though they account for a small share of total unemployment.

If white unemployment rates were applied to the nonwhite labor force, unemployment in 1971 would have been 5.5% instead of 5.9%.

New approaches by manpower experts to the high unemployment in the young might be tailored towards their special characteristics by:

Reducing the turnover rate, which is so high in this sector, by providing better jobs;

Decreasing search time between jobs;

Reducing the mismatch of people and skills, as between geographic areas and within those areas where high job vacancy rates accompany high unemployment rates;

Upgrading skills of the young; and

Eliminating such barriers to entry into these jobs as union limitations and racial discrimination.

The impact that these approaches might have on reducing unemployment is uncertain. In a recent study, Charles C. Holt, and associates have recommended the expenditure of an additional $9 billion annually by the Federal Government on manpower programs which would focus on "hard-to-fill" jobs, on top of the thrust of present manpower programs on "hard-to-train" people. (Only 0.1% of the labor force received training for specific skill shortages under present programs.) Holt proposes (a) occupational training on a large scale, (b) assistance to employers in restructuring jobs to make them compatible with available unemployed workers' skills, (c) subsidies to day care centers to enable mothers to work, and (d) advisory and financial assistance to make workers more mobile among geographical areas.[1]

Robert Hall, on the other hand, had disputed the effectiveness of these proposals. He suggests that non-economic factors predispose towards workers locating in high-wage and high-unemployment areas (which *does* appear to fit the data shown in Chart 9). H argues that the basic problem is the paucity of good jobs which are available—not such matters as reducing mismatches by improved placement efforts, counseling workers, or the like; nor ungrading skills and abilities. Hall proposes that manpower improvement efforts should be directed instead towards building on the apparent success of programs by some companies to provide good jobs to the disadvantaged. He would recommend extension of this practice by Federal contracts, tax incentives (credit for long-term employment of the disadvantaged), and employment quotas for women, blacks, and Spanish-speaking workers in proportion to the population.[2]

A third suggested approach to reducing unemployment is by means of providing public service jobs. There is mixed opinion on this proposal as well, because it does not appear to meet the requirement of any long-run impact on the demand for labor.

The diversity of views concerning the effectiveness of manpower programs is troublesome. It is nonetheless clear that some specific measures may be worth trying, among which may be:

Provision of incentives to companies to recruit and train the young and disadvantaged. Each company knows its needs best and provides ideal circumstances for training. (The disadvantage to this proposal is resort—again—to the tax system to accomplish a specific social goal.)

Federal aid for expansion of vocational schools and to their students on a far greater scale than exists today, in order to provide saleable skills for the young.

Rigorous enforcement of anti-discrimination laws and, perhaps, passage of legislation which opens up entry to skilled trades.

Incentives which would make more desirable the movement of workers from surplus to deficit areas.

Measures which would provide for the transferability of pension rights, as well as other fringe benefits, as workers move from job to job.

Expansion in governmental and private assistance to apprenticeship training programs in the skilled construction trades and elsewhere. This should be accompanied by moderation in the apprenticeship training program itself, which may be too long or rigorous for its eventual purposes.

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[1] "Manpower Proposals for Phase III", *Brookings Papers on Economic Activity 3*, 1971.

[2] "Prospects for Shifting the Phillips Curve through Manpower Policy", *Brookings Papers on Economic Activity 3*, 1971.

Additional Supporting Analysis of "The Unemployed: Who, Where, and Why"

THE DEFINITION OF UNEMPLOYMENT

Who is unemployed—*controversial and arbitrary as that concept is*—has been defined in about the same way in the official household survey of the labor force since 1940. Reexamined and sustained in reasoning by the Gordon Committee in 1962, the concept adopts an "objective" criterion to include those persons 16 years of age and over who are so classified if "specific job seeking activity within the past four weeks" has occurred. Accordingly, not only major "breadwinner, sole-support-of-family" persons meet this criterion, but so do part-time and secondary workers, such as young people in school, young married women with children, etc. (Young people in school are a special problem of marginal attachment to the labor force, and, indeed, in 1967 the age minimum for inclusion in the labor force was raised from 14 to 16 years, as a partial solution.)

The strength of this definition of unemployment is in its reliance on a so-called "objective" criterion, which disposes of the issue of a person's state of mind determining whether he is included in the labor force. On the other hand, some disadvantages include counting as equal those who are part-time workers, who may have exerted some minimum effort at obtaining work, and those who are full-time workers; ignoring the role of rate of payments in decisions to work or not; etc.

WHO WAS UNEMPLOYED IN 1971?

The striking characteristic of unemployment in 1971 was its relatively high concentration in those categories whose attachment to the labor force was either *relatively new, tenuous, or "secondary"*.

In 1971, nearly half (48%) of the officially measured unemployment of 4,993,000 were below the age of 25 years. (Teenagers comprised 25% of total unemployment, while the 20 to 24-year age group accounted for 23% of the total.)

"Secondary" workers aged 25 years and over, who were interested only in part-time employment, comprised an additional 7% of the unemployed.

Together, the young and marginally attached categories comprised 54% of the unemployed. The prime working-age group—adult men 25 years and over—comprised only 29% of the total unemployed. This small share included the atypically high unemployment of scientists and engineers, and the influence of discharged veterans of the armed forces.

THE DEMOGRAPHIC INFLATION OF THE UNEMPLOYMENT RATE

Present unemployment rates reflect more than the influence of economic growth and employment requirements. Young people in the last few years have accounted for a larger share of the labor force than formerly—e.g., persons of 16–24 years of age in 1971 accounted for 22% of the labor force, as compared with 15% in 1956. Thus, some part of the rise in the total unemployment rate must be attributed to the typical higher rates which characterize these younger or marginal groups. This influence may be quantified by applying the 1971 unemployment rates to the changing age-sex composition of the labor force over the years. The results show:

Hypothetical unemployment rates, adjusted for changing composition of the labor force

Year:	*Percent*
1971 (actual)	5.9
1966	5.7
1961	5.4
1956	5.3

The conclusion to be drawn is that 0.6 percentage point in the 1971 unemployment rate was dependent merely on change in demographic mix. Unfortunately, the greater relative share of the young in the labor force will persist over the next 5 to 10 years. This invalidates, to some extent, the comparison of unemployment rates over time.

Several other features of demographic significance may be noted:

Not only do the young and marginally attached persons in the labor force account for the bulk of unemployment, but their unemployment rates are well above average. As noted earlier, young people out of school experience a period of experimentation and adjustment prior to assuming family obligations or long-term commitments. Accordingly, ratios of young people's unemployment rates are much higher than those of the prime-age male group. The male-teenager unemployment rate was nearly 4 times that of the prime-age group in 1956, but this had risen to 5 in 1971.

By color, the percentage of whites in total unemployment was 82%, while nonwhites registered 18% of the total. In the latter group, males accounted for only 9.5% and females 8.9% of total unemployment.

Nevertheless, the highest of rates of unemployment were in the nonwhite teenage female group, at 36%; followed by 29% for males in this age-group.

OCCUPATIONS AND UNEMPLOYMENT

Much of the problem of unemployment reflects simply the continuing shortages—or at least less than optimum employment—in the skilled categories. That is part of the inflation-employment dilemma: as macroeconomic policy stimulates the economy, job shortages are rapidly created. Experienced workers typically enjoy unemployment rate below 4%, as shown in Chart 6. Another dimension to this issue is supplied by the unemployment rate of various occupations, shown in Chart 7.

Over the years, the white-collar group experiences unemployment rates of less than 4%; and, indeed, a high of only 3.5% was reached in 1971. Most white-collar categories, except "'sales" and "clerical", typically registered unemployment rates of less than 3% as shown in Table 2.

The overall white-collar unemployment rate in 1971 was 3.5%. While this was relatively low, it was up from 2.0% in the last "full employment" year of 1968. But this partly reflects the probably temporary effect on employment in the "professional and technical" group (especially scientists and engineers), resulting from the wind-down in defense contracts.

The unemployment rate in this group typically runs below 2%, but rose to 2.9% in 1971. If unemployment in this highly skilled group is adjusted for the defense cutbacks (which have affected about 80,000 scientists and engineers and supporting technical workers), the unemployment rate for this group would have been 2.2%, about in line with earlier years, instead of the official 2.9%. (See Table 2.)

The long-term uptrend shown in this table indicates the need for a more skilled labor force. The shares that skilled workers bear to total employment is rising. As these can increase further, it would suggest that unemployment rates would be lowered. Already, this is indicated by a comparison of 1971 and 1961—years which share much in common in economic performance.

Workers	Unemployment rates (percent) 1961	1971
White-collar	3.3	[1] (3.3) 3.5
Professional and technical	2.0	[1] (2.2) 2.9
Managers, etc.	1.8	1.6
Clerical	4.6	4.3
Sales	4.9	4.3
Blue-collar	9.2	7.4
Craftsmen and foremen	6.3	4.7
Operators	9.6	8.3
Nonfarm laborers	14.7	10.8
Service	7.2	6.3
Farm	2.8	2.6

[1] Figures in parentheses are adjusted for defense cutback.

In such skilled categories as professionals and technical workers, managers, craftsmen and foremen, and operators, unemployment rates were low in 1971.

THE GEOGRAPHIC PROBLEM OF UNEMPLOYMENT

There is a significant geographic dimension which contributed to unemployment in 1971 and earlier years. Over the years, some areas of the country register high unemployment rates while others are typically short in labor supply. In a low unemployment year as 1968, when the national rate was 3.6%, twelve of the States registered rates of 4.5% or more. For example, West Virginia, over the years, is characterized by unemployment rates ranging from 6% or more—indeed, some years considerably more. This might be considered a special problem of Appalachia, but it is not. California represents an example of where the unemployment rates typically run above the national average. Table 6 shows how persistent high or low unemployment rates have been over the years.

It would appear that a few states of "excess" supply of labor have contributed more than proportionately to the national unemployment rate.

Indeed, the relative stability in unemployment rates above or below the average, over the years, strongly supports the hypothesis that for various reasons, not necessarily economic, structural unemployment in a geographic sense is a crucial factor contributing to total unemployment.

There would appear to be little realtionship between unemployment rates and job vacancy rates. Here, the mismatch of available jobs and available supply are particularly noteworthy. This is graphically depicted in Chart 9. If job vacancy rates were to be strongly correlated with unemployment rates, the black circles in the chart, each of which represents a combination of a job vacancy rate and an unemployment rate in a particular area, all would fall very close to the "regression line". *In fact, the chart does not at all show this. Indeed, the pattern is strongly indicative of a mismatch between available skills and job vacancies.*

It is apparent that the classical theory of operations of labor markets, which would equilibrate the supply and demand for workers, needs to be substantially modified. Table 5 shows the stability in the pattern of high or low unemployment rates of the ten highest and lowest areas among 150 major labor market areas.

Many observers have noted that little movement has developed between surplus and deficit labor areas—especially as between large cities so characterized. Welfare standards, vested rights in pension plans, lack of information, cost of moving, and even inertia enter into an explanation of the limits to mobility. Hall suggests that workers prefer to remain in high wage-high unemployment area, as noted previously.

JOB VACANCIES AND UNEMPLOYMENT

No statistic of a comprehensive nature is available for the economy—though it is clear that shortages existed in many fields in 1971.

One indicator of job vacancies is the help wanted index compiled by the Conference Board. Chart 8 relates this index, as adjusted for growth in the economy, to the unemployment rate and may provide further indications of structural shifts and the mismatches discussed previously. The shift in the relationship between the two variables between the 1950s and the 1960–71 period may indicate an increase in imbalances, with jobs becoming harder to fill in more recent years. The evidence is not conclusive, however, as the greater reliance may have been placed over the years in help wanted advertising.

Some vacancy data are available in the manufacturing establishment survey. In October 1971, job vacancies were reported at 90,000. This represented 0.5% of total manufacturing positions.

APPENDIX A.—SUMMARY OF GEORGE PERRY'S VIEW*

The thesis of Perry's article was that the trade-off between the rate of change in wage rates and the unemployment rate had worsened since the mid-1950s. The basis for this shift was the changing composition of the labor force toward teenagers and adult women and the greater dispersion of unemployment rates among age and sex groups.

The increasing participation of teenagers and women distorts the unemployment index in two ways. First, members of these groups are more likely to work part-time, and an index of labor markets should give a lesser weight to the unemployed person seeking a part-time job than to the person seeking full-time work. Second, workers in some age-sex groups are more productive than in other groups, and should carry different weights, statistically.

Perry states that a measure of labor market conditions should reflect the degree of dispersion of unemployment among age and sex groups, because workers in one group may not be perfect substitutes, in terms of productivity, for workers in another.

*George L. Perry, "Changing Labor Market Conditions", *Brookings Papers on Economic Activity 3*, 1970.

After adjusting the unemployment rate for these factors, Perry found that labor market conditions in the 1968–69 period were tighter than at any other time in the postwar period, and, indeed, that a deterioration had occurred in the trade-off between the rate of wage increase (and inflation) and the unemployment rate in the 1967–70 period. The annual rate of wage increase (and the rate of inflation) consistent with a 4% unemployment rate (unadjusted), maintained over an extended period, would be 1.7 percentage points higher than if the conditions of the mid-1950s prevailed.

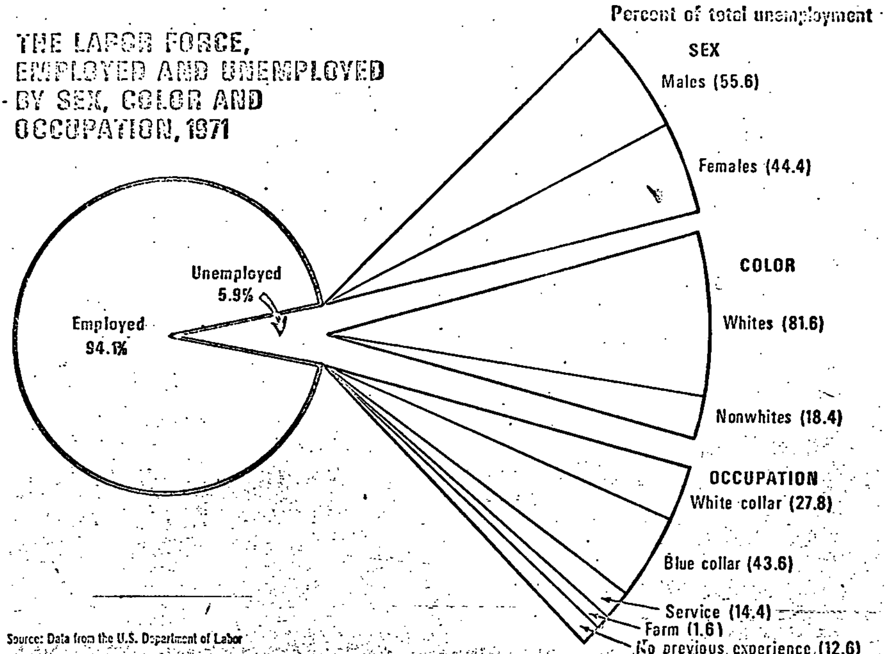
APPENDIX B—A SUMMARY OF PRESENT MANPOWER PROGRAMS

	In millions of dollars		
	1971 actual	1972 estimate	1973 estimate
I. Skill training programs	$1,730	$1,960	$2,107
(a) JOBS—provides opportunities in the business sector by contracting with business to provide training for hard-core unemployed in urban areas	177	194	176
(b) Public service careers Counterpart to JOBS in the public sector primarily at State and local government level	39	79	46
(c) Manpower development and training and institutional training Provides classroom training for the unskilled unemployed and disadvantaged.	338	353	358
(d) Job Corps Primarily directed at urban disadvantaged by removing youths from adverse environment and training them in skills needed in local labor market area.	174	185	190
(e) CEP training Concentrated employee programs operates to coordinate manpower programs in high unemployment pockets. This portion of CEP focuses on the training of skills.	99	94	88
(f) WIN training A work incentive program directed toward unemployable persons now receiving aid through AFDC (Aid to Families and Dependent Children). Seeks through training payments to develop employable skills.	91	126	161
(g) On-the-job training for veterans A Veterans Administration program aimed at helping former servicemen pursue an approved course of full-time apprenticeship or other on-the-job training.	117	161	209
(h) Veterans vocational rehabilitation Focuses on rehabilitation physically or mentally of former servicemen through counseling, training, subsistence allowances, etc.	77	91	108
(i) Vocational rehabilitation A HEW program to assist the physically or mentally handicapped.	523	551	620
(j) Social service training A system of matching grants to State welfare offices primarily to assist AFDC (Aid to Families and Dependent Children). Program similar to WIN training above, but broader in scope of providing skills and training.	42	55	57
(k) Other programs Such programs as "On-the-Job training for Indians", "institutional training for Indians", teaching employment skills to Indians and to criminal offenders and welfare recipients.	52	72	94
II. Work support programs	616	1,322	1,846
(a) Emergency employment assistance Recent legislation, which is providing for transitional public employment opportunities when national unemployment rate exceeds 4.5 percent; or in local areas when rate exceeds 6.0 percent.	0	653	1,088
(b) Neighborhood Youth Corps—in school Aimed primarily at 16–21-year-olds, by providing part-time work through contracts with local schools.	269	272	357
(c) Neighborhood Youth Corps—out of school Aimed at youths of 16–21, who are recent dropouts and provide full-and part-time work through contracts with cities and localities.	95	112	110
(d) Operation Mainstream Work programs directed primarily towards rural and older persons.	69	78	80
(e) CEP work support The work support function of concentrated employment programs aimed at urban slum neighborhoods. (See CEP training above).	59	56	52
(f) Other Miscellaneous work support programs.	124	150	159

APPENDIX B.—A SUMMARY OF PRESENT MANPOWER PROGRAMS—Continued

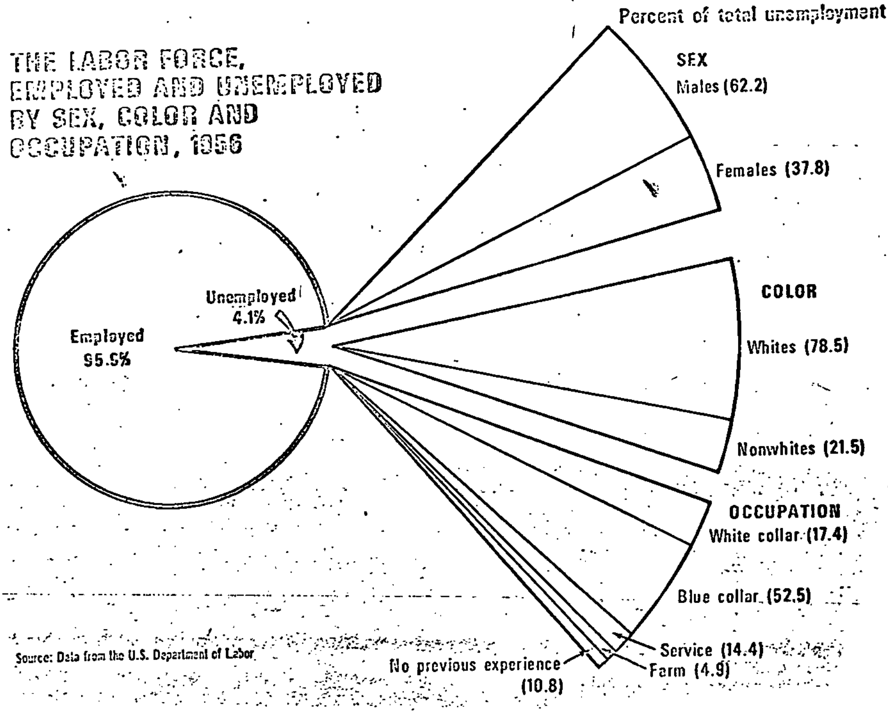
	In millions of dollars		
	1971 actual	1972 estimate	1973 estimate
III. Labor market services programs	449	513	576
(a) U.S. Employment Service	347	374	405
Provides for operation of State employment services.			
(b) Computerized job placement	23	27	31
Provides for the operation of computer matching of jobs with applicants at the city level; to be expanded eventually to State and national level.			
(c) Project transition	31	47	48
DOD program to assist civilian scientists and technicians (as well as veterans) find employment through a comprehensive job bank.			
(d) Equal employment opportunity activities	34	49	65
(e) Other	31	47	48
IV. Federal support for day care	194	325	410
A variety of subprogram under WIN, Social Services and Model Cities program to provide day-care assistance for working parents.			
V. Program direction, research, and support	155	188	202
Gathering data, planning and evaluation programs of various Federal agencies and technical assistance.			
Total of all Federal programs	3,145	4,310	5,141

Chart 2



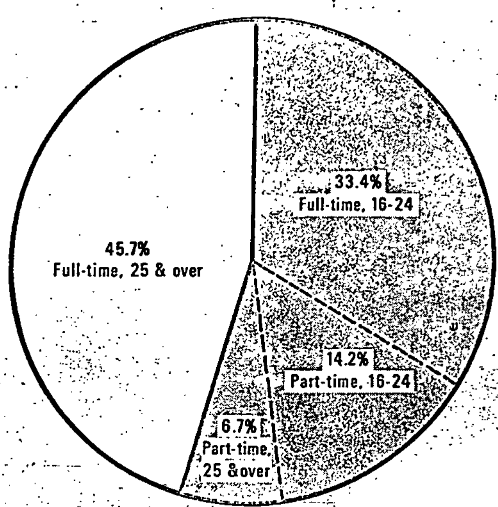
Source: Data from the U.S. Department of Labor

Chart 3



Source: Data from the U.S. Department of Labor

Chart 4



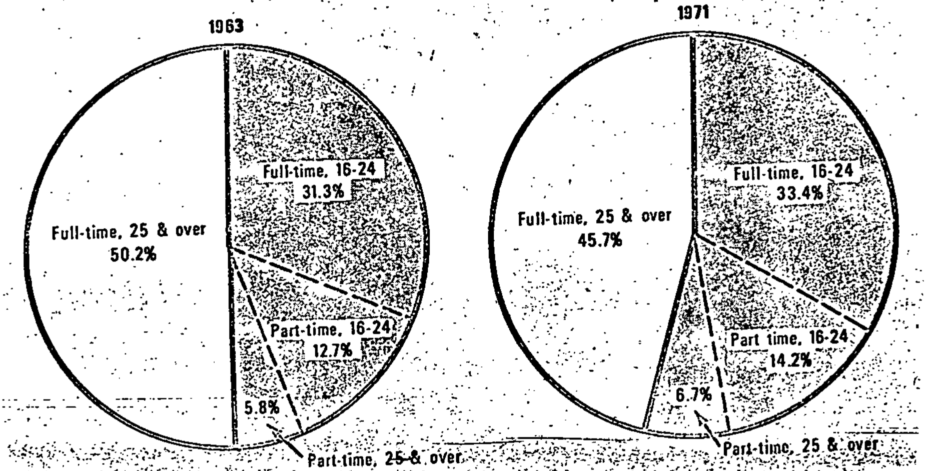
OVER HALF OF UNEMPLOYMENT IN 1971 WAS COMPRISED OF THE YOUNG AND PART-TIME WORKERS.

(Percent of total unemployment)

Source: Data from the U.S. Department of Labor

Chart 5

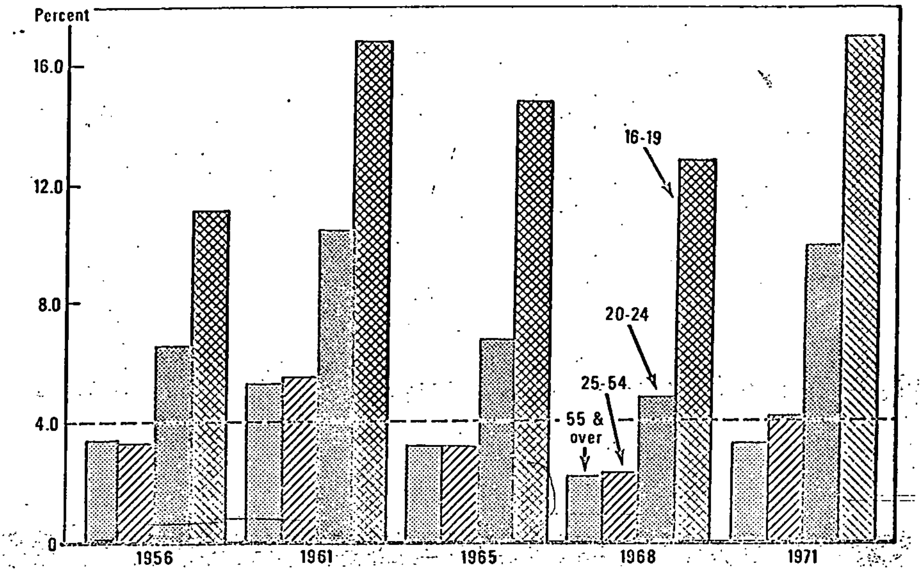
SINCE 1963, THESE PROPORTIONS IN THE UNEMPLOYMENT OF YOUNG AND PART-TIME WORKERS HAVE INCREASED.
(Percents of total unemployment)



Source: Data from the U.S. Department of Labor

Chart 6

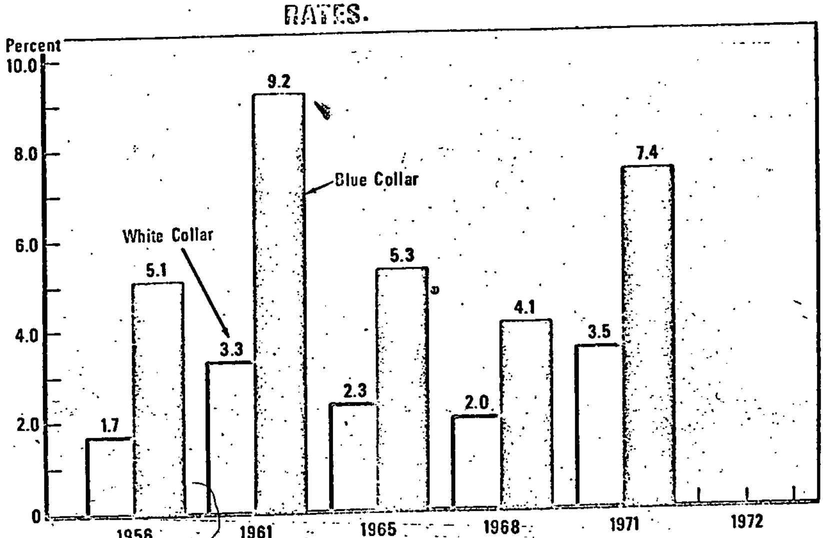
UNEMPLOYMENT RATES
OF EXPERIENCED WORKERS
TYPICALLY ARE BELOW 4 PERCENT.



Source: Data from the U.S. Department of Labor.

Chart 7

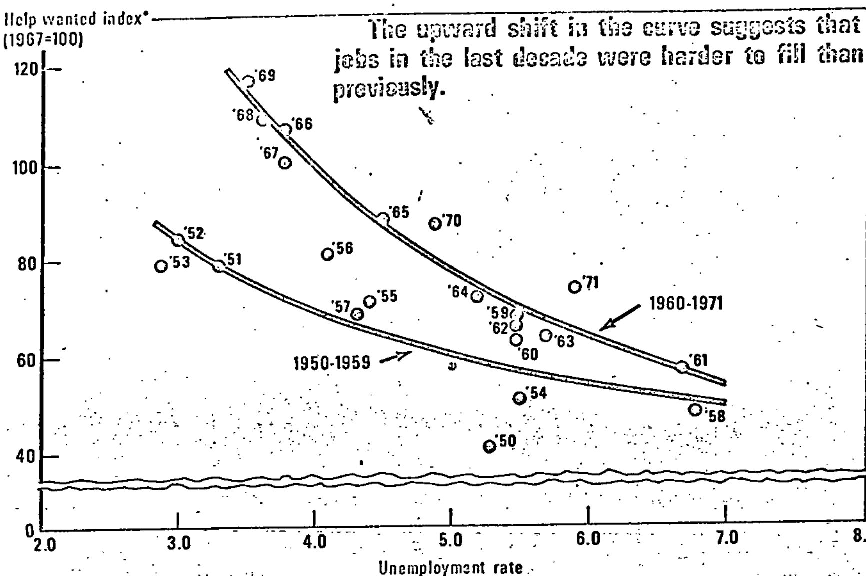
BLUE-COLLAR UNEMPLOYMENT RATES TYPICALLY ARE HIGHER THAN WHITE-COLLAR UNEMPLOYMENT RATES.



Source: Data from the U.S. Department of Labor

Chart 8

THE HELP WANTED INDEX* AND UNEMPLOYMENT RATES



* Help wanted index deflated by an index of the total labor force. Help wanted index for 1971 based on ten months data.

Chart 9
TOTAL UNEMPLOYMENT AND MANUFACTURING JOB VACANCY RATES IN 33 MAJOR METROPOLITAN AREAS, SEPTEMBER 1971

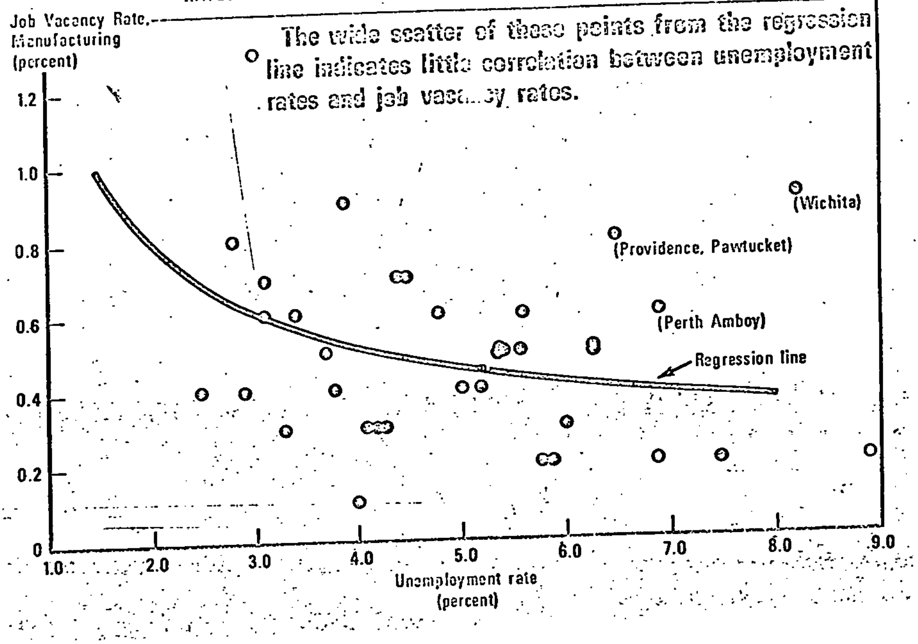


TABLE 1.—PERCENT OF TOTAL UNEMPLOYMENT IN AGE, SEX, AND COLOR GROUPS

	All			White			Nonwhite		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
1956									
Total	100.0	62.2	37.8	78.6	49.7	28.8	21.5	12.5	9.0
16 to 19	17.4	9.8	7.6	14.0	8.1	5.9	3.5	1.8	1.7
20 to 24	14.4	8.7	5.6	10.7	6.7	4.0	3.6	2.0	1.6
25 to 54	53.1	32.6	20.5	40.9	25.5	15.4	12.1	7.1	5.1
55 and over	15.3	11.1	4.1	12.9	9.4	3.5	2.3	1.7	.6
1961									
Total	100.0	63.6	36.4	79.4	50.9	28.5	20.6	12.7	7.9
16 to 19	17.6	10.2	7.4	14.2	8.1	6.0	3.4	2.0	1.4
20 to 24	15.3	9.7	5.6	12.0	7.8	4.2	3.3	1.9	1.5
25 to 54	52.8	33.2	19.6	41.0	25.9	15.1	11.8	7.3	4.5
55 and over	14.3	10.5	3.8	12.2	9.0	3.2	2.0	1.5	.5
1965									
Total	100.0	56.9	43.1	79.9	46.2	33.7	20.1	10.7	9.4
16 to 19	26.0	14.2	11.7	20.9	11.5	9.4	5.0	2.7	2.3
20 to 24	16.5	9.2	7.3	13.0	7.5	5.4	3.5	1.7	1.8
25 to 54	44.9	24.7	20.3	35.1	19.5	15.6	9.7	5.0	4.7
55 and over	12.6	8.8	3.8	10.8	7.6	3.2	1.7	1.2	.5
1968									
Total	100.0	50.4	49.6	79.0	40.5	38.5	20.9	9.8	11.1
16 to 19	29.8	15.2	14.6	22.9	11.6	11.2	7.0	3.5	3.4
20 to 24	19.3	9.2	10.1	15.0	7.3	7.7	4.3	1.9	2.4
25 to 54	40.0	19.2	20.8	31.8	15.7	16.0	8.3	3.5	4.8
55 and over	10.9	6.9	4.0	9.4	5.9	3.6	1.5	1.0	.5
1971									
Total	100.0	55.6	44.4	81.6	46.1	35.5	18.4	9.5	8.9
16 to 19	25.2	13.8	11.4	20.2	11.2	9.0	4.9	2.6	2.4
20 to 24	22.5	12.7	9.7	17.7	10.2	7.5	4.7	2.5	2.2
25 to 54	42.6	22.9	19.7	34.9	19.1	15.8	7.7	3.7	3.9
55 and over	9.8	6.2	3.6	8.8	5.5	3.2	1.1	.7	.4

Source: Based on data from U.S. Department of Labor.

TABLE 2.—PERCENT OF TOTAL LABOR FORCE AND UNEMPLOYMENT AND UNEMPLOYMENT RATES, BY OCCUPATION

	1956 [1]			1961			1968			1971		
	Percent of C.L.F.	Rate	Percent of unemployment	Percent of C.L.F.	Rate	Percent of unemployment	Percent of C.L.F.	Rate	Percent of unemployment	Percent of C.L.F.	Rate	Percent of unemployment
Total	100.0	3.8	100.0	100.0	6.7	100.0	100.0	3.6	100.0	100.0	5.9	100.0
White-collar	38.6	1.7	17.4	42.4	3.3	21.0	46.1	2.0	25.7	47.1	[2] (3.3) 3.5	27.8
Professional and technical	9.1	1.0	2.4	11.1	2.0	3.4	13.3	1.2	4.5	13.6	[2] (2.2) 6.7	6.7
Managers, officials, and proprietors	9.8	.8	2.0	10.3	1.8	2.8	10.0	1.0	2.7	10.5	1.6	2.9
Clerical	13.4	2.4	8.6	14.6	4.6	10.1	16.8	3.0	13.9	16.8	4.8	13.7
Sales	6.3	2.7	4.5	6.3	4.9	4.6	6.1	2.8	4.7	6.3	4.3	4.5
Blue-collar	39.3	5.1	52.5	37.0	9.2	51.1	36.4	4.1	41.7	34.9	7.4	43.6
Craftsmen and foremen	13.3	3.2	11.3	13.1	6.3	12.4	13.0	2.4	8.7	12.7	4.7	10.2
Operatives	20.1	5.4	28.5	18.4	9.6	26.5	18.6	4.5	23.2	16.8	8.3	23.7
Nonfarm laborers	5.9	8.2	12.8	5.6	14.7	12.3	4.9	7.2	9.8	5.4	10.8	9.8
Service workers	11.8	4.6	14.4	12.6	7.2	13.6	12.5	4.4	15.5	13.5	6.3	14.4
Farm workers	9.9	1.9	4.9	7.2	2.8	3.1	4.5	2.1	2.6	3.8	2.6	1.6
Inexperienced workers	.4	-----------	10.8	.8	-----------	11.3	.5	-----------	14.5	.7	-----------	12.6

[1] 14 years and over.

[2] Figures in parentheses adjusted for defense cutback.

Source: Based on data from U.S. Department of Labor.

TABLE 3.—UNEMPLOYMENT RATES, BY AGE, SEX, AND COLOR

	All			White			Nonwhite		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
1956									
Total	4.1	3.8	4.8	3.6	3.4	4.2	8.3	7.9	8.9
16 to 19	11.1	11.1	11.2	10.2	10.5	9.8	18.2	15.3	22.8
20 to 24	6.6	6.9	6.3	5.7	6.1	5.1	13.1	12.0	14.8
25 to 54	3.3	3.0	4.1	2.9	2.6	3.6	6.9	6.6	7.3
55 and over	3.4	3.5	3.3	3.2	3.2	3.1	6.4	7.2	4.7
1961									
Total	6.7	6.4	7.2	6.0	5.7	6.5	12.4	12.8	11.8
16 to 19	16.8	17.2	16.3	15.3	15.7	14.8	27.6	26.7	29.1
20 to 24	10.4	10.7	9.8	9.4	10.0	8.4	16.9	15.3	19.5
25 to 54	5.4	5.1	6.2	4.8	4.4	5.6	10.7	11.3	9.8
55 and over	5.3	5.7	4.4	4.9	5.3	4.2	8.8	10.2	6.3
1965									
Total	4.5	4.0	5.5	4.1	3.6	5.0	8.1	7.4	9.2
16 to 19	14.8	14.1	15.7	13.4	12.9	14.0	26.2	22.9	31.7
20 to 24	6.7	6.3	7.3	6.1	5.9	6.3	11.0	9.3	13.7
25 to 54	3.2	2.7	4.3	2.9	2.4	3.9	6.1	5.4	7.0
55 and over	3.2	3.3	2.8	3.0	3.1	2.6	4.6	5.3	3.5
1968									
Total	3.6	2.9	4.8	3.2	2.6	4.3	6.7	5.6	8.3
16 to 19	12.7	11.6	14.0	11.0	10.1	12.1	25.1	22.2	29.0
20 to 24	5.8	5.1	6.7	5.2	4.6	5.9	10.2	8.3	12.3
25 to 54	2.3	1.7	3.4	2.1	1.6	3.1	4.2	3.1	5.7
55 and over	2.2	2.1	2.3	2.1	2.0	2.3	3.3	3.8	2.6
1971									
Total	5.9	5.3	6.9	5.4	4.9	6.3	9.9	9.1	10.8
16 to 19	16.9	16.6	17.2	15.1	15.1	15.2	31.6	28.9	35.5
20 to 24	10.0	10.3	9.6	9.0	9.4	8.5	16.7	16.2	17.3
25 to 54	4.2	3.5	5.3	3.9	3.3	5.0	6.6	5.8	7.6
55 and over	3.4	3.4	3.4	3.3	3.3	3.4	4.1	4.4	3.6

Source: Based on data from U.S. Department of Labor.

TABLE 4.—RATIO OF GROUP UNEMPLOYMENT RATE TO "PRIME MALE" RATE[1]

	All			White			Nonwhite		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
1956									
Total	1.4	1.3	1.6	1.2	1.1	1.4	2.8	2.6	3.0
16 to 19	3.7	3.7	3.7	3.4	3.5	3.3	6.1	5.1	7.6
20 to 24	2.2	2.3	2.1	1.9	2.0	1.7	4.4	4.0	4.9
25 to 64	1.1	1.0	1.3	1.0	.9	1.2	2.3	2.3	2.4
65 and over	1.1	1.7	.8	1.0	1.1	.7	1.4	1.6	.9
1961									
Total	1.3	1.2	1.4	1.2	1.1	1.3	2.4	2.5	2.3
16 to 19	3.2	3.3	3.1	2.9	3.0	2.8	5.3	5.1	5.6
20 to 24	2.0	2.1	1.9	1.8	1.9	1.6	3.3	2.9	3.8
25 to 64	1.0	1.0	1.1	.9	.9	1.0	2.0	2.2	1.8
65 and over	1.0	1.1	.8	.9	1.0	.7	1.6	1.8	1.3
1965									
Total	1.6	1.4	2.0	1.5	1.3	1.8	2.9	2.6	3.3
16 to 19	5.3	5.0	5.6	4.8	4.6	5.0	9.4	8.2	11.3
20 to 24	2.4	2.3	2.6	2.2	2.1	2.3	3.9	3.3	4.9
25 to 64	1.1	1.0	1.4	1.0	.9	1.3	2.1	2.0	2.3
65 and over	1.2	1.3	1.0	1.1	1.2	.9	1.5	1.6	1.1
1968									
Total	2.1	1.7	2.8	1.9	1.5	2.5	3.9	3.3	4.9
6 to 19	7.5	6.8	8.2	6.5	5.9	7.1	14.8	13.1	17.1
20 to 24	3.4	3.0	3.9	3.1	2.7	3.5	6.0	4.9	7.2
25 to 64	1.4	1.0	1.9	1.2	.9	1.7	2.4	1.9	3.1
65 and over	1.6	1.6	1.6	1.6	1.6	1.6	1.9	2.4	1.2
1971									
Total	1.7	1.5	2.0	1.5	1.4	1.8	2.8	2.6	3.1
16 to 19	4.8	4.7	4.9	4.3	4.3	4.3	9.0	8.3	10.1
20 to 24	2.9	2.9	2.7	2.6	2.7	2.4	4.8	4.6	4.9
25 to 64	1.1	1.0	1.4	1.1	.9	1.3	1.8	1.6	2.0
65 and over	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.0	1.1

[1] "Prime male" rate refers to males 25 to 67 in the labor force.

Source: Based on data from U.S. Department of Labor.

TABLE 5.—10 HIGHEST AND LOWEST UNEMPLOYMENT RATES AMONG 150 MAJOR LABOR AREAS

	1957	1961	1965	1968	1970	November[1] 1970	November[1] 1971
10 highest:							
Ponce, P.R	(2)	11.6	15.0	15.5	13.5	13.2	17.0
Mayaguez, P.R	(2)	12.4	13.7	12.8	12.0	9.9	12.2
Muskegon, Mich	7.6	9.2	4.5	6.7	9.7	11.5	9.6
Wheeling, W. Va	(2)	15.0	6.6	6.1	4.9	4.8	7.2
New Bedford, Mass	(2)	9.2	6.8	6.0	8.8	9.8	7.6
Atlantic City, N.J	9.7	8.9	6.5	5.6	7.0	8.4	7.6
Lowell, Mass	7.3	9.1	8.1	5.4	8.4	9.6	10.8
Fall River, Mass	(2)	9.5	8.0	5.4	6.8	6.7	6.7
Johnstown, Pa	6.8	18.2	5.7	5.4	5.8	7.4	7.8
Jersey City, N.J	6.2	7.8	5.2	5.3	6.6	6.4	7.8
10 lowest:							
Dallas, Tex	3.0	4.4	3.3	1.6	2.8	3.6	3.0
Reading, Pa	5.1	5.7	2.2	1.6	2.4	2.6	2.9
Richmond, Va	2.3	3.0	1.9	1.8	2.1	2.2	2.5
Houston, Tex	3.5	4.9	3.2	1.9	2.6	3.0	3.4
Allentown, Pa	4.2	6.7	2.8	1.9	2.4	3.0	4.4
Austin, Tex	3.7	4.6	3.1	1.9	2.2	2.7	2.7
Minneapolis, Minn	3.6	4.2	2.8	2.0	3.4	4.2	3.9
Lancaster, Pa	3.8	4.4	1.9	2.1	2.3	2.5	3.9
York, Pa	5.8	6.3	2.7	2.1	2.7	2.8	3.2
Madison, Wis	2.0	3.0	2.3	2.1	3.1	3.2	3.6

[1] N.S.A.
[2] Not available.

Source: Manpower Administration, U.S. Department of Labor.

TABLE 6.—UNEMPLOYMENT RATES BY STATES

State	1957 [1]	1960	1956	1968	1970	State	1957 [1]	1960	1956	1968	1970
Puerto Rico	13.0	12.5	11.2	11.6	11.2	Tennessee	7.1	7.6	4.0	3.6	4.4
Alaska	8.0	9.9	8.6	9.1	10.3	Vermont	(2)	7.0	4.8	3.6	4.4
West Virginia	(2)	13.5	7.8	6.4	6.4	New York	(2)	6.2	4.6	3.5	4.4
Utah	3.6	6.0	5.7	5.2	5.9	Oklahoma	(2)	5.9	4.3	3.5	4.3
New Mexico	(2)	6.5	5.5	5.1	6.3	Missouri	4.1	6.0	3.7	3.4	4.6
Nevada	5.2	6.6	6.4	5.0	5.4	Wisconsin	3.2	5.0	3.4	3.4	4.6
Louisiana	(2)	8.3	4.9	4.8	6.2	Georgia	(2)	7.1	3.8	3.3	3.7
Montana	5.2	7.3	5.0	4.7	6.7	Indiana	4.6	6.8	3.1	3.2	4.8
Alabama	(2)	7.2	4.4	4.5	4.8	Maryland	3.6	6.3	4.0	3.2	3.9
California	4.2	6.9	5.9	4.5	6.0	Minnesota	4.1	5.7	4.0	3.2	4.2
Mississippi	(2)	8.0	4.7	4.5	4.8	North Carolina	(2)	6.4	4.2	3.2	3.7
New Jersey	6.4	7.2	5.1	4.5	5.5	Pennsylvania	6.4	9.2	4.4	3.2	4.0
Oregon	5.9	6.4	4.6	4.4	5.9	Delaware	(2)	5.6	2.9	3.1	4.0
Idaho	4.6	6.4	4.2	4.3	5.1	Colorado	2.7	4.4	3.5	3.0	3.3
Michigan	6.6	10.2	3.9	4.3	7.0	Illinois	3.7	5.8	3.3	3.0	4.0
South Carolina	4.7	6.9	4.7	4.3	5.0	South Dakota	(2)	3.0	3.9	3.0	3.2
Washington	5.2	6.8	5.4	4.3	8.3	Hawaii	3.7	4.0	3.4	2.9	3.6
Arkansas	5.7	7.1	5.2	4.2	5.2	Ohio	3.8	7.4	3.6	2.9	3.8
Maine	(2)	8.4	4.9	4.1	5.6	Florida	3.5	6.6	3.1	2.8	3.4
Massachusetts	4.4	5.9	4.9	4.1	5.3	Kansas	3.2	4.8	3.6	2.7	4.9
North Dakota	(2)	6.8	4.9	4.0	4.2	Texas	4.0	6.0	4.2	2.7	3.6
Kentucky	(2)	8.1	4.6	3.9	5.1	Virginia	3.5	4.7	3.0	2.7	3.2
Wyoming	(2)	6.4	4.4	3.9	4.5	Iowa	2.8	3.8	2.3	2.4	3.6
Connecticut	4.2	6.7	3.9	3.7	5.6	Nebraska	3.2	3.4	3.1	2.4	2.8
Arizona	3.9	5.8	5.1	3.6	4.1	District of Columbia	2.5	2.7	2.2	2.2	2.6
Rhode Island	9.1	8.0	4.9	3.6	5.2	New Hampshire	4.0	4.8	2.8	1.8	3.4

[1] Earliest year available.
[2] Comparable data not available.

Source: Manpower Administration, U.S. Department of Labor.

TABLE 7.—TOTAL UNEMPLOYMENT AND MANUFACTURING JOB VACANCY RATES IN 36 MAJOR METROPOLITAN AREAS, SEPTEMBER 1971

City	Reported statistics: Unemployment rate	Reported statistics: Vacancy rate, manufacturing	Rank [1]: Unemployment rate	Rank [1]: Vacancy rate, manufacturing
Richmond, Va	2.5	0.4	1	21
Tampa-St. Petersburg	2.8	.8	2	4
Little Rock	2.9	.4	3	22
Greensboro-Winston Salem-Highpoint	3.0	1.3	4	1
Houston	3.1	.7	5	6
Des Moines	3.1	.6	6	9
Denver	3.3	.3	7	26
Dallas	3.4	.6	8	10
Atlanta	3.7	.5	9	14
Minneapolis-St. Paul	3.8	.4	10	23
Greenville, S.C	3.9	.9	11	2
Cedar Rapids	4.0	.1	12	36
Albany-Schenectady-Troy	4.1	.3	13	27
Memphis	4.2	.3	14	28
Milwaukee	4.3	.3	15	29
Oklahoma City	4.4	.7	16	7
Phoenix	4.5	.7	17	8
Salt Lake City	4.8	.6	18	11
Syracuse	5.0	.4	19	24
Philadelpdia	5.2	.4	20	25
New York	5.4	.5	21	16
Baltimore	5.4	.5	22	15
Portland, Oreg	5.4	.5	23	17
Newark	5.6	.5	24	18
Boston	5.6	.6	25	12
St. Louis	5.8	.2	26	31
Paterson-Clifton-Passaic	5.9	.2	27	32
Kansas City	6.0	.3	28	30
New Orleans	6.3	.5	29	20
Miami	6.3	.5	30	19
Providence-Pawtucket	6.5	.8	31	5
Perth Amboy	6.9	.6	32	13
Detroit	6.9	.2	33	33
Jersey City	7.5	.2	34	34
Wichita	8.2	.9	35	3
Buffalo	8.9	.2	36	35

[1] Rank by unemployment rate low to high; rank by job vacancy rate high to low.

THE 1972 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 17, 1972

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room G-308, New Senate Office Building, Hon. William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Javits, and Percy; and Representatives Reuss, Widnall, Conable, and Blackburn.

Also present: John R. Stark, executive director; James W. Knowles, director of research; Loughlin F. McHugh, senior economist; John R. Karlik and Courtenay M. Slater, economists; Lucy A. Falcone and Jerry J. Jasinowski, research economists; George D. Krumbhaar, Jr., and Walter B. Laessig, minority counsels; and Leslie J. Bander, minority economist.

Representative REUSS (presiding). The committee will come to order.

The Joint Economic Committee will be in session for its continued hearings into this year's economic report. In the absence of Chairman Proxmire, who is necessarily detained at a session of the Senate Banking, Housing, and Urban Affairs Committee, it is a pleasure for myself and Mr. Widnall to welcome to these hearings Mr. Emilio Collado, Cochairman of the Research and Policy Committee, Committee for Economic Development.

I take it you are speaking for the CED rather than in your capacity as vice president of Standard Oil.

Mr. COLLADO. Yes.

Representative REUSS. Would you be kind enough to introduce your associate?

Mr. COLLADO. This is Mr. Frank W. Schiff. He is chief economist of the CED. He will appear with me.

Representative REUSS. You are very welcome, Mr. Schiff. We on the committee are old friends of the CED and much in debt to it. It has had a very rewarding history in the last 25 years of leading us in economic research on the basic problems facing the economy. The CED led the business community supporting enactment of the Employment Act of 1946.

Mr. Collado is a professional economist and a business leader. He is a foremost economist in international trade and finance.

We particularly look forward to your statement.

Secretary Hodgson will testify at a later hour this morning. He is engaged in seeing the President off.

Would you proceed in whatever way you like, Mr. Collado?

STATEMENT OF EMILIO G. COLLADO, COCHAIRMAN, RESEARCH AND POLICY COMMITTEE, COMMITTEE FOR ECONOMIC DEVELOPMENT, ACCOMPANIED BY FRANK W. SCHIFF, VICE PRESIDENT AND CHIEF ECONOMIST

Mr. COLLADO. Thank you, Mr. Chairman, for your very kind remarks.

I am appearing here today on behalf of the CED's Research and Policy Committee, of which I am cochairman. As you know, our committee has had an uninterrupted record of presenting testimony on the Economic Report of the President and the Annual Report of the Council of Ecnomic Advisers ever since these annual reviews were initiated. We greatly appreciate the opportunity to share our views with you again this year.

I may say personally, somewhat as an aside, I am very happy to comment on a report that is so greatly influenced by my old friend and the former chief economist of the CED, Mr. Herbert Stein.

In general, the Council's 1972 report assesses past events and current issues in a reasonable and lucid manner. My purpose, therefore, is not to present a detailed analysis of the report but to comment on a number of key issues in the light of policy positions previously taken by our committee.

These issues are, first, the design of fiscal and monetary policies for the period ahead; second, wage-price controls and their relation to necessary structural improvements; and third, U.S. international economic policies.

I propose, Mr. Chairman, to follow my statement quite closely.

Representative REUSS. Take as much time as you need. Following the statement will help us.

FISCAL AND MONETARY POLICIES TO STABILIZE TOTAL DEMAND

Mr. COLLADO. In many respects, the economic projections contained in this year's report would seem to constitute a realistic basis for formulating fiscal and monetary policies for the year ahead.

To be sure, the policy targets implied by these projections are relatively modest. Even with wage-price controls and the prospect of fairly strong productivity gains, the rate of inflation by yearend is still expected to be in the 2 to 3 percent range.

At the same time, the projected drop of the unemployment rate to the neighborhood of 5 percent at the end of 1972 would still leave that rate well above the mid-1972 target that the Council envisaged a year ago. Nevertheless, considering the risks of error on one side or the other, we agree with the Council that its policy targets are reasonably appropriate.

This year's report recognizes, with refreshing candor, that the Council's projections are subject to considerable uncertainties. It also states that the proposed policies would be changed if events should make this necessary. In our view, however, not enough attention has been paid to the need for advance preparations to cope with such contingencies.

The danger that the proposed policies will fall short of or overshoot their target is considerable. This is perhaps most evident with respect to budgetary policy. Over the near future, at least, the proposed budget is highly stimulative. This is clearly shown by the projected swing in the "NIA" full employment budget from a $5 billion surplus in calendar 1971 to a $6½ billion deficit in 1972.

Moreover, almost all of the added stimulus is expected in the first half of this calendar year. It seems highly possible that it will simply not prove feasible to achieve this much fiscal stimulus in such a short time, especially in view of the kinds of programs that are scheduled. Even apart from other contingencies, this could mean that the degree of recovery this year will fall short of what has been projected.

At the same time, there is a clear possibility that the expansionary program, it begun belatedly, will lead to a substantially larger deficit in the next fiscal year than has been forecast. This, in turn, creates a risk that the budget will continue to be highly stimulative at a later point when the need for such stimulus has disappeared, or has been reduced.

The Council strongly emphasizes that adherence to the principle of balance in the full employment budget will provide a high degree of protection against overstimulus while allowing adequate progress toward recovery.

Our committee, of course, welcomes the fact that rules geared to the full employment budget concept have now become an integral part of the budgetmaking process. Nevertheless, we are concerned that an overly mechanical application of such rules may lead to insufficient focus on the risks that present policies can involve.

The basic purpose of CED's stabilizing budget principles has always been to help reconcile the requirements of short-term economic stabilization with the longer range need for rational resource allocation.

Because of the workings of the so-called automatic stabilizers, we believe that a fiscal policy geared to full employment budget balance or surplus can in many instances come close to achieving these twin objectives, leaving much of the remaining stabilization task to a flexible monetary policy.

But as we emphasized in our 1969 statement on "Fiscal and Monetary Policies for Steady Economic Growth," sound fiscal policy management must also include two other key elements. One is that deviations from the stabilizing budget rule must be permitted whenever this is necessary to achieve the major stabilization goals.

The other is that fiscal policy tools must be flexible enough to make it possible to move the budget back toward its appropriate longer term position just as soon as the need for extra stimulus or restraint has disappeared.

A year ago, I indicated that overly strict adherence to the rule of high employment budget balance could create a substantial risk that the pace of recovery would prove inadequate. Such a risk exists again this year.

But today, it also appears that overreliance on balance in the projected full-employment budget could lead to a serious underestimate of the potential inflationary dangers of current expansionary policies. This is not to say that we can ignore the need for strong fiscal stimulus, and relatively large budget deficits, in the period immediately ahead.

What concerns us, however, is that preoccupation with the arithmetic of the full-employment budget must not lead to a neglect of the need to provide adequate means for assuring that current expansionary policies will not overshoot their mark. In other words, when economic policymakers have to step hard on the accelerator, they must make doubly sure that strong brakes will be available when needed.

IMPROVED PROCEDURES FOR COPING WITH CONTINGENCIES

What is required to provide such assurance? Let me cite four approaches that call for particular emphasis under present circumstances.

First, when added measure of fiscal stimulus are needed for a temporary period, every effort should be made to give preference to measures that are self-limiting or reversible at full employment, rather than to those that will produce a continuing or even growing budgetary drain in future years. There is an automatic incentive for the use of such measures to the extent that they are excluded in calculating the high-employment budget balance. This makes it possible to use them for short-term fiscal stimulus without violating the rule for balance in the full employment budget.

It is encouraging that in this year's budget calculations, such an approach has been incorporated with respect to the added unemployment insurance benefits and public service employment expenditures that must by law be phased out at high employment. But improved methods of budget calculation are only part of what is required. The principal need is to make greater reliance on self-limiting measures of fiscal stimulus a clear operational rule in actual budget decisions.

Second, use of the full-employment budget needs to be supplemented by much more explicit concern with the extent to which currently projected expenditure and tax incentive programs involving only small initial costs can lead to sharply budgeoning budgetary drains only a few years from now. The present budget's estimates of the potential "fiscal margin" in 1976 are a very useful step in this direction.

Representative REUSS. Could you remind us what the budget estimates for the fiscal margin in 1976 are? Do you happen to have them?

Mr. SCHIFF. You are aware that the estimates are based on the notion that there are no new budgetary initiatives. I think the margin that have been projected in the present budget—and these projections are a very useful supplement in the budget document—comes to only, I think, $5 billion, which represents a reduction of $25 billion from the margin shown a year ago.

If you look at the intermediate years, one of the elements mentioned by the head of the Office of Management and Budget was that in the 1976 calculation there is an assumption of a substantial increase in the social security tax. Just before that, in 1975, the available margin is even less.

Representative REUSS. So what we are talking about is a fiscal dividend of little or nothing.

Mr. COLLADO. Virtually nothing. It is heavily conditioned on a social security tax increase in that year.

But in view of the disturbingly rapid inroads on the potentially available fiscal resources that these projections reveal, it seems clear that considerably more intensive analyses of these emerging trends are required.

In line with the recommendations made in our September 1971 policy statement on "Improving Federal Program Performance," we urge that future analyses of the 5-year outlook be presented in substantially greater detail, showing a year-by-year and program-by-program breakdown, and that they provide the public with a clearer view of major policy alternatives.

Again, however, it will not be enough to concentrate only on improved statistical presentations. More explicit proposals should be developed soon which will indicate how the Nation should cope with the hard fiscal choices that it faces in the next few years. This means that the Congress needs to develop clear overall plans with respect to spending and taxing decisions, along the lines recommended in our statement on "Making Congress More Effective."

There must be much greater stress on so-called zero-base budgeting. Decisions on military and civilian spending, moreover, must be made in an integrated fashion.

Representative REUSS. I am going to indicate later my very great approval of your report issued today on "Military Manpower Spending." I am going to ask you a couple of questions about it.

Mr. COLLADO. Thank you.

The Council's report comments on the importance of facing up to such choices, but it does not deal specifically with the major questions of future fiscal priorities. Admittedly, it is difficult to confront such issues in an election year and at a time when the immediate stress must be on encouraging economic expansion. Yet, unless the groundwork for such choices is laid several years ahead of time, the chances are poor indeed that they will be made in an orderly and rational way when the need arises.

Third, given the strong expansionary thrust of current fiscal policy, we consider it more urgent than ever that consideration be accorded to our earlier recommendations for giving the President discretionary authority to raise or lower income taxes by 10 percent, in a form to be decided by Congress and subject to congressional veto.

We are less concerned with the precise method for achieving such procedural flexibility than with making the machinery available before the need for it becomes urgent.

Fourth, monetary policy must continue to serve as a flexible adjustment tool, but care must be taken to assure that any need for correcting recent inadequacies in monetary growth does not give rise to excesses in the opposite direction.

Moreover, the task of monetary policy needs to be facilitated by active efforts to achieve substantially improved coordination of the many Federal and federally assisted credit and guarantee programs. In this connection, the administration's proposal for the creation of a Federal Financing Bank deserves the most careful consideration.

WAGE-PRICE POLICIES AND STRUCTURAL MEASURES

Let me now turn to the role of mandatory wage-price controls and their relation to other measures to cope with inflation. As you know, we urged the adoption of more forceful wage-price policies in our November 1970 policy statement on "Further Weapons Against Inflation." The restraints we then advocated were to be essentially voluntary in nature.

We recognize, however, that under the circumstances which emerged last year, an effective program to bring wages and prices under control called for some compulsory features.

Our committee is currently studying what role governmental wage-price policies should play over the longer run. This study has not yet been concluded. However, I can comment on several points with respect to the role of phase II and its relation to desirable longer range policies to which our committee is devoting particular attention.

One is that wage-price policies should only be a supplement to—not a substitute for—the more fundamental demand and structural policies.

In the present situation, controls can clearly play a key role in helping to reduce inflationary expectations. They are also needed to unravel many of the distortions in price and wage relations that continuing inflation has brought about.

We consider it highly important, however, that the breathing space afforded by phase II be used to launch a much more intensive effort to bring about the basic structural improvements needed to overcome the inflationary problem.

On the this score, we find the Council's report disappointing. It discusses a number of possible new initiatives, but does not convey the sense of urgency we think is required.

We believe, for example, that much greater emphasis needs to be placed on programs to aid productivity and to facilitate adjustment to rapid economic change; that a more centralized and energetic effort is needed to cope with the inflationary pressures created by the Government's own operations; and that there should be a comprehensive review of existing laws and regulations with an inherent inflationary bias. Our more specific ideas in this area were spelled out in our statement on "Further Weapons Against Inflation."

My second point relates to the desirable pace of reducing or ending compulsory controls. We agree that premature removal of the present controls might merely lead to renewed intensification of inflation.

At the same time, we believe that adequate incentives must be provided to bring about a removal of controls as soon as they are no longer needed.

Since today's inflationary pressures are essentially cost-push pressures rather than those of general demand, decontrol can proceed on a selective basis.

It is encouraging that such a process has already begun. The exemption of smaller retail establishments from the control system, for example, was clearly desirable. Competitive pressures should be working with reasonable adequacy in the case of these firms. Their removal from the control system will reduce what otherwise might have proved an almost unmanageable administrative burden.

Our concern, however, is that the shift from compulsory controls to a system of either voluntary restraints or no controls at all should be based on a more systematic procedure than has yet been developed.

Moreover, the choice between control and decontrol should not be left solely to the initiative of the Federal Government.

While our committee has not yet developed a precise set of recommendations in this area, I should like to call your attention to several general approaches which have received major attention in our discussions.

One is that the Cost of Living Council should spell out more clearly the kinds of criteria that would permit particular activities or firms to be taken out of the control system. Such criteria should relate both to current and potential cost-price performance and to evidence of progress toward basic structural improvements designed to overcome inflationary pressures in particular industries.

Setting forth such criteria would itself provide an increased incentive for the control agencies to move toward decontrols wherever this is clearly consonant with the overall objectives of the program.

A further possibility is that labor and management should be able to petition the Cost of Living Council for full or partial exemption of particular activities from the controls if they can show that they have met the announced criteria for decontrol. More of the burden of proof would then be on the Government to show why particular activities should remain under control.

At the same time, the petitioning procedure would provide a positive incentive for groups within the private sector to create the conditions that would make controls unnecessary.

INTERNATIONAL ECONOMIC POLICIES

The international chapter of the report makes clear that basic long-term reforms in the international monetary system are vitally important for strengthening the world economy and for allowing adequate freedom of action in the use of our domestic policy tools.

We believe that the United States should make vigorous efforts to secure early agreement on suitable reforms in this area, including improved adjustment mechanisms and strengthened liquidity arrangements that will lead to a further deemphasis of the role of gold.

We also welcome the clear statement in the Economic Report that the long-term objective of U.S. international economic policies must be an open world economy, one in which trade and investment flows are not distorted by national barriers to free exchange.

In our view, however, the report does not reflect a sufficient sense of urgency over the potential threat that is currently posed by mounting protectionist efforts.

These efforts would place highly uneconomic and arbitrary restrictions on imports as well as on the outflow of direct investments and technology. Such restrictions would be decidedly inflationary and thus run wholly counter to the goals of phase II. They would seriously interfere with the dynamic adjustments in our economy so necessary to further innovation and increased productivity—at the very time when productivity growth in the United States is lagging behind that of many of our foreign competitors. They would also provoke severe foreign retaliation. For all these reasons, they would almost certainly be self-defeating.

Such restrictive measures, moreover, would not accomplish the employment objectives that their advocates seek. They would involve a very shortsighted concentration on the problems of a few industries that can be solved more effectively through other means.

They ignore the serious damage that would be inflicted on industries heavily engaged in export trade and in supporting expanding investment abroad.

It is these industries, which depend upon high productivity, that provide a substantial share of total U.S. employment related to foreign trade.

With respect to the specific topic of import quotas, we believe that the United States should abstain from imposing unilateral quotas, except where national security requires it. Where quotas exist, they should be made subject to multilateral procedures.

Moreover, a vigorous short-term effort is needed to negotiate improved ground rules and surveillance of existing import and export quotas in order to reduce the use of such restrictions and to assure that any use that is made of them by the major trading nations will be more equitably balanced.

The Council's report touches only briefly on the administration's views on other long-term trade and investment issues. These views have, of course, recently been spelled out in detail in the excellent report by Mr. Peterson.

In a statement issued last fall, "The United States and the European Community: Policies for a Changing World Economy," we recommended that the United States take the initiative in launching a continuous process of multilateral discussions and negotiations with respect to a wide range of long-term trade and investment issues. This process has now begun.

We urge that efforts to make it succeed be given high priority in the U.S. policy agenda for the coming year.

Representative REUSS. Thank you very much, sir.

Senator Javits.

Senator JAVITS. Thank you very much, Mr. Collado. The work of the CED is one of the most important public service activities that I know of, and it leads me to the first question I would like to ask of you. That is that the CED is responsible for a splendid report on the social responsibilities of business.

I just believe we would be helped by finding out how the organization intends to proceed with getting that implemented or getting it the attention and interest which it deserves.

Mr. COLLADO. Of course, as you know, Senator, the CED is primarily a research and policy formulation agency. We are not an organization that is set up specifically to implement our recommendations.

What we do have, however, is a very strong program of information, to communicate our views throughout the country—to people that are sometimes called opinion leaders, to university and academic people, and also very obviously to our supporters, the industrial companies, who are involved. In this particular case, the director of information, who is here in the room, assures us that we have had a very favorable reception.

The statement has been received and commented upon by a great many newspapers and other journals.

We also have policy forums, from time to time, in various major cities of the United States, and we draw upon some of our own trustees, plus other business people and other interested persons, not all of whom are from the business community.

As you know, we have always stressed a balance between the academic community and the business community in the operations of CED.

Senator JAVITS. I believe my colleagues in the Senate would be interested in this CED report and I understand that social responsibilities of business was one of the major themes of the recently concluded White House Conference on Business and the Economy in 1900. Could you provide me enough copies to circulate to my colleagues?

Mr. COLLADO. Yes.

Senator JAVITS. I note also with very great interest your emphasis on productivity which is contained in your statement. You say, "We believe, for example, that much greater emphasis needs to be placed on programs to aid productivity and to facilitate adjustment to rapid economic change."

We have a national productivity council and through my efforts and those of other colleagues in the House, especially Congressman Reuss, we succeeded in getting some money for it, $10 million.

Would you have any recommendations for us? Of course, that is geared to local productivity councils.

Would you have any advice for us as to how best to promote that effort, as you say to aid productivity? That is all that is said about it in your statement.

Mr. COLLADO. As you know, we devoted quite a little attention to this subject in the report which I referred to in my statement, which was issued not quite a year and a half ago. This report spelled out quite a few things that might be done.

We will give you that report. We have been talking about this further in our committee, and we are presently giving attention to additional and more specific things to say. It is easy to talk about productivity in general terms but it is best to get down to cases.

One of the things we have been talking about in our recent discussions is the issue of productivity bargaining. As you know, some of us have had a fair amount of experience, most of it quite rewarding, with productivity bargaining, both abroad and in this country.

I don't like to depart from my proper hat today, but one of my associates, Jerry Rosow, former Assistant Secretary of Labor, has written an interesting article on this in the Harvard Business Review. It refers to some of our company's experiences but also the experiences in other industries. We think this is a promising area and we are going to try to be more precise and more specific in our next report, which we hope to complete a little later this spring.

Senator JAVITS. Secretary Connally testifying yesterday made an estimate that he would consider an optimum improvements in productivity a 25-percent increase within the approximate future. He didn't define his years, but I think one would safely say under 5 years. Would you of CED have any comment on that?

Mr. COLLADO. This is not the kind of subject on which CED would have a precise forecast or a policy statement directed to exactly this type of question.

Senator JAVITS. Would it be possible to develop from CED a target figure? In other words, it is one thing to talk about improving productivity, but what does it mean? It would make a report so much meaning if we had a target figure and the means developed by a great organization like your own as to how we could move toward it.

That wouldn't commit you and wouldn't commit us, but at least it would give us a hypothesis toward which the recommendations are directed.

Mr. COLLADO. There are some problems here, I am afraid, because any assessment of short run movements in productivity is very much affected by such factors as the time period and the particular measure that is used. I don't know whether the committee will decide it can set a really precise target in this field or not.

Would you like to comment?

Mr. SCHIFF. We haven't really talked about a precise target. We have been much more concerned with ways of dealing with improvements. We could look into this target matter. But, as you know, there are so many definitions that a very precise approach to this is not easy to work out.

Senator JAVITS. It is not easy for us either. In other words, it is all right to talk about productivity in the air, but when you get a great organization like your own, which represents literally enlightened American business, you want to get as much as possible out of them. Would you put to your organization the following questions: Let them define productivity.

Two, what do you consider to be a suitable target for the United States within the next 5 years, year by year, and, three, what should we do to attain it?

I ask unanimous that that reply may become part of the record.

Chairman PROXMIRE. Without objection, it is so ordered.

(The information to be supplied follows:)

At the Joint Economic Committee's hearing on February 17, Senator Javits asked for responses to the following three questions: What is the appropriate definition of productivity? What would be a suitable target for productivity growth in the United States within the next five years? What should be done to attain such a target? The answers presented here draw as much as possible on positions taken by CED in the past and also refer to a number of relevant studies which CED currently has under way.

1. *The definition of productivity.* Broadly speaking, productivity may be defined as output produced per unit of inputs consumed. On the basis of such a broad definition, a wide range of different measures of productivity can be devised. No one of these measures is necessarily best for all purposes.

The most commonly used measure of productivity is total real output in the private sector (i.e. private dollar GNP adjusted by an implicit price deflator) divided by the total number of manhours worked by all persons associated with the production of that output. While this is a useful statistic for many purposes, it relates output only to one type of factor input, i.e. labor.

For analyses of the forces underlying productivity growth, it can be more desirable to rely on measures that take explicit account of other types of inputs (individually and in combination)—including not only physical capital but education, management, etc. Pioneering work in the development of such an approach was done at CED by Edward Denison; the results of this work were published in his "The Sources of Economic Growth and the Alternatives Before Us" (CED Supplementary Paper No. 13, 1962).

Numerous other problems can arise in the construction of productivity measures. One is that manhours worked are not necessarily an accurate measure of labor inputs. Thus, efforts have been made to allow for differences in the quality of labor inputs, based on such factors as divergencies in labor earnings, education, etc. Various improvements are also needed in the measurement of output. For governmental activities, most services and construction, no fully adequate measures of real output exist that are clearly distinguishable from input measures. Partly for this reason, reliable productivity measures for those eeconomic sectors are generally not available. Indeed, the existing productivity statistics simply tend to assume that productivity gains in government and in certain services are necessarily equal to zero. Since the need and scope for future productivity improvements in these areas is especially large, the absence of adequate statistical measures is particularly unfortunate. CED has urged that strong efforts be made to develop more meaningful statistics in these areas.

A further definitional problem relates to consequences of economic activity that are not reflected in the existing measures of output, such as environmental deterioration. The true growth of productivity may be overstated unless the social cost of pollution generated in the production process is subtracted from output or, alternatively, unless the resulting environmental degradation is included as part of the resources consumed. Such factors should certainly not be ignored in the assessment of productivity changes, but it is not easy to develop explicit statistical techniques for coping with them. Our Subcommittee on "Improving the Quality of the Environment" is currently devoting attention to such issues.

2. *Productivity goals.* CED's Research and Policy Committee has not endorsed any particular productivity goal and does not have a current policy project underway that is explicity concerned with setting such a goal. As is indicated more fully below, however, the Committee had made numerous past recommendations to improve productivity and is engaged in various current studies that bear on the subject. All of these studies suggest that the scope for productivity improvements is very considerable.

While I personally feel that a detailed look at the potentials for productivity improvements can be useful, I would consider it a matter of concern if productivity goals were set in an overly mechanical manner. One problem is that productivity improvements essentially constitute a means of achieving broader goals and should not be considered in isolation. Productivity goals need to be evaluated in conjunction with other results that stem from measures which produce productivity improvements, such as changes in employment and unemployement, in environmental conditions, etc. Second, improvements in definitions and measurement will in many cases have to precede the setting of specific goals. As already noted, for example, the areas where the future potential for productivity improvement currently appears to be especially large—such as government, other services and construction—are precisely the ones for which productivity measures are either nonexistent or seriously deficient. Third, care would have to be taken that productivity goals are not regarded as limits.

Some sense of reasonable ranges for medium-term productivity goals can be obtained from a look at recent experience. As Mr. Collado indicated at the hearing, a distinction must be made between the long-term trend in productivity gains at full employment and productivity improvements associated with rapid recovery from conditions of substantial economic slack. The average annual growth in output per manhour from 1947 to 1971 came to 3.1 percent. However, in 1969 and 1970—when the economy was sluggish—productivity growth amounted to only 0.5 and 0.9 percent, respectively. A sharp recovery to 3.6 percent was then recorded in 1971. If the economy expands rapidly over the next several years, a relatively fast rate of productivity improvement would seem likely. With a 5 percent annual rate of productivity growth, productivity would move back to the long-term trend line by 1973. This would be equivalent to the best productivity improvement, over any extended period, in recent experience (1961:I to 1964:I). A very rapid increase in final demand would be necessary if we are to achieve this improvement simultaneously with a marked decline in the unemployment rate. Productivity gains of from 3½ to 5 percent over the next several years would not seem to be an unreasonable target range, particularly if special efforts are made to foster productivity gains.

3. *Means of Improving Productivity.* As noted earlier, CED has had a long-standing concern with the full range of measures needed to improve productivity. An overview of such measures was contained in our 1958 policy statement on "Economic Growth in the United States," which was reissued in 1969. More recently, our policy statement on "Further Weapons Against Inflation: Measures to Supplement General Fiscal and Monetary Policies" (November 1970) included a long list of recommendations for increasing the efficiency of labor and product markets as well as of governmental operations. Among other things, these recommendations called for improved manpower policies and other means of achieving a more efficient functioning of the markets for labor at all skill levels; for greater competition in product markets and removal of various inefficient subsidies; for more liberal international trade policies; for reduction of artificial limitations on entry into particular trades as well as for measures to upgrade the

education and training of the unskilled and disadvantaged; and for various positive measures to encourage productive investment, including the use of an investment tax credit and strengthened governmental support for research and development.

In a series of other policy statement and research studies, CED has devoted detailed attention to possible ways of upgrading the education and training of our population, particularly of the more disadvantaged groups. Several current projects focus on needed improvements in the management of key service sector activities, including college education and health care services. The Committee has also undertaken a wide range of studies concerned with ways of achieving more effective governmental management. These studies have, for example, dealt with methods of improving Federal program performance and budgeting and with the modernization of governments at the State, metropolitan and local levels. A policy statement concerned with desirable improvements in existing methods of curbing crime and in the administration of justice is now in preparation.

In addition, our current project on "A Reconsideration of Stabilization Policies" is giving major attention to possible means of enhancing productivity through the encouragement of productivity bargaining and the development of a better integrated and more comprehensive national policy to facilitate adjustment to change. In many cases, failures to achieve potential productivity gains result from the opposition of those who stand to lose their jobs, seniority rights, etc. because of the proposed improvements. The development of more imaginative and effective programs for allowing such persons to readjust their life in a constructive fashion can thus often be an essential prerequisite for really significant breakthroughs in the productivity area.

A selected list of past and prospective CED policy statements that contain material relevant to productivity improvements is appended.

APPENDIX

Selected CED policy statements containing materials relevant to productivity improvements (including better management of service and governmental activities).

1. *Statements dealing with economic growth and stabilization policies.*—"Economic Growth in the United States" (1958; reissued 1969); "Further Weapons Against Inflation: Measures to Supplement General Fiscal and Monetary Policies" (1970); "A Reconsideration of Policies for Economic Stabilization" (in preparation).

2. *Statements on improving education, training and health care services.*—"Innovation in Education" (July, 1968); "Training and Jobs for the Urban Poor" (July 1970); and "Education for the Urban Disadvantaged" (March 1971); "The Management and Financing of Colleges" (in preparation); "Organization and Financing of a National Health Care System" (in preparation).

3. *Statements concerned with improvement of management in government.*—"Improving Executive Management in the Federal Government" (July, 1964); "Budgeting for National Objectives" (January, 1966). "Modernizing Local Government" (July, 1966); "Modernizing State Government" (July 1967); "Reshaping Government in Metropolitan Areas" (February 1970); "Making Congress More Effective" (September 1970); "Improving Federal Program Performance" (September 1971); "Military Manpower and National Security" (February 1972); "Curbing Crime and Establishing Justice" (nearing completion).

Senator JAVITS. One last question, Mr. Collado. I think, first, we are very fortunate to have you as a citizen and a witness, considering the fact that you are one businessman that I think spends not less than 50 percent of his time in what benefits the people and the world.

I am very intrigued by your statement with respect to import quotas. You say, "We believe that the United States should abstain from imposing unilateral quotas except where national security requires it."

Well, I understand that. But do we take it, then, that that implies that you favor bilateral or multilateral agreements respecting agreed upon limitations of imports very much like the manmade textile agreement with Japan and other countries?

Mr. COLLADO. As you may recall, Senator, in my statement we talked about the necessity for ground rules. I think it is quite clear that our general direction, which is somewhat classical in origin, I suppose, is that we would like to minimize the use of quotas. I think we would be very slow to want to give the impression that we think having a lot of multilaterally negotiated quotas is a very good idea. Indeed, we think these things should be strictly limited and be subject to reexamination and scrutiny.

On the other hand, we are not quite so pure as to say that you can ignore the fact that there are situations where some kind of arrangement of this sort is essential, at least for a period of time.

Senator JAVITS. Mr. Chairman, my time is up. But in view of the fact that I had none yesterday, can I ask one more question?

Chairman PROXMIRE. Is there objection? Without objection.

Senator JAVITS. The real nub of the problem in this country is that labor has gone strongly protectionist. Their point is that a sudden impact of imports hurts them very materially. Now, question: How would you deal with the sudden impact of import problems, as, for example, an increase of 50 percent or more over a very short period of time? In the case of Japan, it ran to as much as over 150 on 1 year in manmade textiles.

Mr. COLLADO. First of all, we think this problem should be broken down into its components. We should not use a very broad measure to define the problem if it can be defined in a much smaller compass.

Second, we should use broad adjustment procedures to the fullest extent possible. Obviously, one of these is a realinement of exchange rates. This is a broad policy measure that clearly has relevance for problems which only affect particular industries.

Finally, if the impact is on a relatively small part of the U.S. economy, we can use other kinds of adjustment procedures than merely protecting the particular production that is hit. Of course, where only a small number of people are affected, it is all very well for those not affected to say that we all benefit from a liberal trade policy. But this is not very comforting for the fellow who loses his job. However, we can limit these things to as small a scope as possible, and in this way, I think, and with careful scrutiny, try to deal with the immediate problem. I think that is what we are talking about when we say ground rules.

Would you like to add anything to that?

Mr. SCHIFF. I think one other element, of course, is that there can, in these limited areas, be policies that assist the adjustment of those who are displaced. This is merely a problem that is very general, even in this area of productivity that you mentioned before.

When you have rapid changes which affect adjustments in the economy, there are various people who are hit and who may suffer to some extent. But the solution to this is not to stop the dynamic changes that go on but primarily to find ways of aiding those who are temporarily affected.

I think the other side of the argument is that many of the measures that have been mentioned to deal with the problems of rapid imports are the kind of measures that, in effect, will really hurt a great many other people a great deal more. You get retaliation and all kinds of other problems when you adopt import restrictions that adversely affect the industries where a great many jobs are now created by exports.

So the way of pinpointing the problem is to deal with the immediate victims. This is the way that has to be chosen.

Senator JAVITS. Thank you.

Chairman PROXMIRE. Congressman Reuss.

Representative REUSS. Is productivity anything more than the following, which is plenty: skilled, modern management, labor that is well-trained and ingenious and properly motivated, the sensible use of capital equipment to get the goods made, and perhaps more important than any other single factor something like realization of the goals of the Employment Act of 1946, namely maximum production, maximum employment and maximum purchasing power, so that you spread your unit costs over a greater number of units?

Is there anything more to productivity than that? That is plenty.

Mr. COLLADO. Productivity is nothing but the best management of productive resources. This includes, obviously, the application of capital. It obviously includes the training of workers. It also includes the reduction, ideally the elimination, of those structural hindrances that seem to prevent the most effective application of resources.

I could mention a case that I am not all that familiar with but with which I am generally familiar. In building a new refinery in the West a few years ago, we were able to initiate a system whereby individuals could be trained first in a limited package of functions and then in a larger one, so that one man was able to take care of various situations that might arise.

This called for constant maintenance and constant supervision simply because of the types of processes and equipment which were involved.

The point I am trying to make, however, is that you can train your workers—and they responded very well to this—to have an increasing number of functions. What happens is that you have those small teams of people with their own sets of equipment and apparatus and they take on more and more of the responsibility for keeping particular units going.

Of course, their compensation is very carefully related to the number of these skills that they are able to apply. The point to be emphasized, I think, is that in a much older type of refinery, neither the capital equipment nor the way the labor was deployed even approached the efficiency that you can get out of this type of arrangement.

This is where you get productivity. This is the whole job of management. I think we are sometimes carried away by new words. Those of us who went to management schools in the 1930's learned a lot of the same things but they had different names. Some of us have to read the literature carefully to realize we are talking about some of the things that we already knew something about.

Representative REUSS. Let me now turn to the budget, on which you have some persuasive things to say. I have been bothered by this: The administration's presentation throughout has talked about a reduction in unemployment at best to something slightly under what it is now.

There seems to be a widespread feeling that fiscal and monetary measures alone, because of the inflationary danger, are unlikely to bring unemployment down to 4 percent.

In the light of that, what do you think of constructing a budget in an economic report on a full employment or high employment hypothetical budget basis in which the unemployment ingredient is 4 percent?

Isn't there something rather contradictory about an exercise like that? It bothers me because the only justification of a full employment budget, which is really a matter of kidding the public into thinking that the deficit isn't as alarming as it may seem, is the proposition that we were in a temporary slump, but the running of a deficit would bring us to full employment, therefore, everybody was supposed to go along with the concept of a large deficit.

What do you think of using a 4-percent unemployment, full employment budget with one breath and with the next breath saying, "Of course, you can't get to 4-percent unemployment by fiscal and monetary methods"?

Mr. COLLADO. You asked a question that is rather difficult to answer very briefly because it has so many facets. I think it would be very useful to go into a detailed discussion of the 4 percent and the possible changes in the composition of the labor force and whether these are trends or temporary situations, and what this implies for our policy guide. I think this is a very important question, and we said this in our report in November 1970, and also in an earlier report in 1969. Both reports pointed out that a great deal of additional work needs to be done in this field.

We are not, I think, disposed to accept any rigid definition as the ultimate target. If we define the 4 percent tightly enough, we are not sure that we would agree that that is a sufficiently good target for the long-term future. Clearly, with a very tight definition, 4 percent is quite a lot of unemployment.

But let me put that aside. I think you understand what I mean.

Representative REUSS. What do you think of constructing a budget based upon a hypothesis which on other pages of the report the writers of the report say is not going to occur?

Mr. COLLADO. As far as the construction of the budget is concerned, I think they have probably done this correctly. As I say, there is some question about the time frame of this thing. I think we have learned a great deal in the past few years about these matters—although we have learned it in circumstances which are not laboratory controlled circumstances. We have policies that we would have liked to have seen applied in the fiscal area and policies that we would have liked to have seen applied in the monetary area.

We know that our economy has run into some real difficulties with structural imperfections that perhaps we are more conscious of now than we might have been 10 years or more ago.

Beyond that, I think we are more concerned with the question of expectations and what expectations lead to in terms of the time frame in which the more conventional policies might apply. All of this leads to our view that these targets are probably as good as one can produce in terms of what you are trying to do at the moment.

They don't suit us as aspirations, but they may be appropriate targets given the various problems we face at this time.

Your question, which is quite a technical one, I think, is whether you can, in fact, apply the full employment budget with that kind of

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a number when you are not planning to get to it in a reasonable time.

Representative REUSS. Ever? Why wouldn't a more honest budget have said, "Look, we are baffled, something has gone wrong, we don't know any way to get to full employment"? That really seems to be what the truth of the matter is.

Mr. COLLADO. I guess what we are saying is that we think we know how to come closer to it. It will take a little more time and a little steadier application of conventional monetary and fiscal policy, in combination with a rather stepped up and sharper look into these structural questions.

We don't think enough has been done in those areas.

Mr. SCHIFF. I would like to add that I think the basic principle, which has been a CED principle, and I think this is implicit from what Mr. Collado has said, is that one should aim at something called full employment or high employment. You can have some argument about the precise number.

But I think almost everyone thinks you couldn't get precisely to the target by the end of this year. That shouldn't mean that one shouldn't base the policy on a budget notion that is related to this basic target. You can argue somewhat about the precise number whether it is 4 percent or some fraction of a percentage point higher, but I don't think the answer should be that one should simply have very low expectations on where we should go and change the target very substantially.

I don't think it is kidding the public to say that one should aim at a budget based on a full employment target. Use of the full employment budget means that you don't oppose a deficit simply because the economy is weak for a while. This is implicit in the full employment budget notion.

Representative REUSS. Let me try once more. Perhaps I am not communicating. It seems to me that an honest, no kidding, legitimate CED type full employment budget is one where the promulgators of the budget and the economic policy see some way of getting to the level of unemployment, to wit, in this case, 4 percent, which will yield the revenues sufficient to constitute a full employment budget balance.

Our friends in the administration I don't think have that one figured out. Their budget presents a horrendous deficit, it is true, but it is an inefficient deficit in terms of making jobs. Too many of the billions are spilled out in high price supports to corporate farms that don't make any jobs on the spending side; too much is spilled out in tax loopholes, the loophole money of which doesn't make any jobs on the revenue side.

Hence, the policymakers are confronted with the fact that it just isn't going to work, that only a more purposeful attack on unemployment is going to bring unemployment down.

Since they don't have one in their program, they are kidding everyone, including probably themselves, into thinking that they really have a budget which could yield, if they stick to it long enough, full employment and a fiscal balance.

Mr. COLLADO. If I could try to say something about it, I guess we are in considerable agreement with your statement about the fact that a very simple formula doesn't necessarily produce all the results that you want. We have been very careful to spell this out in our detail statements over the years. Some of this may have been lost, however, in the brief statements that surface.

We have been very careful to point out that the whole composition of the budget, both the way the revenues are raised and the types of expenditures involved, have a great deal to do with the efficiency of the total operation. It isn't just the difference between two numbers that is important.

There is a tendency to talk too much about that difference per se. Our committee and others have given a lot of attention to the overall size of the budget and to whether the budget deficit at one level has a different impact than at another.

Obviously, what you spend the money on and where you get it from has a great deal to do with this. That, I think, is what you were getting at.

In our statement here we do say that the whole budget has to be reexamined in sort of a collective, overall manner. Sometimes that is called zero-base budgeting. That is one of these new expressions that I had to learn. Sometimes there are other aspects to this. We have gone around the lot in the past 5 or 6 years issuing statements on improving procedures, improving delivery systems and improving the direction of revenue and expenditures.

We are making another study of revenue needs and revenue sources. We will probably be coming out with that somewhat later.

I am not disagreeing with the thrust of your question, whether the collection of things now being proposed add up to perfection.

I think the clear answer is it doesn't. We would like to emphasize the need for pressing some of these things much further.

I think our membership, with a lot of diverse people—and our internal discussions sometimes resemble a great debating society, as you can imagine—can find a lot of problems in the wave elements of the system work.

Lots of people are not happy with the inefficiencies in the operations of State and local governments, and in the delivery systems for all kinds of things in this country. I think all of this has to be worked on. Our fiscal and monetary policies would probably come out with perfection if everything else worked properly and, of course, it doesn't.

The question is how much room do we have in an economy like that of the United States over periods of time to accept the malallocations, the inefficiencies, that the system has allowed to grow up. I don't think I can answer that question. I wish I knew.

I used to think that we had a bigger capacity, but the last year or two suggests that our capacity for accepting these imperfections in the structure isn't as great as we might have thought it was 5 years ago.

I think this is one of the reasons why we think the basic reliance on fiscal and monetary policy has to be buttressed by some real attacks on the structural problems.

Representative Reuss. Very good, and completely responsive to what I was trying to get at. What you are saying, in effect, is that if Alfred R. Newman of Mad Magazine comes in here with a $60 billion budget deficit which has has contrived by giving away everything on the spending and taxing sides, we shouldn't necessarily be overjoyed.

We should examine the composition of the deficit. That is the essence of the CED's recommendation for the last 15 years, on the full employment budget concept.

Mr. COLLADO. This goes back, I think, practically to the opening days of CED. CED was founded very close to the time of the Full Employment Act, or a year or two before it. As I said in the statement, I think we have commented on every report of the CED since that year.

Representative REUSS. Thank you very much.

Chairman PROXMIRE. Mr. Widnall.

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Collado, Senator Javits earlier commented on your remarks in your testimony.

Could you explain more fully what you mean by the needs to "negotiate improved multilateral ground rules and surveillance of existing import and export quotas"?

Mr. COLLADO. This is a long and rather technical subject. It goes back to my early days in government. It is one I haven't been practicing as much as I used to.

The international agreement that relate to tariff policies and other elements of commercial policy have been notably weaker in the areas of quantitative restrictions and certain related matters through which various countries influence import and export trade—subsidies to exports, and measures other than direct tariffs or direct quotas for limiting imports.

This is an area where the GATT, the OECD and other appropriate bodies have done a lot of talking. I think clearly there is fertile ground here for a lot of additional work.

There is a great deal of scope for better international understanding and agreement as to what practices are beyond the pale and how you try to quantify the impact of these practices, and how you try reciprocally or other than reciprocally to adjust for them.

I think, one the whole, people have been less than happy with the progress that has been made in these areas.

Representative WIDNALL. As I understand what you are saying, it is that we make agreements with these other nations and then many of the other nations find a way of weaseling around those agreements by instituting some new formula or some new approach or some new mechanism which destroys the end result sought by the agreement.

Mr. COLLADO. This has happened, Mr. Congressman. I may say that I have recently been in some conversations with some of our European counterparts and they rather think we have done as much weaseling or more weaseling than they have done.

I am not prepared to admit error on the part of the United States in an international discussion, at least, but the fact of the matter is that you can find a lot of cases on both sides on this thing. The balancing of them, the taking of countervailing action, or, more hopefully, the elimination of some of these things, I think, is a very promising field. But this will be going on for a long time. It will probably go on forever.

This is a field where you never achieve perfection and stop there. It will always be a field in which you will have more problems. People have dreamed up more ways of getting around most-favored-nation treatment than you can imagine.

If I can recall my doctoral days at Harvard, a professor asked me how many ways I could think of for getting around the MFN. It happened I was working with the Treasury in those days and sitting on the old Trade Agreements Committee and I got up to 16 without getting to the one he had in his mind.

It is an area in which all sorts of things can be done and on which a great deal of literature has been written. I think it is a very promising area for international negotiation, but it takes a great deal of patience and a great deal of skill.

Representative WIDNALL. Would you comment on the oft-repeated charge that multinational corporations export jobs?

Mr. COLLADO. As, I guess, a participant in a multinational corporation by at least one of the definitions, although not by some of the definitions, I would say that this charge is in general very greatly exaggerated. It is a nice question whether on balance it isn't a considerable distortion of the real facts. I must say that whenever people start talking about this, they always say, "Of course, we are not really thinking about your kind of a company. We are thinking of a different kind of industry." That tends to throw me a little off because I can't draw upon my own information and facts.

But at the same time, I am usually impressed by the fact that although the charge doesn't apply to our company, the proposed remedy would. This gives me a little problem. I think the real answer has been hinted at but very briefly here in the testimony. It is that all the evidence that those of us closely involved in this sense or adduce or have picked up from various studies made both in Europe and here by a lot of organizations—some of the studies, I think, are pretty thin and some of them are pretty good—would suggest that while some production is probably exported by this process, in general, the very companies that are going abroad go abroad for a number of reasons that have very little to do with whether they are taking jobs out of the country.

Many, if not all, of the jobs that they might be accused of taking out of the country probably would be lost anyway because they wouldn't have the opportunity to make the exports because some other arrangements—changes in the international situation, local production, other kinds of competition, even foreign tariff barriers which we have talked about before—would prevent it.

Beyond that there is a process of change in trade as well as in consumption. The whole product mix is constantly changing. In many, many cases, if not the majority of cases, the company that goes abroad actually increases its total exports and its total export jobs domestically, while it is changing the character of the production both at home and abroad.

The evidence seems to suggest that except perhaps in one or two very limited cases this is not a broad generalization that can be supported. I know that very important groups including, as you suggest, the labor groups, feel very strongly it can be supported. I just don't agree with that.

It is a long subject if you want to go into all the details of it. The information to my mind, does not support these allegations. Moreover, I think what you lose by doing some of the things they would like is much greater than what you gain.

I am saying that the gains from the multinational corporation—not necessarily because of the intrinsic merit of the management of the corporation—outweigh any losses associated with it.

Representative WIDNALL. Could you simplify the answer by just bringing it down to one example of your own company's operation?

Mr. COLLADO. Again, sir, we are really not a very good case for this. but we obviously import a lot of raw material because we can't get enough of our raw material domestically. So we import raw material. We export some finished product. For a variety of reasons, however, this is not the main course in oil commerce. The main course in oil commerce on the international side is between third countries without a U.S. piece. But it is the main course in other parts of our business, such as the more sophisticated products. For example, very high octane aviation gasoline was for many years a very big item in trade. This was in the days of the big four-engine propeller planes. A great deal of this gasoline was exported from the United States, whereas the simpler products were all produced locally out of foreign-based crude.

We are not a very good industry for this particular question. It is the manufacturing industries and metal working types of industries that people are usually thinking about when they use this argument. Normally, the process is something like this. You set up an establishment abroad to market your product. After you have been there a while you discover there are some things of a simple nature you can do locally, many of which, for space, transportation or other kinds of economics, are not viable export industries on any very large scale.

Or you may run into the possibility that local competitive conditions of one kind or another just don't make that particular part of your business viable on an export basis. So you establish a plant to do some things and take care of local market situations, which at the same time importing the more sophisticated components, and many other products that are not manufactured locally.

The whole history of this is that the total employment at home of the companies that do this goes up, and seems to go up faster than the general increase in employment among other types of companies.

There is a lot of evidence in specific cases. Several of the industry organizations have recently put out studies outlining case after case. There is such a study by the NAM and one by the U.S. Chamber and a couple of others right now that give you one case after another explaining in some detail how their particular products were influenced by this dynamic series of changes.

It really doesn't fit the oil industry case very well.

Representative WIDNALL. Thank you. My time is up.

Chairman PROXMIRE. Mr. Collado and Mr. Schiff, I apologize I was late. I haven't had a chance to question. I will question now. I will be as brief as I possibly can.

The Secretary of Labor is waiting and he was to appear at 11 o'clock. It is now 11:10. We have four of us who have questions here. We will all be as brief as we can be.

Let me say this is an excellent report, very helpful. I certainly welcome it. It is the kind of report which can be most helpful to this committee, the Congress, and the country.

You say in your statement that the projected swing in the NIA full employment budget from a $5 billion surplus to a $6.5 billion deficit is a tremendous stimulus in the first half of the calendar year. We go up to this great stimulus fiscally, and then in the last half of the year it drops off and we have comparative fiscal restraint, from a $38 billion deficit to a $23 billion deficit, from a situation where we have a full-employment deficit to a full-employment surplus.

Under these circumstances, it occurs to me that in view of lags involved, and so forth, this is a program to reelect the President of the United States.

It seems to me that it comes to its climax on November 7, 1972. What is your response to that? Do you consider this perhaps to have that effect?

Mr. COLLADO. I think what we say here is that we have some serious question whether it will be possible, in fact, to meet that pattern of expenditures and produce that result. In the statement we say it seems highly possible that it would simply not prove feasible to achieve this fiscal stimulus in such a short time.

Chairman PROXMIRE. They are sure trying to get it, though.

Mr. COLLADO. As we said last year in our report to your committee, we are somewhat doubtful whether in fact the targets can be achieved. In this case, I think we feel this rather strongly. This gives us some concerns of a different nature, not perhaps the ones you referred to.

Chairman PROXMIRE. Why isn't that a matter of concern? I can't understand any other explanation. Why should there be this terrific stimulus in the first half of the year with a dropoff later on if this is not an orderly way to achieve expansion of the economy?

It would seem to me we shouldn't have this much stimulus in the first half but we ought to have more targeted for the last half of the calendar year.

As you point out so well in your remarks, if we don't need it we should have ways of changing the situation.

Mr. COLLADO. We are a little concerned about this. We have a variety of views. In a report for a committee, you have to be very careful to disassociate your own views from those you are reporting. The fact is in this case we would think that a proper pattern would be one in which you went to a modest amount of full employment deficit at a time when you felt the stimulus was most needed to get the economy moving, then to a smaller deficit and eventually to a modest surplus.

I think what I said probably before you were able to come, Mr. Chairman, was that we have acquired more and more knowledge in the last few years that these things don't work as fast as we would like or as we used to hope they would work, and we have become much less confident of our ability to predict these things.

We feel that these things are not going to work quite as fast, or effectively as we might want. The lags have gotten much more unmanageable than we thought they were 4 or 5 years ago.

In this particular case, we really think that this stimulus will occur later and quite probably at a time when it may have some of the opposite impact.

Chairman PROXMIRE. You have a justifiable concern about inflation, but at least we have an institutional method of coping with it now. We have a wage board, we have a price board. We have nothing, but nothing, to cope with our employment problem. We have the reluctance of the President to recommend public service employment. We got some but not much. Very, very little in view of the very high level of unemployment and the fact it has been so persistent for such a long, long period.

I felt that one of the reasons why we could justify this wage and price restraint is because that would permit a greater degree for a longer period of stimulus so that we would get the jobs we need.

How would you feel, Mr. Collado, about a recommendation made to another commitee recently, to wit that: The creation of jobs will have just as high a priority as building highways or the defense of our Nation, achieving supremacy in space, and so forth.

What is wrong with a top priority on the creation of jobs?

Mr. COLLADO. As I understand it, this is the objective of the 1946 act.

Chairman PROXMIRE. We are not doing it.

Mr. COLLADO. You have to create jobs if you are going to have high employment. I think it is the method of creating jobs that is the question.

Do you create jobs by making conditions ripe for the private sector to create jobs? Or do you do it entirely in the Government sector?

I think this is what the debate is about. We have been supportive of a reasonable program in the public service area, although with considerable worry about the triggering and the reverse triggering of it. We are quite worried about the possibility that in the longer run, as we were talking earlier, the fiscal dividend is not there and we are building in a lot of very long term programs.

I am just as concerned about the total level of expenditures as I am about the difference between income and outgo. I think we have our worries about this.

Chairman PROXMIRE. I want to wind up as fast as I can. Let me make some comments and I will have one question at the end.

I am glad that you recommend self-limiting methods, and so forth. I think this is very helpful. You call for a more explicit concern about the effect of the tax increases, the long-term effect. They are not very big at the beginning but they balloon. I think that is helpful.

You ask for more specific proposals to be developed to indicate how the Nation should cope with the hard fiscal choices it will face in the next few years. Great.

The question I want to ask you about is about our military situation which you so ably comment on in your report. You call for zero-base budgeting. Everybody calls for that and nobody ever does anything about it. Somehow we have to find a way of provoking the Bureau of the Budget and the Congress to get at it. We make no progress. Everybody says it is the thing to do.

You do call for discretion on the part of the President to raise and lower income taxes 10 percent. Not a chance as far as this Senator is concerned, unless you have one 6-year term for the President. Can you imagine any President, Democrat or Republican, Muskie or Nixon, whoever it is, coming up for reelection and not taking advantage of that tax reduction that year?

I think it is asking the Congress for a lot to give up the only one of the very few powers that it still has.

You ask for monetary policies as flexible adjustment tools, fine tuning. I think we have learned in the last few years that that works very badly with a very long lag. The great failure last year of the model in the Bureau of the Budget which was supposed to forecast a big increase in the GNP because of monetary expansion failed and it failed to take account of the great lag.

You say you consider it highly important, however, that the breathing space afforded by phase II be used to launch, and so forth. That is great. We don't have that.

Considering phase II, what it will do to prices next month, there is no consistent and determined effort to provide for the kind of structural improvement we need so we can get a lower level of unemployment with price stability.

I would say again on your statement that, "We believe adequate incentive must be provided to bring about removal of controls as soon as they are no longer needed."

We haven't done that, incentives to remove control. As you say, permit industries to petition for removal. I am all for that.

If you think we need legislation in that area, I hope you will let us know. I am a member of the committee, as many other members of this committe are, which has responsibility for these controls, and I would be just delighted to press for that kind of opportunity if legislation is required.

Now let me come to the question I have.

Mr. COLLADO. Could I say one thing there, Mr. Chairman? As you probably know, an organization of the character of the CED does not recommend nor support nor press for particular legislation. We try to make as broad a policy statement as we can on what we think should be done, but we are not supposed to be an organization that is down proposing specific legislation.

I think you understand that.

Chairman PROXMIRE. In the CED report released today, military manpower and national security, that is one of the most interesting and important documents that your organization has issued in a long time, in my judgment.

As I understand the CED proposal, the President would be required to submit annual requests to Congress for maximum troop strength for each of the services, for overseas deployment of military personnel, the number of men to be drafted and the reserve strength for the fiscal year. Congress would then have to enact authorizing legislation for each of these requests.

I think this would be a great advance in providing the Congress with the kind of authority that it should have and requiring the kind of national debate on priorities that we ought to have.

What you are really saying, it seem to me, is that Congress ought to share directly in decisions that concern procurement and deployment of military manpower resources, just as it does with respect to equipment and weapons.

Am I correct, or is there some other meaning?

Mr. COLLADO. No, I think you have stated that quite the way we had it in mind.

Chairman PROXMIRE. I certainly welcome that. God bless you. I will do all I can on that.

Mr. COLLADO. I think, Senator, you will recognize that it is very difficult for a group such as ours to make the final judgments in a field such as this.

Here we felt that we could more properly concern ourselves with the procedures for seeing that these things were fully looked at by the various parts of the Government on a proper basis rather than to announce that we thought the budget ought to be so much or the number of men something other.

Chairman PROXMIRE. I understand Congressman Conable will yield to Senator Percy.

Senator PERCY. I have a few questions on productivity. I will not be able to stay for Secretary Hodgson's testimony. I would like very much to have the same questions addressed to him before he leaves today. I have to be on the floor at 12 noon.

My questions certainly relate to his area and his testimony as well as yours is exceptional.

In your testimony you indicated that much greater emphasis has to be placed on programs that aid productivity and that facilitate adjustment to rapid economic change.

Secretary Connally yesterday listed increased productivity as one of the four major economic goals of the administration. I asked him his reaction to an article on productivity by Sanford Rose that appeared in Fortune this month. I felt that article was exceptionally good but with some wrong conclusions. In effect it said, "Take it easy, don't worry, trends will take care of productivity, and on an upswing no real special effort is really going to be needed."

I strongly disagree with that and was delighted that John Connally did yesterday.

If you have read the article, can you tell us what your own reaction is, and whether you feel a special effort on productivity increases needs to be put into the American economy now if we are not to have all of the efforts on controls go for naught. Controls will not solve our basic economic problems.

Mr. COLLADO. I am afraid I can't comment on the particular article. I have talked with some of the people who prepared it but I haven't studied the final version.

The CED wrote a large section of a policy statement on this subject, and I think our view is that increases in productivity are something you have to take the initiative on. They don't just happen automatically. I think businessmen should be alerted to what they can do in this area and encouraged to do it. This is part of the reasoning behind our proposal for allowing particular activities to be exempt from the price and wage control program if appropriate steps are taken, including steps to increase productivity.

Businessmen don't really want to be controlled, we certainly don't, and we feel there is a lot that can be done in this area.

Senator PERCY. During World War II, the United States had 5,000 productivity councils throughout the country involving millions of workers and executives with the common goal of getting out the product, making it a high-quality product, and reducing unnecessary costs that contribute nothing to the product.

We haven't had such councils since World War II. Senator Javits authored an amendment to the Economic Stabilization Act which carried, I think, unanimously. It would establish productivity councils, plant by plant, department by department, industry by industry.

The National Commission on Productivity has the job of getting them started. My feeling is why wait for Government to tell a plant or a company, to set up such councils? Why can't the private sector take the initiative? Can the CED support such a concept and do anything to help implement and encourage business in this area without waiting for Government to point out that it is a good idea for labor and management to get together and fight a common problem?

Mr. COLLADO. Obviously, we have been giving this a lot of attention. The earlier report goes into this in some detail. Right now, however, our committee is giving considerable thought to what I earlier called productivity bargaining.

In a sense, that is what you are talking about. Whether you are on one or the other side of a table isn't really the relevant thing. I think the purpose of productivity bargaining is to try to make better use of the resources, human and capital, and to base the rewards on the improvement in productivity that results.

We are giving this serious consideration and I hope our new statement, if and when it is approved, will emphasize this. It will if Mr. Schiff and I can guide the committee in its studies.

Senator PERCY. I know that Peter Peterson, the new Secretary of Commerce, intends to make this program a major part of Department of Commerce activity. He will be chairman of the National Commission on Productivity. Certainly, all possible Government effort will be devoted to this program.

I am very pleased to hear the CED can support this because you have a very, very powerful voice in both labor as well as business councils.

I authored an amendment which seems to relate right to the comment in your statement that adequate incentives must be provided to bring about a removal of controls, as soon as they are no longer needed.

This amendment that I sponsored in the Senate in December was cosponsored by Senators Javits and Proxmire and carried 92 to nothing on a rollcall vote. It was accepted by the House and signed into law by the President.

The amendment simply totally removed from pay board jurisdiction any wage increases developed as part of a plan developed by business and labor to increase productivity. The legislation was based on the theory that we are not trying to hold wages down; who would want to hold wages down?

We are trying to hold prices down and costs down. If wage increases are commensurate with productivity, why not let them go? The sky is the limit as far as we are concerned, so long as it doesn't affect prices.

One person told me that not one company in a hundred has been made aware of this provision. We currently have no guidelines for such programs laid down by the pay board, although Secretary Connally and Secretary Butz have both supported the amendment.

Can CED do anything to bring this amendment to the attention of management and labor? Here is the real incentive. It is built right into the law. They don't even have to go to the pay board for approval. They can just establish a plan and proceed to implement it.

Mr. COLLADO. My statement includes some comments that are relevant to this type of approach. I can assure you that our company knows about the legislation you mentioned and I think a lot of other large companies do as well.

Senator PERCY. Last night, William Batten, former head of the Business Council and head of J. C. Penney, indicated in his judgment the guidelines laid down for executive compensation are discriminatory against profit-sharing plans.

It is his lifelong impression, through experience with J. C. Penney's profit-sharing plan, that profit sharing does not add a penny to cost and, therefore, prices, but reduces cost and prices, by giving the necessary stimulus and incentives.

Would it be your judgment that we ought to take a good look at those guidelines to see that we do not discriminate against profit sharing? Do you agree that we ought to encourage profit sharing every way we possibly can?

Mr. COLLADO. As you can see in my statement, we really think that a careful study of guidelines, and particularly guidelines with an incentive element, is absolutely essential. We would generally support the concept very, very strongly.

As I say, this is something we are talking about in committee. Under the CED practice I am supposed to report on things they have agreed to. They haven't agreed yet but we are talking very seriously about it. Thus, I didn't think I was overstepping very much when I made the remarks which don't directly follow completely from statements put out in earlier years.

Senator PERCY. My time is up. Thank you very much.

Chairman PROXMIRE. Before I call on Mr. Blackburn, I understand that Secretary Hodgson is in the room.

Mr. Secretary, we can either have you on in about 15 or 20 minutes, or, if you prefer—and I apologize from the heart in delaying you so long—we can reschedule you for March 1, whichever you want.

Secretary HODGSON. I appreciate the education I am receiving from listening to what is going on.

Chairman PROXMIRE. Marvelous.

Congressman Blackburn.

Representative BLACKBURN. Thank you, Mr. Chairman.

Mr. Collado, I find your testimony most educational. To get back to the point of Senator Percy, you suggest that we need new emphasis placed on productivity.

Furthermore, you observe, and properly so, that there are some areas in which Government policy tends to lock in inflationary pressures. I know you don't comment on particular bills, but would a bill which operates similar to the Davis-Bacon Act tend to lock in inflationary pressures?

Mr. COLLADO. In the report mentioned in the next sentence we refer to the whole construction industry problem, as well as to three or four other problems resulting from past legislation. Beyond that, I think it is only fair for me to point out that the CED has put out four to six policy statements a year now for many years, and we move around and cover quite a lot of territory.

When we write a summary for a particular purpose we don't always get in everything we have ever said on every subject. We have presented our views on a great variety of subjects, for example, the agricultural programs which caused a great deal of outcry.

We have gone after certain questions in the area of labor rigidities and in the area of Government management and operation. We have gone after questions in the area of welfare, and this, that, and the other things. I don't mind telling you that the roof falls in on us quite regularly, but that is all right, we probably can take it.

A great deal of what you are talking about is in this report, "Further Weapons Against Inflation."

Mr. SCHIFF. I might mention that that report was issued in November 1970, and it explicitly did call for the repeal of the Davis-Bacon Act, or if not repeal, suspension, which, of course, we were glad to see happen not long afterward. We took that position then. Of course, since then a great deal has happened in that area. The suspension was reversed when a new committee was established to deal with construction collective bargaining.

We haven't taken a full look at the work of this committee, but in principle we certainly very much favor precisely that kind of thing. I think that is one area where productivity bargaining is happening to some extent, through the device of that committee. I might mention one point, the relation of this kind of thing to wage stabilization. We are very much for finding ways of reducing costs and emphasizing productivity. But if this is done in connection with a program of wage and price controls, there is, of course, also always the danger that that type of thing could sometimes be misused to get around the controls.

You have to find ways to have really genuine productivity improvements, reductions in costs, and not just something that is a way of trying to get around the restrictions.

Representative BLACKBURN. Did the paper to which you referred deal with the problems, particularly in the construction industry, of developing new techniques, implementing new technology of materials and building techniques, restrictions on implementing new technology and new techniques by reason of both building code restrictions and labor union contracts and jurisdictional disputes?

Mr. SCHIFF. We very much referred to that in that report.

Representative BLACKBURN. Is this not an area in which, if any meaningful change is to take place, Government must exercise its authority? That is, in the area of building codes and union contract restrictions.

Mr. SCHIFF. I think we very strongly feel that that is one area where there should be a major effort. The Government has a considerable influence because it is a very large contractor, gives guarantees, and so on.

I understand there has been progress in this area. We have also recommended in that report a much more intensified and unified effort in all the areas where the Government, itself, has an influence in affecting prices. The Federal Regulations and Purchasing Review Board has expanded activities in this direction.

Representative BLACKBURN. So you feel, then, that the Government could demonstrate an effective leadership in the area of construction if it should insist that the construction contractor have a freedom to innovate and to utilize the latest in technology in fulfilling Government contracts?

Mr. SCHIFF. I think we definitely feel that reducing restrictions in that field, whether these come from building codes or from the side of labor or management, is very important. We should have a major effort in that area.

Representative BLACKBURN. I promise you I will be working in that direction.

I would like to ask one last question, and it may be too broad a question to be answered here today. The committee you represent is the sort of organization that could look into this and possibly give us some leadership.

The question has come to my mind whether or not we don't need a whole new budgetary concept, whether we shouldn't break our budget down and separate capital improvement expenses, roads, bridges, dams, this sort of thing, from operating expenses of Government. In that way we could prorate some of our capital expenditure items and prorate these over a period of years, the years of utility of the capital improvements. Maybe this is something that is so far in the Government that nobody has ever thought about it.

I don't think any private businessman would deal with his budget on the same lump altogether and hope we get enough to pay the bills basis as we do at the Federal level.

Has your committee ever given this sort of thing any thought?

Mr. COLLADO. As a matter of fact, we have. We have not, I think, ever come out for what is called the above-the-line and below-the-line budgeting procedure. We have talked a lot of breaking out and understanding the results of the appropriations process.

We are quite concerned by the inflexibility of such a large proportion of the total budget, which is an aspect of what you are talking about, and that you get locked into situations that are not easily turned. That is one of the reasons why we devoted so much attention here both to this 4- or 5-year kind of look at the budget, and the need for contingency planning.

At the moment, we are giving a lot of thought to the revenue side, which also has some of these questions in it. I can't say much about expenditures at this point except for those referred to in the "Report on Military Manpower and National Security" which we put out this morning. However, we do have some further thoughts about the other elements of budgeting.

Representative BLACKBURN. What you are saying is that a little more sophistication in dealing with the budget may be required. I am concerned about our subsidy programs in the field of housing. I think that though we appropriate money this year, we are not taking into account that every time we agree to a subsidy for an individual mortgage we are undertaking a 30-year obilgation. We are looking at the narrow end of a funnel here, and this will mushroom on us and overwhelm us if we don't deal with it.

Mr. SCHIFF. In this area we have specifically said that the budget ought to take very direct account not only of the immediate expenditures but also of what some people call tax expenditures and of anything else that affects the total budget, and that these things ought to be under careful review within a number of years.

In all cases there ought to be a really integrated approach to all of these types expenditures and of governmental measures that affect the revenue side. We did have a statement on improving the operations of Congress and also one on budgeting, itself, which went into these matters.

Representative BLACKBURN. I will ask no further questions. We do have the Secretary of Labor with us.

Chairman PROXMIRE. Mr. Conable.

Representative CONABLE. Thank you, Mr. Chairman.

Mr. Collado, we appreciate your testimony and very much appreciate your patience, exceeded only by that of Secretary Hodgson. I have only two short questions.

We all read in Time magazine the economic prognostications for next year where the expectations have been reduced by several billion dollars. I was wondering in the light of these latest figures do you still believe the projections in the CEA report are realistic and consistent with general behavior of the economy? We are talking about something between $90 billion and $100 billion of growth.

Mr. COLLADO. I at this point will primarily speak for myself. I don't have a consensus of the committee's views, though I have talked with a lot of people. In speaking of my own associates and my own company, I think we are probably on the low side of the range but well near the center.

We are talking a few billion dollars difference, I think, from the numbers of the CEA.

Representative CONABLE. Do you recall what figure you projected for the GNP next year?

Mr. COLLADO. We don't normally foist our projections on the world, but we are running something like $1,142 billion. It is not enough so that I think there is any substantive difference in our projection—I shouldn't say this because one of our forecasters is in the room, but I doubt if we are close to the fourth decimal place on these projections.

We come by the number on a somewhat different basis. The whole composition isn't identical with that of the CEA. The makeup differs in small degrees and in several of the elements.

Representative CONABLE. As we have held these hearings—and this may be a complicated question but possibly not a complicated answer—it has been apparent to me that we have a process of economic analysis that is changing quite dramatically. The mixes in component parts of the economy, such things as unemployment and inflation, also, are changing.

The old yardsticks that we have used, the CPI and the Labor statistics, are in some cases no longer fully responsive to the cause and effect reaction that is involved in national policy in the economic sphere.

From your own economic trenches in CED, you people have a very good view of what is happening and where it is happening. Can you tell me who has the responsibility, who should take the initiative, for some sort of a comprehensive review of our economic statistics?

This committee has, for instance, an Economics Statistics Subcommittee, which has been largely dormant since Tom Curtis left, although it has the potential of prodding, I suppose, anybody who should be taking the lead in the continuing analysis of our economic statistical measures.

Is this a serious problem? If so, who should take the lead in it? Should it be government? Should it be a group like the CED? Who should be doing the pushing and who should be doing the responding?

Mr. COLLADO. Obviously, it is an important problem, and a continuing one. We don't reach perfection and then just stay there. Circumstances change. What you have to do with statistical data generally will change.

The whole question, as you know, of data processing, data collecting, information systems, is one that industry as well as government, and the whole academic body, keeps working on all the time.

I can assure you that within our own company, the problem of maintaining a management information system that is precise, adequate and timely is an extremely difficult one.

There is a Federal Statistics Users Conference which does a lot of work of the type that you are talking about, and it makes its recommendations known, I think primarily to the executive branch..

This really comes within the Office of Management and Budget. They are the organization of the executive branch, as you know, that is supposed to review regularly all kinds of information and information gathering, new questionnaires, new series and all that sort of thing.

Representative CONABLE. From your answer, do I take it that you feel our economic statistics are keeping pace with changing circumstances, that it is not a serious problem?

Mr. COLLADO. Clearly, it is a serious problem. If it weren't a serious problem we wouldn't have so many reports that conclude with a statement calling for further study. You were talking earlier about what the 6 percents and 4 percents meant; clearly, the whole basic substance of what is behind the numbers has to be looked into.

We made strong recommendations in the past on statistics relating to foreign trade and more particularly on investment and the relationship between investment and trade.

As you know, there have been long periods of time when such studies as were initiated in the Government were hampered by lack of funds with which to analyze the results.

The Commerce Department has figures they took quite a few years ago that they haven't had the money to analyze. Obviously, there is a lot to be done. There was a well-known commission on how to measure the balance of payments. That commission rendered a long report and there is still almost as much discussion as to how you measure the balance of payments in terms of the purpose which you want to use the measurements.

These things never stop. There is room for a lot more work on it. I don't think I am prepared to say that all the work is being done on it that should be done on it.

Representative CONABLE. It is of quite concern to me because despite the explosion of information we have in the economic field it is apparent to me that economists have considerably less confidence in the statistics they are dealing with than they had back 3 or 4 years ago.

Perhaps it is just that we haven't been functioning as well as a national model as we did during that period of time. But the loss of confidence also raises a serious question of whether we are making enough effort in this field.

Mr. COLLADO. I could only comment as an aging ex-economist. I am rather pleased that we are a little less arrogant and certain that we know exactly how to use the data than perhaps we thought we did some years ago.

I think the process of learning that the world is a very complicated place and a few series don't give you the whole answer is a good thing. The other side, though, as you correctly point out, is that the explosion of data has made it very hard for anybody to get on top of it. We have to give a lot more attention to how to use the data that we have all around us.

Representative CONABLE. At a time when psychology is a major part of the economic content of the Nation, it seems too bad that we have so many differences in interpretation permitting a good deal of political manipulation, which may be, of course, destructive to the national psychology and destructive in an economic sense as well, as a result of this.

Thank you, sir.

Chairman PROXMIRE. Mr. Collado and Mr. Schiff, I want to thank both of you gentlemen for the excellent presentation you have made, and for your fine responsiveness.

Your organization, the CED, represents, I think, as fine a contribution to the economy as we have anywhere. Your testimony this morning has been typical of the marvelous work done by the CED.

Senator JAVITS. May the minority join in that and simply espouse the sentiments expressed by the Chair for the whole committee.

Chairman PROXMIRE. It is a pleasure to welcome as our next witness the Secretary of Labor, Mr. James Hodgson.

Secretary Hodgson, this committee now meets regularly with Commissioner Moore and other officials of the Bureau of Labor Statistics, but I think this is the first time you have been before this committee since our annual hearings last year. One thing that has happened within that year is that the members of this committee and the committee staff have become very, very familiar with the monthly statistics on employment and unemployment. This has been a valuable side benefit of our attempt to provide a substitute for the monthly press conferences formerly held by BLS officials.

When we get into the discussion period, I want to ask you for your explanation of the cancellation of those press conferences, and I want to urge you to allow them to be resumed.

Before you begin your statement, however, I want to summarize some of what this committee has been learning about employment and unemployment. First, we all know that the unemployment rate has remained at 6 percent for about 15 months now; most unusual during a period of economic recovery.

It has been suggested by administration spokesmen that instead of stressing this sad behavior of the unemployment rate, we should look at employment. After all, there are 80.6 million people who do have jobs. This is a record number, and their wages are at record levels.

I just want to point out that not only is employment at a record high, but the total labor force is at a record high, the adult population is at a record high, and prices are at a record high. My point, obviously, is that in a growing economy, record highs are not necessarily very meaningful.

Let's take a meaningful look at employment.

First, unemployment will not come down until employment increases faster than the labor force. This hasn't happened during these past 15 months.

Second, anyone who worked even 1 hour during the survey week is counted as employed. In 1971, over 2½ million of those counted as employed were forced to take part-time jobs because full-time work was not available.

Third, only 54 percent of those who worked or looked for work held year-round, full-time jobs. That is a 1970 figure. The 1971 figure, when it becomes available, will probably be even smaller.

To me these facts demonstrate that, while looking at employment is instructive, the picture gives no grounds for complacency or for satisfaction with our economic policies.

To get a balanced picture, it is necessary to look at unemployment as well as employment. So let's do that.

First, not all of the unemployed are male heads-of-household. Contrary to the impression created by some administration statements, I know of no one who is trying to deny that some of the unemployed are women and some of them are young people. The startling fact, however, is that so many of the unemployed are men. Despite all the attention to women and young people, adult men constituted 42 percent of the unemployed in 1971, compared to only 34 percent in 1969. Sixty-six percent of these men lost their last job, compared to only 58 percent in 1969.

When we are at relatively full employment, as we were in 1969, many of those who are counted as unemployed are indeed the new entrants to the labor force and those who are voluntarily changing jobs. It is well recognized that a certain amount of this frictional unemployment is necessary in a free society. But when unemployment rises, the rise consists very largely of those who lose their jobs, who are thrown out of work. As the statistics demonstrate, most of these are men; many of them are heads-of-household.

The statistics make it very clear that the largest increase in unemployment over the past 2 years has been among experienced adult male workers.

Please go right ahead with your statement.

Representative Conable. Mr. Chairman, I would like to welcome the Secretary. I am sorry to say that I have to leave shortly.

Chairman Proxmire. I would like to welcome Commissioner Moore. He is a close friend of this committee. He does a superlative job.

Senator Javits. Mr. Secretary, I am handling the EEOC bill on the floor, now tailored to your liking. I hope you would forgive me.

Chairman Proxmire. Please proceed, Secretary Hodgson.

STATEMENT OF HON. JAMES D. HODGSON, SECRETARY OF LABOR, ACCOMPANIED BY GEOFFREY H. MOORE, COMMISSIONER, BUREAU OF LABOR STATISTICS

Secretary Hodgson. Mr. Chairman and members of the Joint Economic Committee, I appreciate the opportunity to present testimony before the committee's hearings on the President's Economic Report. I shall review the circumstances of 1971 citing both encouraging and disappointing developments. I will outline the Department of Labor's approach to existing problems and briefly explain some of the programs we have developed.

I. The Employment Situation

The year 1971 was one of transition following the labor market softening of 1970. In the first half of 1971 there was little improvement in the employment situation, but in the second half of the year, because of the right influx into the workforce, there was no reduction employment began to move strongly and steadily upward. However, in the level and rate of unemployment during the past year.

The employment gains that have taken place since this past summer have been substantial. Since July, total employment has risen by more than 1.3 million, a pace that, if continued, will soon begin to have an impact upon unemployment.

These recent gains have brought the number of employed Americans to over 80.5 million in January—seasonally adjusted—nearly 2 million above the low point of the 1970 slowdown, and an all-time high level.

Adult men, adult women, and teenagers have all shared in the employment gains of the past 6 months, with increases among women being especially marked. Overall, the latest figures for January 1972 show that the economy is now providing jobs for 46 million adult men, 28 million adult women, and 6.5 million teenagers. Each of these figures represents an all-time high.

The total employment gains of the past 6 months attest also to the beginning of a recovery in many of the industries most affected by the 1970 slowdown. The construction industry and various manufacturing industries such as lumber, furniture, textiles, and rubber have been showing employment strength in recent months. The service sector—transportation, finance, trade, services, and government—has continued to provide many new jobs; more than 1 million over the past year.

Despite the current record levels of employment and the rapid gains of recent months, unemployment has remained stubbornly high, holding close to 5 million persons and 6 percent of the labor force since 1970. We do not attempt to mask or explain away these figures. They exist.

One major factor in this continuing high jobless rate has been the substantial increases in the labor force in the second half of 1971. These increases appear to reflect two major developments.

First, the recent improvement in job opportunities has evidently drawn a large number of additional people, especially women and teenagers, into the labor force.

Second, the high rate of return of young men to civilian life as the Armed Forces are reduced and curtailment of draft calls contribute to the picture. In the last year alone, the size of the Armed Forces has been cut by more than 350,000. Most of the young men returning to civilian life have, of course, entered the job market.

Even though the Nation can be pleased that an additional 1.3 million workers have found jobs since mid-1971, the fact remains that unemployment is too high and the average duration of unemployment is too long. The current average duration of unemployment—about 12 weeks—is still well below the earlier periods when the unemployment rate was around 6 percent. For example, in 1962 and 1963 when the unemployment rate was above 5.5 percent, the average duration of unemployment was more than 14 weeks.

Furthermore, the number of persons unemployed 15 weeks or more was 1.2 million in January—above its level of a year ago, but somewhat lower than a few months ago. It is important to remember that the average duration of joblessness and the number of long-term unemployed have usually remained high after an overall economic recovery was well underway.

In considering the significance of more than 5 million persons unemployed, we need to keep in mind that unemployment is made up of a variety of types of workers, each with a different incidence of unemployment. For example, in January 1972, there were 1.6 million unemployed adult women and 1.4 million unemployed teenagers.

The number of unemployed married men—1.2 million, seasonally adjusted—was less than the number of jobless women, and even less than the number of jobless teenagers.

Similarly, the rate for married men was 3.0 percent this January, well below the rate for adult women (5.5 percent) and for teenagers (18 percent). It was also well below the rate for married men during earlier recovery periods. In 1962 and 1963, for example, it was 3.6 and 3.4 percent.

There has also been considerable geographical variation in the incidence of unemployment. Cutbacks in defense and aerospace production contributed heavily to the higher Pacific Coast unemployment rates in 1970 and 1971. Seventeen States had average rates below 5 percent. At the other extreme jobless rates averaged 7 percent or above in nine States, including California, Massachusetts, Michigan, New Jersey, and Washington.

The 1970 economic slowdown nonetheless affected nearly every section of the country to some degree. A rise occurred over the past 2 years in the number of major labor areas recognized as "areas of substantial unemployment"—those in which unemployment rates were 6 percent or more. By October of 1971, 65 areas were so listed. However, the number of these substantial unemployment areas now has declined to 54. A further reduction in this list can be expected.

One effort to ameliorate unemployment has been through the public employment program enacted by the Congress and signed by the President on August 9. Immediately, we set as our priorities: (1) rapidity of implementation and (2) special emphasis on local communities burdened with unusually high unemployment rates.

The $1 billion appropriated by Congress for the first year was distributed in a timely and judicious fashion.

Of the $1 billion earmarked for the first year, $981 million has already been allocated to eligible units of government to fund 135,200 positions. It is estimated that 145,000 jobs will be made available in fiscal 1972 at an average annual salary of $7,400.

Data on the characteristics of PEP enrollees indicate that the program is providing employment for a high proportion of veterans and minorities. Forty-seven percent of PEP enrollees are veterans, and 30 percent are Vietnam-era veterans, as compared with 15 and 7 percent respectively among unemployed persons generally. Minorities compose 29 percent of PEP enrollees as compared with 19 percent of all unemployed.

II. Special Groups

1. BLACKS

We should all continue to be concerned about the unemployment situation among black workers. While employment of white workers has increased, employment among blacks has shown little or no improvement in the past 6 months.

Over the most recent 3-month period, November, December, and January, the black jobless rate was 10.1 percent compared with 5.4 percent for whites. Even more troublesome, for black teenagers the jobless rate was 33 percent. Though the predicted "last hired, first fired" pattern for blacks did not occur during the downturn, the recovery employment pattern for blacks has not been favorable. Clearly we must further our strong emphasis for blacks in manpower training and assistance programs.

Another way the black job situation is examined is through the ratio of black to white jobless rates. Although this ratio has interpretive limitations, it nonetheless does provide a simple and clear comparative trend. In 1971 the overall black-white jobless rate ratio had fallen to its lowest point, 1.7 to 1, in nearly two decades. In the last 3 months, the ratio moved up to 1.9 to 1.

In the years ahead, improved employment opportunity for blacks must be sought through progress in educational attainment and occupational skills and through further elimination of discriminatory employment practices.

Our effort to help assure equal employment opportunity for minority groups has been growing steadily. The Philadelphia plan was imposed on September 22, 1969, and followed by imposed plans in Washington, Atlanta, San Francisco and St. Louis. Voluntary areawide construction industry plans have been implemented in approximately 40 cities throughout the country by the development of "hometown" plans in those areas.

Order No. 4, first promulgated by the Office of Federal Contract Compliance on February 5, 1970, defined in specific terms the affirmative action obligations of nonconstruction contractors. Order No. 4 was substantially revised on December 1, 1971, to provide, inter alia, for the development of affirmative action programs to deal specifically with the problem of sex discrimination.

OFCC substantially increased its operations and its budget over recent years. In fiscal year 1969, OFCC conducted 7,000 compliance reviews, operating on a budget of $10.6 million. In fiscal year 1971, 31,265 compliance reviews were conducted and the budget of OFCC was 24.2 million. About 44,000 compliance reviews are projected for fiscal year 1972.

2. YOUTH

Teenage unemployment has been a serious problem since the late fifties both in absolute terms and relative to adult unemployment. Youth 16 to 19 years of age had an unemployment rate of 16.9 percent in 1971, compared with 4.0 percent for adults aged 25 and over. Black teenagers had a jobless rate twice that of white youth (31.7 percent versus 15.1 percent) and teenage high school dropouts more than one and a half times the rate of out-of-school teenagers who had at least a high school diploma (23.3 percent compared with 14.4 percent in October 1971).

The unemployment situation of teenagers vis-a-vis adults has deteriorated over the past decade. In 1962 the unemployment rate for teenagers averaged 3.1 times higher than for workers 25 years of age and over. Beginning in 1963, the ratio began to exceed 4 to 1, and in no year did it drop below 4 to 1; the average ratio of teenage to over-25 employment in the years 1963–71 amounted to 4.7 to 1.

What accounts for these large differences, and why has the situation worsened? When we examine the problem carefully, we find that unemployment does not generally mean the same thing for youths as for adults. One of the major activities of youngsters is going to schools; working or seeking work is secondary, although it can be a very important adjunct to formal education.

Unemployment rates for those who are in school are much higher than for those who are out. In 1971, the unemployment rate for in-school youth aged 16–21 was 19.9 percent. For the same age group out of school, the unemployment rate was 13.6 percent.

The widening of the gap between youth and adult unemployment can be largely attributed to four developments.

First, the pronounced growth in the teenage labor force because of the upsurge in births during and after World War II; second, the reduction of the number in the Armed Forces; third, many entry level or unskilled jobs previously available to youth have gradually disappeared with technological advances; fourth, the fraction of students among the teenaged unemployed has risen sharply over the past decade and is now 54 percent. This means that much youth unemployment actually involves a search for a part-time job. This often places youth in competition with the rapidly rising group of adult women seeking part-time employment. Although 2 million (or 50 percent) more jobs have been provided for the growing teenage population between 1961 and 1971, this has clearly not been sufficient to absorb the rapidly increasing supply of teenage labor, including part-time aspirants.

Basic steps in dealing with youth unemployment

Young workers trying to gain a foothold in a work career are subject to high unemployment rates because of entry and reentry into the labor force related to their schedule of schooling, vacations, service in the Armed Forces, and simply trying different jobs. If that portion of unemployment associated with job market entry and reentry is eliminated, the 1971 teenage unemployment rate is cut from 16.9 percent to only 4.7 percent. The comparable rate for adult workers was 3.5 percent. Unemployment due to layoffs and quits is not much higher for youths than for adults.

Thus, the focus of our strategy is to prepare young people for the transitions associated with entry and reentry into the work force and to be of assistance to them during these transitional periods.

Most job experience teenagers gain while still in school helps in making their transition, in establishing work habits, in making it easier to obtain subsequent employment, and in clarifying future goals. One of our studies at Ohio State University ("The National Longitudinal Surveys," sponsored by our Manpower Administration) shows, for example, that in 1967, out-of-school white boys who were in the labor force while in school the preceding year had an unemployment rate only one-fifth that of out-of-school youth who were not in the labor force while in school the previous year (3.1 compared with 15.6 percent). The corresponding figures for blacks are 8.8 percent and 18.5 percent.

The need for realistic vocational education to ease the transition from school to work is also clear. Examples: Unemployment among out-of-school white boys 16 to 19 was much lower for those who took vocational or college preparatory programs than for those who had pursued general education programs. Among black women aged 18 to 24 and no longer in school, the lowest unemployment rate was reported for those who had completed commercial training and the highest for those who had taken only general education programs.

It is important that young people be prepared for earning as well as learning while they are in school. We strongly support the efforts of the Office of Education to develop career education programs to assure that all young people obtain a broad knowledge of the world of work and job entry skills before they leave school.

Such career education would be one effective antidote to the lack of job readiness that presently plagues so many young people on leaving school.

The Department of Labor is cooperating with the Office of Education and with vocational educators in the endeavor to make education relevant to job market needs. We support research, in cooperation with our State employment security agencies and the Office of Education, to discover whether the curriculum content of vocational education in occupations associated with economic growth is in fact realistic. We provide current information on job market needs. We are cooperating in the Office of Education's major program to engage educators and community leaders throughout the Nation in the development and implementation of career education, which begins with 16 regional conferences to be held this spring throughout the country.

Apprenticeship

Despite the steady expansion in vocational education programs, most blue-collar workers still acquire their skills through on-the-job training. Most often, this training is informal, involving a gradual "pickup" of skills from coworkers and supervisors. But in the apprenticeable trades—which included about 350 skilled occupations as of early 1972—a formal apprenticeship is an important route to the acquisition of a high level of skill.

To permit and encourage apprenticeships in a wider range of occupations, the criteria for determining the apprenticeability of occupations are being improved by the Department of Labor's Bureau of Apprenticeship and Training. In addition, the minimum training period required to make a trade or occupation apprenticeable is to be lowered from 2 years to 1 year. These changes should help to attract into apprenticeships young people with ability and a variety of interests.

Federal manpower programs

Nearly a million youths 16 to 21 years of age were enrolled in Federal manpower programs during fiscal 1971. Over two-thirds were in the Neighborhood Youth Corps in-school and summer programs, holding part-time or vacation jobs designed to give poor youth much-needed income and work experience and to help them to stay in school or return there in the fall. And 300,000 other young people, who were no longer in school, received work experience and training in the NYC out-of-school component, the Job Corps—the other Federal training program exclusively for disadvantaged youth—and several programs serving both youth and adults, such as the concentrated employment program and the job opportunities in the business sector (JOBS) program.

The Neighborhood Youth Corps is numerically the largest manpower program. In fiscal 1971, it enrolled 740,000 young people from poor families, an increase of more than 50 percent over 1970. First-time enrollments in the NYC summer program totaled 567,000 in 1971, compared with 362,000 the year before. There was some expansion also in the other NYC programs, from 74,000 to 120,000 in the in-school program, and from 46,000 to 53,000 in the program for out-of-school youth.

Youth differential

A proposed increase in the Federal minimum wage is currently being considered by the Congress. This administration has proposed a youth differential in the minimum wage. Today, I reemphasize the desirability of establishing a spread between the minimum wages of youth and adults. This can be accomplished by holding the minimum wage at its present level for youth, while allowing it to increase for adults. Recent evidence suggests that increases in the Federal minimum wage have made teenagers—particularly nonwhite teenagers—more vulnerable to short-term fluctuations in economic activity. A youth differential, making the hiring of teenagers relatively more attractive to employers, is needed to improve their employment opportunities.

3. VIETNAM ERA VETERANS

In January 1972, 4 million veterans 20 to 29 years old were in the labor force, and of these 3.6 million were employed and 400,000 were unemployed. Employment of this age group increased by a half million over the year, but the increase was not enough to absorb all of the 560,000 increase in the labor force, caused in large measure by a major reduction in the Armed Forces.

The veteran seasonally adjusted figures for January show an unemployment rate of 8.5 percent, which reflects some edging down in the unemployment rate from the earlier quarters of 1971. Nonveterans 20 to 29 years old had a seasonally adjusted unemployment rate of 7.5 percent in January 1972, essentially unchanged during the past year. The rate for veterans has generally been higher than that for nonveterans, but the gap has been narrowing since last October.

The length of time veterans look for work was about the same in January 1972 as it was during most of 1971.

The President's six-point action program for veterans announced last June is a comprehensive program designed to assist veterans in getting jobs or training through intensified efforts in six target areas. Briefly described program efforts by the Department of Labor involve:

1. Working with the National Alliance of Businessmen (NAB) in expanding the Jobs for Veterans program whose goal is to find 100,000 job opportunities for Vietnam veterans in fiscal year 1972. NAB has appointed 150 veterans to help the NAB Metro Offices in as many cities to achieve this goal.

2. Substantially expanding project transition. This project is a joint program conducted in cooperation with the Departments of

Labor, Defense, and Health, Education, and Welfare to help those servicemen nearing the conclusion to their military service to enter and adjust to civilian employment. The program now operates in 45 military bases in the United States as well as overseas. The services offered in this program include counseling, testing, job placement, prevocational orientation, basic education, and health services, as well as work training and upgrading.

During fiscal year 1971, about $8 million of MDTA funds were used to provide transition training to 25,000 servicemen. It is expected that 30,000 men will be trained under the program in fiscal year 1972, at a cost of $10 million. In addition, 12,000 men are to be selected for early release from military duties in order to receive skill training in "60-day training centers" set up at military bases.

3. Increasing the number of training opportunities for returning veterans and encouraging veteran and employer participation. Efforts here include measures to stimulate greater veterans participation in on-the-job training, opening up more public service career opportunities, earmarking jobs for veterans in new apprenticeship program approvals, and adjusting eligibility criteria in manpower training programs to facilitate veterans' participation.

Following the President's empasis on public service jobs for veterans under the Emergency Employment Act, we have been able thus far to place more than 30,000 Vietnam era veterans in the 117,000 jobs filled. In all regular manpower programs as of the end of December, about 50,900 training and OJT placements of veterans have been made since the start of the President's six-point program.

4. Requiring that all agencies and contractors funded by the Federal Government list their job opportunities with the Employment Service, thereby giving veterans a wider choice of job selection at a central location, as well as insuring priority consideration of veterans for the jobs involved.

5. Increasing the effectiveness of the Employment Service in finding jobs for returning veterans. A primary effort in this area has been the addition of 800 staff members, most of them veterans themselves, to local offices to interview, test, counsel, and place veterans in jobs.

For the period July through December, the Employment Service placed 144,000 veterans age 20–29. Our long-range goal in the six-point effort is 377,000 placements.

6. Providing special employment, training, and rehabilitation services to veterans drawing unemployment compensation for 3 months or longer. These men are referred automatically to the U.S. Employment Service, to the Veteran's Administration, and, where serious employment handicaps are indicated, to State vocational rehabilitation agencies for special counseling and placement in jobs or training.

In summary, the President's six-point program has served nearly 578,000 veterans from July-December; 325,000 enrolled in school or college under the GI Bill; 202,900 placed in jobs by the employment service, Federal agencies, and National Alliance of Businessmen; and 50,900 placed in manpower training. In addition, more than 30,000 veterans were placed under the public employment program. We have been making considerable progress; we still have a long way to go. I have raised our overall goal of the number of veterans to be served by June 30, 1972, to 1,038,000.

4. ENGINEERS AND SCIENTISTS

As we entered the 1970's cutbacks in Federal expenditures for defense and space made unemployment of scientists and engineers a major concern. The unemployment rate for these workers increased to above 3 percent in early 1971. However, the rate for engineers, which was 3.2 percent in the first quarter of 1971, declined to 2.7 percent in the fourth quarter of 1971.

An estimated 50,000 scientists and engineers were unemployed in 1971; employment was 1.6 million.

The National Science Foundation conducted two special surveys in 1971 to obtain some insight into the situation. The key findings of these surveys are as follows:

The unemployment rate of scientists was lower (2.6 percent) than that for engineers (3 percent). Of the unemployed scientists, over half were chemists and physicists. Engineers previously engaged in space activities and defense-related work had the highest unemployment rates (6.3 and 4.8 percent). Workers under 25 had the highest unemployment rate (5.5 percent).

Unemployment of scientists and engineers is very severe in some localities primarily reflecting the aerospace, defense, and R. & D. cutbacks. Areas particularly affected were Seattle, San Jose, San Diego, and Orange County, Calif.

Technology mobilization and reemployment program

The Department of Labor has undertaken a number of programs, special projects, and surveys to aid the reemployment of engineers and scientists laid off by cutbacks in Federal expenditures for defense and space programs in the late 1960's.

The most extensive of these programs is the technology mobilization and reemployment program (TMRP). Its goal is to ameliorate the immediate job-finding problems faced by the displaced scientists, engineers, and technicians. Initiated at the specific direction of the President in the late spring of 1971, TMRP provides a wide range of services including job-search and relocation grants, support for training and retraining, skill-conversion studies, and cooperation in voluntary efforts by professional societies to assist their members. The program is now operating nationwide. Altogether $42 million has been allocated for financing this program in 1971 and 1972.

Since the start of the program, more than 26,000 persons have registered for aid; 60 percent are engineers, 5 percent scientists, and the rest technicians. About 4,400 registrants have received aid in the form of grants for training, been placed in employment. These numbers are rising steadily as the program progresses.

The volunteer engineers, scientists, and technicians (VEST) program is another example of action by the professional organizations. Conducted by the American Institute of Aeronautics and Astronautics, this program aims at developing new job opportunities by and for the participating volunteers. As of January 31, 18 VEST units were in operation, with more than 5,500 members enrolled; over 1,450 members had found jobs. It is anticipated that VEST units will be established in 25 States. The units get job information, office facilities, and other services from the employment service offices where they are located.

A new departure in the Government's efforts to aid unemployed scientists and engineers is a Presidential internship program, which will provide opportunities for employment and skill enhancement for approximately 400 scientists and engineers with advanced degrees.

Under this program, which is financed by the TMRP and administered by the National Science Foundation, candidates apply directly to federally funded R. & D. laboratories for 1-year nonrenewable internships. Veterans and individuals from areas with high unemployment receive preference. The jobs to which they are being assigned will enable them to utilize their education in physics, chemistry, and other fields of science and engineering in solving such problems of current social concern as the development of new power systems, management and integration of large projects, and the application of nuclear techniques in criminology and in medical laboratories.

Experimental and demonstration projects

The feasibility of employing former aerospace engineers and scientists in middle management professional jobs in State and local government agencies is being tested in a $1.3 million program begun in the middle of last year and conducted by the National League of Cities and the U.S. Conference of Mayors with support from the Departments of Labor and Housing and Urban Development. Four hundred participants get 4 weeks of intensive orientation in local government problems and processes at either the University of California at Berkeley or the Massachusetts Institute of Technology.

About 50 percent of the participants have already been placed. About 70 percent of those placed are in public service employment—in such jobs as management analyst, budget director, planner, research director, and urban scientist—and the rest in private industry.

During the year, a series of employment workshops were conducted by volunteers functioning under the direction of the American Institute of Aeronautics and Astronautics. In all, there were 146 workshops conducted in 43 cities across the country. Some 14,600 unemployed engineers and scientists participated in the workshops which provided guidance in the preparation of job résumés and job interviewing techniques, and offered counseling on new career planning. This program has now been absorbed into the VEST program.

Research

The Department of Labor has also financed a number of research studies and surveys which have provided information needed in gaining an understanding of or shaping solutions to the problem of the unemployed scientists and engineers.

III. Prices, Wages, and Productivity

In 1971, price measures showed a slower rate of increase than in the previous year. The increase in the CPI was 3.4 percent compared with 5.5 percent in the 12 months ending December 1970. The 3.4 percent was the smallest December–December increase in 4 years. Much, though not all, of this slowdown reflects the effect of the price policies the President announced on August 15. During the 4 months that ended in December, the period of the new economic policy for which we have data, the CPI rose at a seasonally adjusted annual rate of 2.4 percent. During the 6 months from March to August, the period immediately preceding the price freeze, the annual rate of advance was 4.1 percent. The goal of the Price Commission is to achieve a rate of price increase of no more than 2.5 percent by the end of this year. What has happened so far is obviously a good beginning.

The behavior of wholesale prices also displayed a slower rate of change in 1971 as compared to 1970. This is entirely due to the behavior of prices during the 4 months from August to December, when the index registered a seasonally adjusted annual rate of decline of 0.2 percent. This decline cooled inflationary trends in industrial manufacturing and mining, where price increases had accelerated markedly in late spring and early summer.

A highly significant development during 1971 was that it was the first year in which the fight against inflation began to pay off in terms of workers' real wages. Ever since heavy inflation began in 1965, increases in money wage rates for workers have been largely eaten by price increases. In 1971, even though the rate of increase in money wages was somewhat reduced, the rate of advance in prices was reduced even more, so a substantial advance in real wages occurred.

The new BLS index of average hourly earnings, covering nearly 50 million rank and file workers in the private nonfarm economy, rose 6.6 percent during 1971, December 1970–December 1971. The Consumer Price Index rose 3.4 percent. Real earnings therefore rose 3.2 percent.

This 3.2 percent compares with a 1.8-percent advance in real earnings in 1965, 1.1 in 1966, 2.3 in 1967, 2.0 in 1968, 0.4 in 1969, and 1.3 in 1970.

Closely tied to this improved trend in real wages is the improvement during 1971 in labor productivity. Output per man-hour in the private sector was 3.6 percent higher in 1971 than in 1970, the best year-to-year gain since 1966. Mainly as a result of this improvement in productivity, labor costs per unit of output rose only 3.2 percent, the smallest increase in this cost factor since 1966. This development reduced pressure on prices and was of direct aid to the stabilization effort. But productivity gains must continue if the Nation is to continue to gain the benefit of higher real wages and stability of prices. Recognition of this fact prompted the President to establish the National Commission on Productivity.

The purpose of the President's National Commission on Productivity is to increase the productivity of the Nation's work force in order to foster sustainable economic growth without inflation and to insure that U.S. products are competitive in both domestic and world markets.

The Economic Stabilization Act of 1971 strengthened the mandate for action by the Productivity Commission. Congress called on the commission to engage in such activities as aiding the development of apprenticeship, training, and retraining programs and programs to reduce waste and absenteeism.

In the 1971 labor contract bargaining productivity improvement provisions have been negotiated in the railroad industry, steel, construction, and other industries.

As a result of railroad negotiations, work rules dating from the era of the steam locomotive will be eliminated or modified permitting the railroads to become more efficient, and to reduce costs substantially. Collective bargaining is now on the way to providing for productivity improvements.

IV. New BLS Statistical Series

The Bureau of Labor Statistics is striving to meet increasing demands for new and improved statistical measures. Improved measures of wages, prices, and productivity will aid us in monitoring and assessing our economic stabilization efforts. The Bureau is developing new or revised indexes of wages, prices, and productivity which will measure changes more precisely than existing indexes.

The continuing concern about the trade deficit prompts a need for better indicators of the competitive position of U.S. products in international markets. Therefore, the Bureau is developing a continuous reporting system on prices paid for internationally traded commodities, from which concrete measures of the competitiveness of Amercan products vis-a-vis the products of other countries can be derived.

Last June BLS first published export price indexes for 11 groups of machinery products, which represented about 10 percent of all U.S. commodity exports in 1970. This year the Bureau is updating these indexes and adding five more in the durable manufacturing group, bringing coverage up to 15 percent of all exports. The Bureau is also examining a large amount of bid data collected by U.S. Government agencies and State and local governments to see if they can be used to develop price indexes for goods imported into the United States from selected foreign countries.

A new measure of job vacancies is being developed that will help us to assess the demand for labor and the nature of job openings. These data will improve our understanding of how to perfect the match between workers and jobs. In 1970 the Bureau began publishing job vacancy data for manufacturing industries. This year the program is being expanded to generate such data for the entire economy and by area, industry, and occupation. The more comprehensive coverage will enhance the value of the data as a measure of the overall demand for labor and as an information source on where that demand is located. A new series on the duration of unemployment will give us a better idea of how long workers are out of a job.

The BLS also is proposing to test several methods of reducing irregularities in the monthly employment and unemployment statistics. Because the monthly labor force survey is based on a single week in a month, the unemployment rate sometimes exhibits sharp changes that have nothing to do with the underlying employment situation but are caused by special circumstances during the survey week, such as unusual weather conditions or holidays. These effects can perhaps be reduced by spreading the survey over the entire month instead of concentrating on a single week.

A special economic stabilization effort was started in the construction industry early last year to moderate wage settlements and to reduce strike activity and met with considerable success. To provide better statistical insights that will facilitate continued analysis of economic developments, the Bureau is developing new data on manpower, construction wages, prices, productivity, and industrial relations activities. Information on straight time hourly earnings as well as on supplementary benefits paid to employees in selected occupations in contract construction and operative building will be collected this summer. Surveys of labor and materials requirements for public housing and Federal highway construction should also be completed this summer.

Mr. Chairman, being the anchor man, so to speak, among your administration witnesses, I have attempted to not repeat the subject matters and observations made by those that preceded me. Rather, I have tried to provide a considerable amount of data, some detailed and some with long- rather than short-range implications, on areas of the economy with which the Labor Department is concerned and which we believe would be of most interest to this committee. It is my belief that the administration has taken a wide range of initiatives and adopted a pattern of policies designed to produce a sturdy economic recovery. This is of special importance to me, as you can understand, because of my concern for the welfare of American workers.

In my judgment these initiatives will produce for the American worker in the years ahead two things: More jobs and less joblessness, and, second, paychecks with real rather than paper wage increases. As you know, Mr. Chairman, jobs and pay are the name of the game for the American worker, and we believe things are looking up for him on both counts.

Chairman PROXMIRE. Thank you, Mr. Secretary, for a very detailed statement and a very helpful statement. You have given us extraordinarily useful data.

In early 1971, Mr. Secretary, you made a prediction about where the unemployment rate would be at the end of the year. Let me quote from your statement of January 1971: "Within the next 12 months it is reasonable to expect about a 1.5-percent reduction in the rate to about 4.5 percent."

The New York Times on February 1 called this one of the worst guesses of the year. Since the unemployment rate remained about 6 percent for 1971, can we expect the percent drop the administration has now predicted for this year to work out? Why should that work when we got no reduction whatsoever to speak of in 1971?

Secretary HODGSON. Well, my crystal ball was pretty cloud. But one thing which affected that, obviously, was that there is still no way that we have found to be able to predict the influx of people into the work force. In this country we measure unemployment on a percentage basis, and a percentage is always a percentage of something. That something proved to be difficult to forecast. I certainly did not expect, in the last 6 months of this year, to see an inflow of 1.3 million new job aspirants into the work force.

Chairman PROXMIRE. Of course, there has been very, very slight, if any, growth in the work force in the first 6 months. It is logical to expect in a growing country that it would even out for the year as a whole.

Secretary HODGSON. Further, you will notice that when our expectations did not start to be realized the President came out, as he did last summer, with some major initiatives to speed up recovery. That was the purpose, of course, of the new economic program that he announced on August 15.

Chairman PROXMIRE. He vetoed our public service employment bill and reluctantly accepted the one we passed.

Secretary HODGSON. He vetoed one but when we shaped it into the kind of program we thought would do the job, we passed it, and not only passed it but speeded the implementation as fast as possible.

Chairman PROXMIRE. This time you are on base as far as the estimates of the gross national product is concerned, or at least with the concensus. But on unemployment you are again off. I think you are rather far off. The consensus seems to be 5.5 percent or more unemployment by the end of the year. The administration says 5 percent. Why do you think you will do better than the independent experts think you are going to do?

Secretary HODGSON. Mr. Stein, a better economist than I, has said that 5 percent looks like a good, sound, realistic target for the end of the year, and I will just say that I accept that as being a realistic estimate based on the things that I see from the standpoint of the initiatives that have been taken, what they are designed to accomplish, and how they are starting to work.[1]

Chairman PROXMIRE. In your statement you describe at length what is being done to train people into improved job placement services. I am very much in favor of training and placement. But the key ingredient is missing. The key ingredient is jobs. If jobs are not available, then no amount of training and placement assistance will solve the problem. Jobs have not been available. It seems to me it is one of the cruelest, saddest, most wasteful kinds of experiences that a human being can go through—to be trained, to take the discipline—and it is very difficult for many of these people, high school dropouts, others, minorities. They are to be commended for going through a training period. But when they finish it, what do they have? In too many cases, nothing. To have an effective training manpower program don't you have to have some kind of government provision for more jobs than we have?

Secretary HODGSON. I believe that this experiment, and I think it has to be called an experiment because it is the first time in 25 years that this Nation has ever attempted a federally subsidized employment program, is an interesting and constructive endeavor at seeing what can be done along this line. I do not think we are far enough into it yet to say exactly what it has proved. We cannot say how many of the jobs it provided people would have been filled by local government units without this help. We cannot say how many of those who were hired in public employment would have found other jobs. We can question whether or not the money spent on public employment is the best way to reduce unemployment.

Obviously, there are more jobs in this country in the private sector than in the public sector, four out of five. Emphasis should be here. It is more likely to be productive and efficient on an overall basis. Tax reduction can have the effect of lessening unemployment. To the extent to which a tax reduction has a favorable effect, spending money that way versus the public employment route is a real question. But I would say this: I am delighted with one thing Congress did in regards to public employment. It should be congratulated for giving the Sec-

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[1] See also article entitled "The Unemployed: Who, Where, and Why," beginning on p. 376.

retary some funds for conducting demonstration projects to test out the effectiveness of public employment in a more specific way than just a general kind of proposal.

Chairman PROXMIRE. Could you administer a more expanded program, a bigger program? Would you support that?

Secretary HODGSON. I would not support at this time going beyond the present level of public employment under the concept that we have now. I would say that if the administration were done on a basis somewhat similar to how PEP was handled—and, even more, if it were made on a revenue sharing basis—then we would have a real chance to administer a program that is constructive from the individual's standpoint, that provides services from the standpoint of Government units around the country, and also that is tailored to meet local needs.

Chairman PROXMIRE. I take it your response is you would not favor favor an expansion of the present program, except through revenue sharing.

Secretary HODGSON. I would like to test out the present program. On revenue sharing, I hope the Congress will zoom forward. We know from an analysis of State or local governments, that 50 to 80 percent of the money they get is spent for employment costs. That cannot help but be a good thing. Further, I hope that Congress will go forward with the new program that we have in H.R. 1, which embodies an expenditure of $800 million directly for getting people off welfare.

Chairman PROXMIRE. On revenue sharing I hope the administration will be flexible. I don't know what the Congress can or will do. Chairman Mills has changed his position just recently on revenue sharing. I would hope that the unemployed who are in such tragic plight don't suffer because there is a difference of opinion as to how to do this between the Congress and the President. We can accommodate you, speaking as a Member of Congress, and the "you" is a member of the administration, and you can accommodate us.

If we delay until we get the kind of revenue-sharing program you want, and if we then have to have demonstration projects for a year or two before we decide what we want to do, it will not solve the problem. These people have been unemployed for 15 months. It seems to me it is time that we move and move fast and hard.

Secretary HODGSON. The folks involved in revenue sharing are important to us, not the name. We think there is plenty of credit to go around in both the Congress and the administration in regard to this program.

Chairman PROXMIRE. I think we all recognize the importance of maintaining credibility in our economic data, if healthy growth is to be restored to the economy. Last year's rather miserable performance can be attributed in large part to a lack of confidence on the part of businessmen and consumers.

One area in which your Department could be of great help in strengthening credibility is by restoring the BLS press conferences. Both members of the press and concerned constituents have expressed to the committee their doubts about the reliability of the Labor Department press statements on the unemployment situation. I don't think they are any more self-serving than any administration's would be. A Democratic administration would do the same thing. But you want the best light on the statements. That is what any President expects his appointive, political people like you to do. But the frequency of comments criticizing this suggests that a credibility gap has arisen continues because of cancellation of the press conferences.

I urge you to restore these nonpartisan, technical press briefings. I would like to know if you have any evidence that BLS's credibility has been enhanced by the cancellation of the press conferences last year.

Secretary HODGSON. I certainly think that the circus element that prevailed in some of the press briefings toward the latter part of the period when they were held has disappeared. The important thing here, Senator, is that there has been no diminution on the part of BLS or anybody in the administration in supplying this information. The form in which it is supplied is different. It is not supplied in press briefings. But we maintain an availability on the part of our technical staff, Mr. Moore and others, as I am sure he has told you, to respond to anybody who has any kind of inquiry at all.

We have no complaints suggesting that we have not been responsive.

Chairman PROXMIRE. What do you mean circus atmosphere?

Secretary HODGSON. Simply this, that there was an attempt many times to try to get these technical people to talk about nontechnical subjects, and it was very difficult for them. So we decided——

Chairman PROXMIRE. Everything I have heard, Mr. Secretary, with all due respect, is that the technical people did an excellent job. With all respect to you, I think you are very fine and an extraordinarily intelligent and able man, these are professionals far more gifted and experienced in this area than you or I could ever be.

It seems to me for them to be available to the press as a whole, to be questioned in detail with the press there so the press people can follow up each other's questions, can only contribute to greater public enlightenment and understanding, and that they will give answers which don't criticize or favor the administration but give them as straight as they can. I couldn't do that because I am a critic, perhaps, and you couldn't do that because you are a proponent. But this is why it seems to me that this kind of briefing served an enormously useful purpose. I do hope that you will reconsider.

Secretary HODGSON. I do not think I would want to encourage you to nurse that hope too optimistically.

Chairman PROXMIRE. I will be back.

Senator Javits.

Senator JAVITS. Mr. Chairman, I shall be brief. They are waiting for me on the floor.

I would like to join the Chair in this matter of public service employment. We did this. You know we did. We fashioned it and got it passed—when we failed once—the way you wanted it. I think the least you owe us in return, and not speaking of you personally but of the administration, is that if you prove something at least let us get the benefit of what you prove, be it by demonstration or pilot plan. At least, I hope the administration will be fair to us and come in and say, "Look, this works. Let's double it. It works."

This is not money wasted because it goes right back into the tax coffers, the food coffers, and everything else that people live on. It gives them self respect. I know the answer you will give me, the same as you gave to Senator Proxmire. But I urge, as a Republican myself, the administration not to allow this initiative to be discounted on a budget basis. This is one of the most critical things we can do. It is key to prosperity in this country. I hope that when we prove it we will at least get the benefit of having proved what seems to me to be a fabulous success, from your own testimony.

I hope you will come back to us and say, "Look, now we really can fit in 300,000 jobs as against the present 145,000."

Mr. Secretary, along that line, what about cranking into whatever we do on general revenue sharing, whatever we do on H.R. 1, a role for the Labor Department? That would mean that the Department of Labor would not have a mandatory function, but that it could play a role, if you said you were equipped for it, with agencies that are going to hire people anyhow. At least, as it is Federal money, let there be a role of Federal coordination, Federal conservation, Federal advise, Federal channeling of people who are in manpower with the Federal Government into these State and local jobs that are going to be created out of Federal money. I don't ask you even to answer that now. Think it over.

Secretary HODGSON. I would like to comment on it nonetheless. In manpower revenue sharing there is, as you know, a role for the Department of Labor. We will work on policy, we will work on demonstration projects to prove out things so that everybody does not have to reinvent the wheel throughout the Nation in every locality, in every State. We will supply technical assistance on a level that we are unable to do at the present time.

In manpower revenue sharing there will be a role. But I would be careful of getting the Department into too many roles and into too much coordination and all of these fine terms that sound good, but when you start to translate them out into the field and to the needs of the field they can become disincentives to the States and localities, discouraging them from doing what is necessary, that is to tailor their own programs to their own needs.

I think that we can be available for guidance and provide technical assistance, but once you put a collar about us, things get restrictive and you do not get as much for your money.

Senator JAVITS. Incidentally, you are not going to get manpower revenue sharing for at least a year, in my judgment. I don't see any chance for special revenue sharing in 1972. But are you able to render them technical assistance and guidance so that there may be some coordination between Federal manpower programs and the new capability of the States under general revenue sharing and H.R. 1?

Secretary HODGSON. That is a good point. We have started doing that, building what are called camps, the area manpower training services. These are to develop a capability and skill in local governmental units around the country for applying manpower principles and policies, knowing what works and what does not. It is a major gain. In addition, of course, regular technical assistance is available.

Senator JAVITS. Would you object to our requiring States and cities to at least advise the Department of Labor of their plans which represent the employment of any substantial number of workers?

Secretary HODGSON. In the manpower revenue-sharing bill that should be required.

Senator JAVITS. Again, we probably will apply it to general revenue sharing, but I wanted your advice.

I have just one other question. That is about productivity. The Japanese are going to twice what we are in their worst year. It seems to me that the missing link in productivity is the absence of a productivity drive by the United States. What are the prospects for that? For example, as you know, I have beat the drum for some years now. We got you some money and we got you authority for these local productivity councils. Is the administration contemplating a flat-out productivity drive which will go into every phase, bargaining, motivation, councils, the war-built patriotism techniques, as such?

Secretary HODGSON. I would like to talk about that in two parts. First, with regard to the role of the Labor Department, and, second, with regard to the administration as a whole.

About 24 months ago we did something that had not been done before by Government. We took certain selected industries where it seemed to us that productivity improvement was particularly in need.

We got together with the top leaders on both the union side in those industries and the management side, and got them to work with us to do something about this factor, both do it outside of collective bargaining but particularly within collective bargaining. We did this in the railroad industry, in construction, and we did it in relation to longshore work.

This year, one of the great things about 1971 that will live in my memory as a public administrator is what has happened in productivity bargaining. We have had major breakthroughs in several industries. As I said in my testimony, we have done away with some of the work rules that have been in the railroad industry since 1907. We have new movements in both west coast and east longshore of productivity improvement, in both agreements.

The construction industry, particularly through the Construction Industry Collective Bargaining Commission and their subcommittee have made major gains not only to see to it that the work rules previously existing are minimized, but that new ones do not creep into labor agreements. We think that in productivity bargaining and in labor-management relations approaches to productivity, we have something occurring that is really quite remarkable. Unions are of a mind now to understand that productivity is important to this Nation, it is important to them. They are accommodating us. Management realizes that if they are going to get productivity improvement they have to share that improvement with workers and cushion the effect of that improvement on workers. So we are making some gains there. It is a very hopeful thing from the standpoint of productivity bargaining.

On the overall question, there is no doubt that with the creation of the National Productivity Commission and Congress' recent endorsement of productivity improvement—the way I read it they endorsed it as national policy in the Economic Stabilization Act—we now have a hunting license to go out and really do a job in this field, and we are really going to do just that.

Senator JAVITS. Many, many thanks.

Chairman PROXMIRE. Mr. Blackburn.

Representative BLACKBURN. First, let me preface my question with this observation. I have to disagree to some extent with the chairman of the committee that the jobs are not available. It has been my experience in recent weeks to go about and visit various model city areas in the country. We find a repeated pattern in the training programs being instituted in that they have to recruit people from pool halls and street corners to get them into the training program. They put them into on-the-job training where they are paid $3 an hour, which is certainly not the minimum wage. Yet the big problem is to get the people to the job. They will work Monday and Tuesday and not show up on Wednesday, or they will work Monday, Tuesday, and Wednesday and not come back until Friday, or not come back at all because they have decided they don't want to get up in the morning.

There are jobs available, and they pay much more than the minimum wage. I don't intend to wring my hands or express any sympathy for people who have jobs offered to them but just refuse to show up and do the work when it is available for them.

Also, I want to say that I don't share the enthusiasm of the others here who have expressed such about the public employment law. The question is not how many people you are paying and how many people you are getting on the payroll, but the question to me is what are we getting out of the pay that you are paying these people?

If you are just paying people to keep them off the streets I question whether the taxpayer is getting his money's worth. On the other hand, if people are performing useful functions and improving the livability of our streets, if they are picking up garbage, doing anything that is improving the livability of our cities, then I say the money is being well spent. I am not going to say that because you have 300,000 people or 100,000 or 50 people on the payroll who were not working yesterday you are making an improvement. I am asking, if you are paying somebody, what are you getting back for the money?

Furthermore, the frequency of criticisms that I hear about the lack of briefings are coming largely from this committee. In fact, the only source of criticisms as a result of the termination of those briefings is from this committee. So let's stop listening to ourselves and start looking at the bigger picture in our country.

Mr. Secretary, you gave great service to the need for improved productivity. Certainly, Secretary Connally has repeatedly stated and, in fact, admonished businessmen to do more about productivity.

I am glad you were here when Mr. Collado was here, when I posed the question to him about the need for new technology, particularly in the construction industry. I would like to know what would be your reaction to a proposal to provide that housing starts involving FHA insurance or FHA subsidy programs will be free to utilize the latest in technology in materials or methods irrespective of local codes and irrespective of union contract agreements.

Secretary HODGSON. This is one of the things that we are working on in two places, in the Productivity Commission, itself, and in the Construction Industry Collective Bargaining Commission. In the National Productivity Commission we have four major area on which we are working. The first is this business of productivity bargaining, getting labor and management together to go forward with this in a major way.

The second is with regard to Government employment productivity. We have 20 percent of this Nation's employment in Government, and it is time we paid more attention to productivity in Government as well as elsewhere.

There is just not a particularly good measure of Government productivity, so we are working on that.

Third is in the proper disposition and priority for R. & D. expenditures, to make sure that we spend our R. & D. money in this country to create employment and to insure improved productivity rather than just for a purely technological purpose. That is the third initiative.

The fourth initiative is in the area you are talking about, to take a look at particular industries where there are particular problems and to try to do something about those on an industry-by-industry basis. One of the industries that we have discussed and are looking at is construction. I must tell you that in one of the subcommittees on this subject, one of the labor members—and by the way, this is a four-part commission, labor, management, Government, and public—proposed that the position that we do away with all building codes and start from scratch, start all over again.

Well, I do not think we are going to do that in the next 5 minutes, but it shows the kind of objective we have and what we are working on.

Representative BLACKBURN. Let me give you some encouragement and say that the Department of Housing and Urban Development has exercised leadership in this regard. They have stepped on some toes and made some people mad at them across the country, and I have caught considerable flak from the pain that some cities have felt. But certainly as far as the Department of Housing and Urban Development is concerned, I think they have demonstrated real leadership in this respect. I would like to know what your Department will do to assist.

Secretary HODGSON. We are on the Productivity Commission and work through that, and through the Construction Industry Collective Bargaining Commission, where we bring labor and management people together for the same purpose. We are working there on seasonality of construction, to make sure we spread construction activity over the year to get more productivity from the people in that business.

Representative BLACKBURN. Wouldn't it be desirable to increase the possibility of factory construction of housing units or modular units of construction, because in that way we would spread our construction over the whole year?

Secretary HODGSON. I think that is being done. The prinipal way we have contributed to that is to supply training for the people who are going into these industrial construction concerns.

Representative BLACKBURN. What about the amendment that I suggested. Will it be pursued?

Secretary HODGSON. I guess I would say that this is something that HUD could comment on better than I.

Representative BLACKBURN. If I secure the support of HUD, can I count on the support of your Department?

Secretary HODGSON. I would have to examine your proposal in detail.

Representative BLACKBURN. I think you are avoiding the question, Mr. Secretary.

Secretary HODGSON. I am not avoiding the question because I do not know what is in your bill.

Representative BLACKBURN. You know what is in the bill.

Secretary HODGSON. If your bill is simply that we should ignore present bargaining relationships between unions and management and try to do it all with a strictly legal approach, I am not sure that would work as well as trying to work the problem out directly with the people involved. That is what I am pursuing.

Representative BLACKBURN. I think you are asking the cook to take the salt out after he put too much in the cake.

Secretary HODGSON. That is what we are doing, taking the salt out.

Representative BLACKBURN. I am trying to get to the cake before it gets baked.

I have no further questions, Mr. Chairman.

Thank you, Mr. Secretary. It is always a pleasure to see you.

Chairman PROXMIRE. Mr. Secretary, I want to make clear I have no sympathy with those who will not take jobs. When jobs are offered, I feel very strongly if they don't take jobs then to the extent that they are not children, of course, or women with dependent children, I think they ought to be cut off welfare and I think we ought to act with the greatest discipline to see that those who are unemployed, if jobs are made available, take those jobs. I think that is the general sentiment by many Members of Congress. But I think the overwhelming majority of people who are out of work would love to work.

In Wisconsin the unemployment is far better than in the State of Washington and many other parts of the country where we have had tremendous unemployment, as you pointed out in your statement.

I think it is just heartless to argue that very many of these people don't want to work and you have to get them out of a pool hall to make them even apply.

Secretary HODGSON. We all know that there are such people, but I can take no comfort in the fact that there are, as long as there are others who want to work.

Chairman PROXMIRE. Everything I have heard, from talking to the most conservative employers, is that it is a very, very small percentage. I find the same thing in talking to many, many hundreds of people out of work.

I wish the Congressman were still here. I hope he widens his acquaintance in the press as well as among the unemployed. We on this committee have certainly received many criticisms from members of the press complaining about the fact the press conferences were ended.

Secretary HODGSON. I do not think you have heard any criticisms from them, though, that when they ask us for information they did not get it.

Chairman PROXMIRE. But a press conference has a really important dimension. It makes a great difference if you can be in the room when other alert and informed reporters are asking questions. In addition, they should be allowed to go back for more information. This is information you want to get and so do I. We want it explained by the most competent people.

One other point. The productivity in government study is one I have been urging for a long, long time. I have gotten the GAO to get on top and push it. They are going to make a report this month on it. It is ridiculous that we assume there is no productivity improvement in Government. Of course there is. The study made by Kermit Gordon 6 years ago of five departments showed there was an enormous improvement in some, none in others. The more we know about this, the more likely it is that there will be improvement.

Secretary HODGSON. And there is tremendous improvement at the State and local government level also.

Chairman PROXMIRE. We can get a lot more if we can make people productivity conscious and raise the dickens in areas where we don't get it.

Secretary HODGSON. You can run a good sewage disposal plant in locality A and a bad one in locality B and spend twice as much in locality B.

Chairman PROXMIRE. In your statement, you go to great length about what this administration has done on manpower programs. You present numbers on new enrollee improvement in fiscal 1970 and 1971 in the neighborhood youth program.

The budget table on page 142 shows new enrollees for the Neighborhood Youth Corps and other work support programs actually declining from 950 in 1972 to 874 in fiscal year 1973. Apart from being amazed that you emphasize what is going on in fiscal years 1970 and 1971, I would like to know why you place great emphasis on manpower programs when the new enrollees are actually going down.

Secretary HODGSON. One of the reasons there was a strong need for Neighborhood Youth Corps money and slots last summer was that there was a considerable level of unemployment last summer. We think the level of unemployment this summer is not going to be what it was last summer.

Chairman PROXMIRE. You are an optimist. It will still be high, and if you move ahead with a program to do something about it, to make it less, we shouldn't assume that we are going to have fewer enrollees.

Secretary HODGSON. Look at the initiatives we are taking to create greater demand. Full employment budget, the tax initiatives of the President's new program, the realinement of international exchange rates. It cannot help but give the products of American workers a better break in the market.

Chairman PROXMIRE. I am talking about all work support programs, all of them. They are declining; 950 in 1972, 874,000 in 1973.

Secretary HODGSON. That does not take into account the whole new public employment program. That is not included in there. That has another 150,000 slots.

Chairman PROXMIRE. It is included in the statistics. The whole thing, the whole ball of wax. This is in the budget prepared by the Nixon administration.

Secretary HODGSON. I will have to give you some figures to break that down and show you why we are not cutting it by substantial amounts.

Chairman PROXMIRE. The budget certainly indicates you are.

(The aforementioned material was subsequently supplied for the record:)

On the face of it, table J–3 on new enrollees in Work Support Programs on page 142 of *Special Analyses: Budget of United States Government* would appear to show a decrease in our work support programs between 1972 and 1973.

This is actually not the case, because our effort has increased year-by-year and is planned to increase between 1972 and 1973 as well.

EEA is contained in table J–3. This program was initiated in fiscal year 1972 so that everyone who received support under EEA is listed as a new enrollee in that year. 145,000 of the 160,000 served by EEA in fiscal 1972 will also receive support under this program in fiscal 1973. In addition, there will be 92,000 new enrollees so that EEA will serve 237,000 in fiscal 1973 versus 160,000 in fiscal 1972. Table J–3 obviously underestimates the increased impact of EEA in fiscal 1973.

One other point is worth bringing to your attention. The decline in the NYC in-school and summer program between fiscal 1972 and fiscal 1973 is significantly exaggerated. In fiscal 1973 it is estimated that approximately 12,000 more students will be enrolled in *both* in-school and summer programs than in fiscal 1972. Since these students are counted only once in compiling Table J–3, there is an artificial decline in NYC activity of 12,000.

Chairman PROXMIRE. I think some of your statistics are very hard to accept. In your statement, for example, you give——

Secretary HODGSON. I must say I thought some of yours in the initial statement were hard to accept. We will give you a response to them.

(The aforementioned material was subsequently supplied for the record:)

While it is true, as you point out, that the adult population and the labor force are at record high levels, that is not news because it happens almost every month. Employment, however, does not reach a record high every month. All during the second half of 1970 and the first half of 1971 employment was below the previous high reached early in 1970. Only since last summer has the recovery brought employment to new high levels. Employment opportunities have definitely improved, but one would not know that by looking at unemployment statistics alone. That is why it is important to look at both.

Employment has also increased relative to the adult population. In fact, the percentage of the population 16 years of age and over employed in January 1972, after allowance for seasonal factors, was higher than in all but one of the eighteen years from 1949 to 1966. This again is some indication of the present extent of employment opportunities in the economy. It does not, however, diminish in any way the importance of reducing unemployment.

Chairman PROXMIRE. You give unemployment totals for all teenagers, all adult women and married men. You left out about 1.3 million unemployed adult single men. Don't they count? Why weren't they included in your statement?

Secretary HODGSON. Mr. Moore, have you a response to that?

Mr. MOORE. We could not cover everything in this statement. It is certainly true that there are single men in the economy and they deserve to be counted as well. We do report on that but it is not in the statement.

Chairman PROXMIRE. Let me give you the figures. I have the following figures for January 1972, last month. Both sexes, age 16 to 19, 1.3 million unemployed; adult women, 1.7 million unemployed; adult men, 2.5 million unemployed.

So there were not more employed women. There were more unemployed men by a very substantial margin. I see some reason for special concern when the head of household is unemployed whether woman or man.

Are figures available for heads of households for men and women? Why don't you use them? What is the unemployment rate for female heads of households?

Secretary HODGSON. I will supply that for the record.

(The following material was subsequently supplied for the record:)

In 1971 (annual average), the number of unemployed male household heads was 1,441,000, or 3.4 percent of their labor force. Unemployed female household heads numbered 369,000, for an unemployment rate of 5.8 percent. It should be noted that a household is not necessarily a family, since many households are composed of single individuals.

Secretary HODGSON. For married males it is 3 percent.

Chairman PROXMIRE. I understand that. But I didn't ask that question. It is just as important to a household if a woman was a head as if a man was a head.

Secretary HODGSON. I thought we went into too much detail. If you want more, tell us.

Chairman PROXMIRE. It is well over 5 percent for women heads of households. You and others keep referring to the number of women unemployed as if it were an aspect of unemployment that did not matter too much.

Secretary HODGSON. No, we do not.

Chairman PROXMIRE. What breakdown can you supply on women workers? How many are married and how many are unmarried?

Secretary HODGSON. I will supply that for the record.

(The aforementioned material was subsequently supplied for the record:)

In 1971, unemployment of adult women (20 years and over) was 1,650,000. Of these, 996,000 were married women (with spouse present), 363,000 were widowed, divorced or separated, and 291,000 were single (never married).

Secretary HODGSON. I find that there is a tendency on the part of some people, when you break down unemployment and examine it as several separate problems and try to solve those problems, to make you think you are not concerned with the problem as a whole.

I want to scotch that idea once and for all. We believe strongly there is a problem as a whole. But to understand it and deal with it effectively, it is useful to break it down and see where the problems are, and in many case, to erect special programs for dealing with them.

That is the reason we cite these various categories.

Chairman PROXMIRE. You see, the previous witness, sir, pointed to the very great importance of using this period now while we have the wage and price controls to try to do something about structural unemployment, which means to me to try to work out a system so that so many women would not be unemployed. It is just as unjust as it can be because a person is the female sex it is harder for them to get work, and it is. What we are doing, it seems to me, hasn't been effective at all. We may have a few pilot programs.

What are we doing to overcome this?

Secretary HODGSON. Our biggest single employment program is the WIN program, and that has almost half women.

Chairman PROXMIRE. Almost half?

Secretary HODGSON. Yes.

Chairman PROXMIRE. And that is the best you can offer in the way of helping?

Secretary HODGSON. Women constitute 43 percent of the work force and constitute 43 percent of the people helped by our training program.

Chairman PROXMIRE. Let me get to the basic figures. What breakdown can you give us on women workers?

Mr. MOORE. We can give you the figures.

Chairman PROXMIRE. Can you give me on the record how many are self-supporting and how many support a family?

Mr. MOORE. Yes.

(The aforementioned material was subsequently supplied for the record:)

Information on families, as opposed to households, is collected only once a year; the most recent data are for March 1971. At that time, there were 2.2 million women in the labor force who were family heads and had no other member of their family who was working; these were essentially the sole support of their families. Of this number, about 190,000 were unemployed in March 1971.

There were about 4.4 million women in the labor force who were essentially on their own and not living with relatives (unrelated individuals). About 200,000 of them were unemployed. The remaining women in the labor force were in husband-wife families or living with other relatives.

Chairman PROXMIRE. Can you tell how many are in the full-time labor force?

Mr. MOORE. Yes.

The aforementioned material was subsequently supplied for the record:)

There were 22.6 million adult women in the full-time labor force in 1971. Of these, 20.2 million were employed full-time, while 1.1 million were working part-time for economic reasons. The number of unemployed adult women looking for full-time work was 1.3 million, or 5.8 percent of their labor force.

Chairman PROXMIRE. Don't you think it is important to be able to analyze how many women have a serious attachment to the full-time labor force and how many may be only casually seeking part-time employment?

Secretary HODGSON. This is one of the problems I mentioned earlier, when I talked about the influx of people into the work force. This is something that is very, very difficult to fathom because you are dealing with somebody's subjective motivation. Do they or do they not want to go to work today, a month from now, 2 months from now? It depends on a myriad of factors and they, themselves, cannot tell you whether they are going to be in the work force a year from now or whether they are not.

This is a difficult thing to get at.

Chairman PROXMIRE. It would be better than nothing.

Secretary HODGSON. There are studies galore on it. I will let Mr. Moore comment on some of them; but, as far as I can see, they have not added up to anything that is really useful for predictive purposes yet.

Chairman PROXMIRE. Admittely, these figures would be subject to criticism and evaluation, but it seems to me that if we get some kind of measurement, I would certainly rely, and other Members of Congress and the public and press, on the expertness and objectivity of Mr. Moore and of his people.

Secretary HODGSON. We are following these very closely, trying to learn everything we can.

Chairman PROXMIRE. If it is too hard to evaluate motivation, it seems to me we don't have the kind of analysis we should have and that we owe to the people in our society who don't have the employment opportunities they ought to get.

Mr. MOORE. May I say we have a great variety of these statistics and publish a book every month about a half-inch thick filled with figures.

The problem is to make those bare statistics meaningful to the public. While we try our best to do that, it is not always enough. As I say, we would be very happy to supply you with any figures that you think you need. We do have a very great variety of them available.

Chairman PROXMIRE. Mr. Secretary, let me ask you about the program developed by your predecessor, Mr. Shultz, when he was Secretary of Labor, to help the disadvantaged, lower level persons working for the Federal Government.

I understand that that program is being phased out by the Labor Department. I will identify the program further. The program begun in September 1970 was, during the first year, hiring 25,000 disadvantaged through worker-trainee examination.

It also would provide training and education to increase productivity of women, mainly women blacks, at the lower level. Why was this program ended?

Secretary HODGSON. I will give you the complete, detailed report that you deserve on that subject. The fact is that this program is not proving to be particularly effective simply because the one area where we do not have an expanding job market is in Federal employment.

We are having enormous expansions of opportunities in public employment at State and local levels and in the private sector. This is where we are spending our training money and placing our emphasis.

Chairman PROXMIRE. But you have attrition, enormous openings. As you indicated, we spend a whale of a lot of money.

Secretary HODGSON. But we do not need a special training program to fill those vacancies for the disadvantaged. We bring them in directly.

Chairman PROXMIRE. I also understand it is meant to improve the skills of existing workers.

Secretary HODGSON. To some degree that is correct.

Chairman PROXMIRE. I understand a movie was made to provide guidance to supervisors in their attempts to help these people but the Civil Service Commission held up its release. Why was it held up?

Secretary HODGSON. I am not familiar with that.

Chairman PROXMIRE. Would you find out and let us know?

Secretary HODGSON. Yes.

(The aforementioned material was subsequently supplied for the record:)

Your question deals with the film "Remember My Name?". The Civil Service Commission informs me that the film's release was initially delayed to make certain editing changes which the Commission believed were appropriate. Before these changes could be made, the Civil Service Commission received indications that the Public Service Career Program—the program which the film was designed to supplement—might be canceled. Because the film was so closely tied to this program, the CSC refrained from editing until it knew the future of PSC. When the decision to cancel PSC was announced early in February, the CSC began work on revising the film to eliminate its PSC orientation so that it could still be used in the context of other programs. This work is still in progress.

Chairman PROXMIRE. Yesterday Secretary Connally gave us statistics on average wage increases approved by the Pay Board. Those numbers are not, as I understand it, strictly comparable to the standard series computed by BLS.

Will you be doing any analyses of the settlements approved by the Pay Board? If so, when?

Secretary HODGSON. We will be continuing our series of information on wage increases and we have instituted a new series on average earnings for analysis purposes. We will do any studies that the Pay Board asks us to do.

Do we have any other plans beyond that?

Mr. MOORE. Not that I know of.

Chairman PROXMIRE. I wish you would consider this. We need credibility in this. Secretary Connally, of course, is extraordinarily persuasive, attractive and effective. He gave us statistics yesterday which completely contradicted the figures given the day before by Secretary Butz.

The statistics given to us by Secretary Butz were that we would have a pay increase this coming year averaging around 7 percent. Secretary Connally said around 5.6 percent. But there is no analysis, as you have indicated, of the Pay Board.

Secretary HODGSON. Mr. Butz, I believe, agrees that that figure he gave was inappropriate.

Chairman PROXMIRE. And Mr. Burns has told me this privately, but I don't think it is any secret, that he expected the pay increases could be about 7 percent this year which would be substantially more than they were in 1971. If you get that, you are going to have a real inflation problem.

Secretary HODGSON. As you see, there are so many possibilities of giving figures like this. It is quite probable that the figure Mr. Butz saw was the average figure of those who do get increases.

Chairman PROXMIRE. This is exactly why the nonpartisan, nonpolitical expert agency headed by Mr. Moore should give us an analysis of what this is. The partial figures given us by Mr. Connally could be suggested as showing a pay increase of more than 7 percent, or it could be less. But an analysis by Mr. Moore would be very helpful. I hope you take the initiative. If you wait for the administration to tell you to do it——

Secretary HODGSON. It is not the administration, but the Pay Board.

Mr. MOORE. I would like to say, Mr. Chairman, that I think we get the best coverage if you want to know what is happening in wages from our existing series.

Chairman PROXMIRE. We have to wait for that, though.

Mr. MOORE. You have to wait for every monthly figure. But we put one out every month. That, in my judgment, gives you the best answer to what is happening to wages that we know how to construct.

Chairman PROXMIRE. That only gives you part of it. That does not give you the effect the Pay Board has because there are substantial increases outside of the jurisdiction of the Pay Board. Everybody with incomes of less than $1.90 an hour and many others.

Secretary HODGSON. And some do not have to report. So there will be two different figures.

Chairman PROXMIRE. That is why an analysis here would be helpful to see how this is operating.

What about price increases approved by the Price Commission? Will they be analyzed?

Mr. MOORE. Again, on our overall index basis where we collect the prices independently and measure the consumer price index and the wholesale price index, we will be continuing that analysis. We do not have any plans at the moment to analyze particular prices that have been approved by the Price Commission.

I think the important thing is the overall picture and that is what we are presenting every month when we release our figures.

Chairman PROXMIRE. Mr. Secretary, you were quoted in the Washington Star 2 weeks ago as saying don't look at the hole in the doughnut, we should pay more attention to employment as a whole as well as unemployment.

Isn't that like saying pay attention to healthy people, not to those with cancer?

Secretary HODGSON. I thought nobody was looking at the doughnut but only at the hole. I wanted to point out that there were features that were favorable. In the last 6 months we have had a substantial increase in the number of jobs, enough to draw additional people into the labor market.

Chairman PROXMIRE. I got the impression that you were only interested in employment; that unemployment was far less.

Secretary HODGSON. If I have left that impression this morning, I have talked in vain for a half hour. I am interested in the other. But I said that people should pay more attention to the doughnut than they had.

Chairman PROXMIRE. You always have more employment than unemployment. Even in the depth of depression we had three or four times as much.

Secretary HODGSON. I do not think you are asking that we ignore that element because that is an important part of the whole picture.

Chairman PROXMIRE. Of course we want to get that, but, again, the real measure of the failure or success of an economy is likely to be what you do about unemployment. Even if employment increases greatly, if the unemployment increases——

Secretary HODGSON. That is the way we are approaching it. We are hitting it head on as a major problem.

Chairman PROXMIRE. Could you explain why the wholesale price index is so late this month? It used to come out about the third day. Last month it was the 14th, this month not until the 25th.

Mr. MOORE. There was a delay in the delivery back and forth of our regular mailed schedules in December. Part of that was apparently due to difficulties in the mailing process, itself, and the delivery of the mail. These delayed getting our schedules back to the respondents and that in turn delayed them getting them back to us. So it has an effect over 2 or 3 months. There will be a delay in the release of the January index of about a week, and there will be very likely a delay in the release of the February index as well.

Chairman PROXMIRE. When will you be back on schedule?

Mr. MOORE. I believe in March.

Chairman PROXMIRE. I presume this administration is devoted to speeding up the availability of statistics.

Secretary HODGSON. That is one of the reasons for canceling the press briefings.

Chairman PROXMIRE. You speeded up in reverse on that one.

I just have one other area I would like to question you about as quickly as I can.

At the end of January, the Secretary of Treasury appointed a task force to study the employment and unemployment statistics and study possible changes in the data.[1] This task force was instructed to report back to Mr. Connally within a month. Two elements of this study strike me as being rather peculiar. First of all, the President's Commission on Unemployment Statistics, the Gordon committee, deliberated for almost a year before making its recommendations to President Kennedy. Yet, this task force is expected to reach a conclusion within 1 month.

Second, I find it difficult to understand why the Treasury Department and not the Labor Department and BLS was asked to conduct the study. You have the most talented experts on labor force statistics within your own Department. I would think that you and your staff would be best equipped to examine the unemployment data.

Would you please tell us, Mr. Secretary, one, do you think an adequate in-depth study of unemployment and unemployment data can be conducted in 1 month's time?

Secretary HODGSON. First of all, it is not a study of unemployment statistics. It is a study of the unemployment problem and what constitutes that problem, the ingredients that go into it. They wanted to get representatives of each of the departments who in some way feel that their department is involved in this problem and the corresponding questions of such as the Department of Defense, with its outflow of people, how fast they should go out and how fast they will be coming out.

It is the same way in the Department of Agriculture, the number of people in the agricultural work force, the percentage of buildup that could be expected in the analysis from them.

Each of the departments are looking at this thing from the standpoint of an overall employment effect. It is not a statistical study. It is a study of a different kind designed to take a look at the problem as it exists now and see if there is anything further that we ought to be doing.

Chairman PROXMIRE. The point is it is a study of unemployment. Your agency, the Labor Department, is preeminent in this area. You do have the experts.

Secretary HODGSON. We expect them to supply a lot of help to this.

Chairman PROXMIRE. Who is the Labor Department representative on the task force?

Secretary HODGSON. Mr. Michael Moskow, our chief economist and designate as Assistant Secretary for Policy, Evaluation, and Research.

Chairman PROXMIRE. I have been informed that the BLS is not on the task force.

Secretary HODGSON. Mr. Moore will be utilized. All information supplied by that department will come from him.

Chairman PROXMIRE. Why are the technicians not being asked to take part in this?

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[1] See memorandum on "Task Force Study of Employment and Unemployment," beginning on p. 375.

Secretary HODGSON. They will be. They will be asked to take part if there is something that we need.

Chairman PROXMIRE. Mr. Gordon is an eminent economist.

Secretary HODGSON. The Gordon study was to decide whether or not the statistics coming out were useful, valid, to answer that kind of question.

If we ever conduct a similar study, we will have to do the same as they did, that is conduct on in-depth analysis calling in people not only from inside but outside the Government. This is what we have advisory committees to help us with all the time.

Chairman PROXMIRE. I take it this has nothing to do with the statistics, that you have complete faith in the reliability of the statistics.

Secretary HODGSON. This is not an effort to challenge the statistics.

Chairman PROXMIRE. I want to thank both of you gentlemen very much. Again, I apologize. As other members have said, you are most patient. You are very quick and intelligent and responsive witnesses. I want to thank you very much.

Mr. Moore, I am delighted to see you again.

The committee will stand in recess until tomorrow morning at 10 o'clock when we will meet in room 1202.

(Whereupon, at 1:05 p.m., the committee recessed, to reconvene at 10 a.m., Friday, February 18, 1972.)

(The following information was subsequently supplied for the record:)

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., March 1, 1972.

HON. JAMES D. HODGSON,
Secretary of Labor,
Washington, D.C.

DEAR MR. SECRETARY: By direction of the Chairman, I am transmitting to you the following questions deriving from your recent testimony before the Joint Economic Committee, with the request that they be answered for the record.

On February 24, 1972, the Chairman released the text of the memorandum from Secretary of the Treasury Connally on the Task Force Study of Employment and Unemployment. During your testimony, you stated this ". . . was not a study of unemployment statistics. It was a study of the unemployment problems." In view of some of the questions Secretary Connally raises such as: what do the unemployment and employment statistics tell us? Are our statistical methods sound? How consistent are the statistics over time? Would you still contend that this is not a study of unemployment statistics?

The Chairman has also asked me to forward to you the following additional questions submitted by Senator Percy:

Would you comment upon the article by Sanford Rose in the February issue of Fortune Magazine, "The News About Productivity is Better Than You Think?" The article concludes that the sluggish productivity performance of 1965–70 does not auger a long-term condition but rather may be due entirely to unique, temporary factors. The article also makes the rather odd conclusion that during the latter half of the proportionately greater numbers of women and teen-agers. I would note that the article makes no mention of the fact that the year-to-year improvement in American productivity at its best is worse than part of Japan at its worst; also that the U. S. labor force has undergone substantial changes in recent decades, largely because of a significant rise in its educational level.

Sincerely,

JOHN R. STARK,
Executive Director.

U.S. Department of Labor,
Office of the Secretary,
Washington, D.C., March 23, 1972.

Mr. John R. Stark,
Executive Director,
Joint Economic Committee,
Washington, D.C.

Dear Mr. Stark: Thank you for your letter of March 1, 1972 transmitting two questions from the Joint Economic Committee. The article by Sanford Rose in the February issue of *Fortune Magazine* was interesting and provocative, and I found many of his arguments convincing.

You stated in your letter that Rose believes the sluggish productivity performance of 1965–70 is due *entirely* to unique, temporary factors. While the author emphasizes such factors and maintains that they play a paramount role, he does not suggest that they entirely explain the performance of productivity in the late 1960's.

I share the view that both long-term and short-term factors were responsible for the gap between actual productivity increases in the late 1960's and the post World War II trend rate of productivity increases. I believe that cyclical and demographic factors have been underemphasized in the analysis of recent productivity trends, while the role of attitudinal changes and the shift in the output mix have been overemphasized.

As you know, productivity increases historically decline during the late stages of a business expansion and increase substantially during a period of economic contraction and the early stages of a recovery. During the 1960's we witnessed an unusually long and sustained business expansion. The so-called "mature" phase of this expansion lasted for several years.

Therefore, it was not a complete surprise that the growth rate of output per man-hour slumped considerably. During this period employers usually met their continuing expanding demand by hiring additional workers, rather than attempting to obtain more output from their existing labor forces.

When production turned down near the end of the decade, many employers, reluctant to believe that the boom was ending, continued to add to their work forces, with the result that productivity increases fell substantially. As businessmen adjusted to the new situation, productivity turned around in 1970. In 1971, productivity increased by 3.6 percent, above the 3 percent trend rate. Although a recovery was underway, businessmen were now hesitant to hire workers, preferring to meet their increasing orders with an increased effort from their existing labor forces. As the recovery continues in 1972, we can expect another good year for productivity.

I am impressed by the fact that productivity increased almost as rapidly in 1971 as in comparable recovery years, even though these comparable recovery periods represented more rapid recovery from more severe contractions in economic activity.

In your letter you take issue with the assertion that the increase in the proportion of secondary workers in the labor force adversely affected productivity. I believe, however, that such a relationship is quite plausible. The fraction of adult women and teenagers in the labor force increased dramatically during the 1960's. These people, many of whom were new labor force entrants, lacked the work experience and the job skills of adult males. As a result, their productivity, at least initially, was lower than that of adult males.

In this connection, I find the estimates of George Perry quite useful. As Rose points out, Perry's work indicates that roughly 30 percent of the gap between actual productivity increases and trend-rate productivity increases in the late 1960's can be explained by changes in the age-sex mix of the labor force. It is also noteworthy that Perry attributes another 50 percent of this gap to the business cycle.

Of course, I recognize that long-term developments, such as the continuing shift in output toward the service sector of the economy, pose a threat to sustainable, healthy increases in productivity in the 1970's. However, I believe that if we are imaginative in our approach to improving productivity, we can overcome this threat. Some of the suggestions offered by Rose, such as those relating to standardization and increased incentives for all workers, are intriguing and worthy of our careful consideration.

This Administration is very conscious of the need for continuous, healthy increases in productivity. Such increases are a prerequisite for sustainable economic growth without inflation. Recognition of this fact prompted the President to establish the National Commission Productivity in June 1970. (The Economic Stabilization Act of 1971 strengthened the mandate for action by the Productivity Commission. Congress called on the Commission to engage in such activity as aiding the development of apprenticeship, training and retraining programs and programs to reduce waste and absenteeism.

We are also making a concerted effort to encourage the consideration of productivity improvements in collective bargaining. In 1971 productivity improvement provisions were negotiated in the railroad industry, steel, construction and other industries. Work rules which restrict productivity are being eliminated or modified, and this will improve efficiency and reduce cost.

With respect to the other question raised in your letter, I would like to point out that the major purpose of the Task Force Study on Employment and Unemployment is to determine the relative strength of various factors which have contiributed to high unemployment. One facet of our review of this problem may involve an assessment of the adequacy and relevance of the system by which we measure employment and unemployment. However, as is clear from reading Secretary Connally's memorandum in its entirety, this assessment does not constitute the principal thrust of our effort.

Sincerely,

J. D. Hodgson,
Secretary of Labor.