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THE 1972 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-SECOND CONGRESS

SECOND SESSION

PART 5

INVITED COMMENTS

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THE 1972 ECONOMIC REPORT OF THE PRESIDENT

The letter appearing below was sent to the following organizations: The American Bankers Association, American Farm Bureau Federation, AFL–CIO, American Life Convention, Chamber of Commerce of the United States, Communications Workers of America, Conference on Economic Progress, Conservation Foundation, Consumer Federation of America, Consumers Union of the U.S., Inc., Cooperative League of the U.S.A., Cuna International, Inc., Federal Statistics Users' Conference, Financial Executives Institute, Friends of the Earth, Independent Bankers Association, Investment Bankers Association, Investment Company Institute, Life Insurance Association of America, Machinery and Allied Products Institute, National Association of Manufacturers, National Association of Mutual Savings Banks, National Association of Security Dealers, National Farmers Union, National Federation of Independent Business, Inc., National Federation of Independent Unions, the National Grange, National League of Insured Savings Associations, National Planning Association, Sierra Club, United Mine Workers of America, and United States Savings and Loan League. These organizations were invited to submit their views or comments on the text and recommendations contained in the 1972 Economic Report of the President. Nineteen organizations submitted statements and their views were considered by the Joint Economic Committee in the preparation of its report on the President's Economic Report.

FEBRUARY 4, 1972.

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

We therefore invite your comments on the economic issues which concern the Nation and your own organization. Under separate cover we are sending you a copy of the 1972 Economic Report of the President, filed January 27.

We would like to distribute copies of your statement to the members of the committee and the staff, and would therefore appreciate your sending 30 copies, by Friday, March 10, 1972, to Mr. Hamilton D. Gewehr, administrative clerk, Room G–133, New Senate Office Building, Washington, D.C. 20510.

Sincerely,

WILLIAM PROXMIRE, *Chairman.*

AMERICAN BANKERS ASSOCIATION

By Allen P. Stults, *President*

The American Bankers Association has applauded President Nixon for taking bold action since August 15, 1971, to stem persisting inflationary pressures domestically and to reverse the growing deficit in our international balance of payments. At the same time, the association has also stressed the need to complement controls with appropriate fiscal and monetary policy measures, in order to permit an early phase-out of the temporarily imposed wage-price constraints.

Members of the banking and financial community recognize that fiscal and monetary policy measures must be responsive to the needs of a growing economy. At the same time, however, it is important to note that a fine line exists between appropriate stimulation of real economic growth and the rekindling of inflationary expectations. Clearly, the anticipated $38.8 billion deficit for this fiscal year—which would involve an estimated $8 billion deficit even if the economy were operating at full employment—could tip the scales in the direction of renewed inflationary pressures and expectations. This, in turn, may jeopardize the possibility of achieving noninflationary growth domestically and an improved trade position internationally, as envisioned under the President's new economic program.

In the area of monetary policy, we note that the Federal Reserve has again moved to ease monetary conditions substantially, and short-term interest rates have fallen dramatically. This effort to make credit conditions much easier as the economy moves upward has certain disturbing implications. The weakness of the dollar in foreign exchange markets, and continued uneasiness in domestic money markets, reflect these concerns and bear witness to the persistent uncertainty which exists about inflation both at home and abroad.

The failure to achieve a steadier pattern in monetary policy also has important implications for both financial conditions in the short run and the achievement of sustained economic growth in the long run. To be sure, the need to finance a substantially enlarged Federal deficit, coupled with other credit demands which can be expected to develop in 1972, only compounds the difficulties associated with achieving orderly growth in money and credit. A less expansionary fiscal policy than currently envisioned would moderate prospective upward pressures on interest rates and be more conducive to an orderly growth in monetary aggregates. This, in turn, would alleviate the dangers of seriously disruptive changes in the total flow and allocation of credit that would accompany the development of excessive upward pressures on rates of interest.

Improved productivity represents another important ingredient for achieving noninflationary growth in our economy. The association has long supported the modernization of plant facilities and work rules, and the elimination of numerous rigidities in the economy, as steps toward increasing the growth of productivity. Additional attention should be focused on the development of appropriate programs and policies in this area.

Finally, the association wishes to express the uneasiness of the financial community concerning the implementation of certain aspects of the phase II wage-price program. The difficulties experienced by the Wage Board in holding wage increases to a level consistent with the Price Commission's goals obviously contribute to inequities, and may result in a breakdown of public support for the program before it has achieved its objectives.

In summary, we strongly recommend that the administration place greater emphasis on programs designed to garner the long-term employment benefits of noninflationary economic policies. To achieve this, we urge the administration and the Congress to hold the growth of Federal expenditures below present budget levels during the critical months that lie ahead. This would permit the monetary authorities to adopt a steadier approach to implementing monetary policy. In addition, we suggest that the Congress and the administration continue to emphasize the importance of productivity as a basic determinant of compensation levels. Finally, we urge the Wage Board and the Price Commission to work together more closely in the future to insure the success of the President's efforts to curtail inflationary pressures and expectations in the economy. Hopefully, taken together these measures will enable the administration, at an early date, to remove the restraints temporarily imposed on wage and price decisionmaking in the economy.

AMERICAN FARM BUREAU FEDERATION

We appreciate the opportunity to present the views of the American Farm Bureau Federation with respect to the President's Economic Report for 1972.

Farm Bureau is a general farm organization with 2,057,665 members in 49 States and Puerto Rico.

Farm Bureau members have had a longtime interest in the subject matter of the Economic Report which deals primarily with monetary, spending, tax, trade, and employment policies and their effects on our economy.

We will confine our comments to three aspects of the current economic situation that are of major concern to farm people.

Government Spending and Inflation

At our most recent annual meeting in December 1971, officials voting delegates representing the member State Farm Bureaus adopted the following policies with respect to government spending, inflation, and economic controls.

> Inflation is a serious threat to economic stability. Excessive Federal Government spending is the basic cause of our current problem of inflation. Deficit spending by the Federal Government and policies which expand the supply of money and credit faster than production clearly lead to inflation. Both Congress and the executive branch of government must face up to this fact and bring expenditures into balance with income at tax rates which are not oppressive.
>
> We support current efforts to halt inflation—including controls designed to bring prices, wages, and productivity into better balance.
>
> Recognizing that such controls can at best bring about favorable results in the short term, we believe legislative authority for these controls should not be extended for more than 1 year. At the same time, we believe more attention should be given by both the executive and legislative branches of government to the fact that Federal budget deficits of the magnitude projected for 1972 will fuel inflation, rather than halt it. regardless of other actions.
>
> Therefore, we insist that steps be taken now to reduce the 1972 deficit and achieve a balance between tax receipts and Federal expenditures in the 1973 budget. This will indicate to all segments of the economy that the administration and Congress are willing to exercise the same restraints which have been proposed for the private sectors of the economy, both labor and management. If this is done, we expect labor to accept contracts which do not exceed its contributions to productivity increases, and therefore do not require higher prices.
>
> We encourage an all-out effort to make the public aware of these basic economic facts so that they will be in a position to cause the Congress and the executive branch of government to control inflation and bring about a stable growth based on increased productivity.

It is apparent from this policy statement that inflation is of major concern to farm people. And it is also apparent that they understand the root cause of inflation—excessive Government spending resulting in huge Federal deficits which have been financed through expansion in the supply of money.

Before proceeding to the 1973 budget, let us take a look backward to help achieve perspective. Prior to the mid-1960's, the U.S. economy had experienced relative stability for more than a decade. Prices, wages, and Government expenditures had risen with productivity and normal economic expansion. In the mid-1960's, decisions were made (1) to expand vastly the war in Southeast Asia, and (2) at the same time, to launch huge new domestic programs, particularly in the social field. Thus, the seeds of today's economic problems were planted. The following tables illustrate the economic course we have traveled.

Year	Money supply [1] (billions)	Percent change	Yearend Federal debt total (billions)	Percent change
1965	$476.1		$320.9	
1966	497.2	+4.4	329.3	+2.6
1967	549.6	+10.5	344.7	+4.7
1968	596.2	+8.5	358.0	+3.9
1969	599.3	+.5	368.2	+2.8
1970	659.6	+10.1	389.2	+5.7
1971	751.5	+13.9	424.1	+9.0

[1] The money supply data shown above include currency, demand deposits, time deposits in commercial banks, deposits in mutual savings banks, and savings and loan shares.

Source: Economic Report of the President, January 1972.

Year	All Government spending (billions)	Percent change	Per capita disposable income	Percent change	Purchasing power of the dollar [1]
1965	$186.9		$2,436		$1.058
1966	212.3	+13.6	2,605	+6.9	1.029
1967	242.9	+14.4	2,751	+5.6	1.000
1968	270.3	+11.3	2,946	+7.1	.960
1969	288.2	+6.6	3,130	+6.2	.911
1970	313.6	+8.8	3,358	+7.3	.860
1971	341.1	+8.8	3,581	+6.6	.824

[1] Based on consumer prices with 1967 equaling 100.

Source: Economic Report of the President, January 1972.

The first table shows the relationship between the supply of money and the yearly change in the level of debt resulting from deficit spending. An analysis of this table would appear to substantiate an exerpt from a speech recently made by Dr. W. Allen Wallis, chancellor of the University of Rochester, at a conference on collective bargaining sponsored by the Wharton School of Finance and Commerce of the University of Pennsylvania.

Dr. Wallis said:

> Inflation can be generated only by the government. Business firms, labor unions, or consumers with excessive market power can do many objectionable things that are contrary to the public interest; but one objectionable thing that they cannot do is to cause inflation—or, for that matter, prevent it. Within our government the only important power to cause or prevent inflation lies with the Federal Reserve Board. If government has a large deficit, this will not cause inflation unless funds are supplied for financing the deficit; correspondingly, a surplus will not cause deflation unless the money supply is allowed to lag.

The second table shows dramatic increases in per capita disposable income during the 1965–71 period, but it should also be noted that total government expenditures have been going up at an even faster rate. The last column reflects the decline in the value of the dollar during this period.

As shown in the center column of the second table, per capita income increased by $1,145 during this period—from $2,436 to $3,581. However, using 1967 dollars as a base, this increase in per capita income was only $374—from $2,578 to $2,952. This means that from 1965 to 1971 one needed $3 in increased income in order to have an increase of $1 in purchasing power. Recognizing this fact, it clearly would be a mistake to place the blame for inflation on the increase that took place in income.

With these factors in mind, let us turn to the budget of the United States for fiscal year 1973. It calls for expenditures of $246.2 billion and receipts of $220.8 billion—leaving a projected deficit of $25.4 billion. Of even more concern is the report that the defiicit for the current fiscal year will rise to $38.8 billion, up from $11.6 billion—the figure projected a year ago when the 1972 budget was proposed.

These projected deficits, as the committee knows, are forecast on the basis of the unified budget. When the two deficits are calculated on the basis of how much the total debt subject to limitation will rise, they are respectively $46.5 billion in 1972 and $35.9 billion in 1973.

Likewise, the 1973 deficit is projected on the basis of several factors which in the past have proved to be less than a reliable basis for calculation. In the first place, the budget assumes that expenditures will hold firm at $246.2 billion. In the current fiscal year, expenditures will run an estimated $6.3 billion more than was projected in January, 1971.

The 1973 budget also assumes a rather dramatic increase in tax revenues—due to an estimated sharp upturn in the economy rather than tax rate increases. Tax revenues for 1972 will fall more than $15 billion short of last January's projections—in part because of the cuts applicable during the current fiscal year.

Therefore, if the economy expands in 1973 at a rate no faster than the 1972 rate—and if expenditures rise above budget estimates by an amount similar to the 1972 figure—the 1973 deficit on a unified budget basis would be more like $45.4 billion than $25.4 billion. As far as Farm Bureau members are concerned, neither figure is acceptable. We expect the economy to expand at a somewhat faster rate than in 1971; however, there clearly is a danger that the Administration's projections may underestimate the 1973 deficit.

Farm Bureau's recommendations to deal with these fiscal dilemmas will receive primary consideration at the next meeting of the AFBF Board of Directors which meets in early March. In years past, when spending cuts were needed to avoid deficits, we have recommended budget cuts on a line item basis.

Dollar Devaluation and Trade

The position of the dollar in relation to other currencies and our balance-of-payments problem are closely related to our domestic inflation problem.

The international monetary agreement reached in December 1971 is significant because it ended a crisis and headed off the danger of an international trade war. It has created an opportunity for a substantial improvement in this country's balance of payments with other countries. It is not, in itself, a permanent solution to the problems which reduced the value of the dollar in international markets and created the threat of an international trade war. There is still an urgent need to reduce barriers to U.S. exports—such as the Common Market's variable import fees.

The countries of the free world have merely bought time to work out international trade problems, and to adopt domestic policies that will be more effective in stabilizing the domestic and foreign values of their currencies. No international agreement can long preserve the value of the dollar if the United States continues to promote inflation by excessive government spending.

Dock Strikes

In conclusion we would like to stress agriculture's interest in the enactment of effective federal legislation to prevent costly transportation strikes such as the recent dock strikes.

These labor disputes came at the beginning of our 1971 harvest season when we needed all available facilities to move the largest crops on record for grains and soybeans. Settlement of the west coast dock strike does not lessen the need for some kind of standby legislation which incorporates binding arbitration. Cooling-off periods provided under the Taft-Hartley Act in labor disputes fail to meet the need for long-range, satisfactory agreements. Agriculture, business, and labor all suffer from strikes which interfere with our export trade channels.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

By I. W. Abel, *Chairman*

Persistent and substantial slack plague the American economy, with no sign of a significant reduction of unemployment, on the basis of present trends and government policies. Wage and salary earners and their families are paying the price for this prolonged economic mess.

The administration's promise of a sharp 1971 upturn from the engineered recession of 1969–70 collapsed. The actual record for 1971 was the highest unemployment in 10 years; a 4.3-percent rise in living costs; a further decline in industry's operating rate; and a widespread lack of confidence. The real volume of total national output rose only 2.7 percent, essentially in the services and residential construction. There was no increase of industrial production, at all.

Productivity shot up in 1971, after a 2-year lag, and the increase of unit labor costs was cut in half. But the rise in the price level continued, with only little abatement, and the lion's share of the productivity-gain went to profits, depreciation allowances, and other business income.

Corporate after-tax profits, in the second-half of 1971, were 18 percent greater than in the same period of 1970. This rise in after-tax profits was almost three times faster than the 6½-percent increase of total wage and salary payments to all employees.

By the start of 1972, 5.9 percent of the labor force was unemployed. Industrial production was 3.6 percent below the pre-recession peak, reached in 1969. Industrial operations were at only about 75 percent of productive capacity—an operating rate as low as in 1958, a year of a deep recession. Government reports show the economy was operating some $70 billion below its potential.

In January 1972, according to the Department of Labor, the number of unemployed remained at 5.1 million and unemployment rates were as high as 17.8 percent for teenagers, 11.6 percent for unskilled workers, 10.6 percent for Negroes, 9.8 percent for construction workers, and 8.5 percent for GI's who returned to civilian life.

High unemployment among teenagers moved over, very sharply, to young adults, 20–24 years of age, in 1970 and 1971. In January 1972, the unemployment rate among these young adults was 10.1 percent—almost double the 5.7-percent rate that prevailed through most of 1967, 1968, and 1969.

The continuing problem of high unemployment that began to appear, with the start of the recession of 1969–70, has not been caused merely by a failure of the economy to generate enough jobs for entrants into the growing labor force. The major cause has been large-scale employment declines in 1970 and 1971—primarily in manufacturing and construction.

In January 1972, manufacturing employment was down 1.6 million from the prerecession peak reached in 1969—more than 2 years before—and jobs in construction were down 169,000.

The administration's remedy for this prolonged economic mess is optimistic rhetoric, combined with trickle-down policies of increasing Government subsidies for big business.

Having failed to deliver on its promise of a $90 billion gain in total national output and declining unemployment in 1971, the administration now forecasts a $100 billion gain in 1972—or 6 percent in real volume—and a drop in the unemployment rate to "the neighborhood of 5 percent" by the end of the year.

Even achievement of real economic expansion of 6 percent will make little dent, if any, in the high level of unemployment—due to the expected rapid rise of productivity and growth of the labor force. But there is no sound reason to believe that the administration's forecast for 1972 will be much more accurate than last year's prediction.

Prolonged sluggishness continued through 1971 and into 1972. Residential construction, which increased in 1971, is probably leveling off at present. Consumer expenditures—which account for about two-thirds of total national output—rose at a yearly rate of only 4 percent in the final quarter of 1971, after accounting for increased prices, and there is no sign of a forthcoming, major extra boost from consumer spending. With so much idle industrial capacity, only a modest increase of real business outlays for plants and machines is expected.

Moreover, there is widespread lack of confidence. Consumers in the upper quarter or half of the Nation's income distribution are saving increased amounts of money, while most other consumers lack the buying power—or desire for a major increase in their debts—to boost their spending substantially.

So private economic activities remain sluggish. A much faster rate of economic expansion in 1972 largely depends on Government policies. But the administration continues in its failure to present positive measures to achieve even its own economic forecasts.

Moreover, the administration's trickle-down policies assure that a major share of any economic expansion in 1972 will go to big business and wealthy families. The administration's added tax loopholes, as well as the inequities in the stabilization program, point clearly in that direction.

Rather than proposing specific programs to create jobs and mass consumer income, which could lift the economy and bolster confidence, the administration obtained congressional approval of tax bonanzas to business, amounting to over $80 billion in 10 years.

The investment tax credit for business purchases of equipment and the speedup of depreciation writeoffs, which amount to an effective 15–20 percent cut in the corporate tax rate, will shift another part of the Federal tax burden to the backs of low- and middle-income people. These measures are depriving the Treasury of urgently needed funds to expand public facilities and services. In addition, they will provide very little lift to the economy in 1972; with industry operating only 75 percent of its productive capacity, these tax bonanzas to business cannot produce a substantial rise in the real volume of business outlays for plants and machines.

These tax bonanzas to business are adding to the Government's growing financial troubles, created by the general economic mess. According to the President's recent budget mesage, the Federal debt will rise nearly $92 billion in the 4 fiscal years from 1969 to 1973—more than twice the debt increase in all the previous 24 years after the end of World War II.

In the fiscal year ending June 30, 1972, for example, the expected $39 billion Federal deficit is mainly caused by the loss of $27 billion in tax receipts, according to the administration's own figures, due to substantial slack in the economy; and high unemployment will add $3.5 billion to unemployment insurance payments. On top of these kinds of troubles, the administration has added tax giveaways to business, which result in the loss of additional billions in tax receipts. In order to provide some relief from these self-created financial troubles, the administration is floating the idea of a national sales tax, under the guise of a value-added tax, which would increase prices and shift an even greater share of the Federal tax burden to low- and middle-income people.

American jobs and technology continue to be exported at an alarming rate by multinational corporations and only a small part of the profits of American subsidiaries abroad are being repatriated, as a result of loopholes in the tax structure.

These developments are adding a lopsided economy, increased inequities, and an eroded tax base to the administration's dismal record of managing the Nation's economy.

By early 1972, after 3 years of misguided economic policies and a growing economic mess, the size of the task of turning the economy around toward prosperity is great.

There have been 5.1 million unemployed in recent months. Several hundred thousand people have stopped looking for work, after months of fruitless job search, and are no longer included in the official unemployment count; this group may be as great as 1 million or more people. In addition, the labor force is growing about 1.5 million a year.

Therefore, about 1.5 to 2 million new jobs are needed in the next 12 months merely to keep unemployment from rising. In order to make a significant dent in the high level of joblessness, about 2.5 to 3 million new jobs are required in the next 12 months—a larger employment increase than in any single year of the 1960's.

To start the economy on such a road to full employment would require a sharp rise in the real volume of total national output of about 7 percent in the next 12 months. In order to approach full employment rapidly, a similar rise in real national output would be required in the succeeding 12 months.

The economic history of the first half of the 1960's, when the labor force was growing at a much slower pace, provides a rough indication of the great task of turning the economy around. It required real economic expansion of 6.6 percent, between 1961 and 1962, to reduce unemployment significantly and to increase industry's operating rate. In the 2 years from 1963 to 1965, it took yearly increases in real national output of about 6 percent, to boost employment by 3.3 million and reduce the jobless rate from 5.7 to 4.5 percent.

Immediate, selective Government measures are needed to create jobs, boost sales, and lift production—to provide the increasing number of job opportunities for the unemployed and the rapidly growing labor force.

Such measures are needed to boost industry's operating rate, the only sound basis for increasing business outlays for plants and machines. They are required to boost productivity and reduce pressures on costs and prices. And they are needed to provide the Government with increased tax receipts.

Moreover, immediate boosts in public investment to create jobs and lift the economy, now, would mesh with American society's need for expanded public facilities and services.

The required measures must be decisive and selective, to create jobs and provide the greatest impact for each dollar of Government outlay.

The American economy is much too large, too complex, too varied and diverse to depend entirely, or even largely, on a simplistic push-button approach to national economic policies. Dependence on overall fiscal and/or monetary policy has proven to be much too expensive—in unemployment, idle productive capacity, prolonged sluggishness and huge, successive budget deficits. The simplistic push-button approach has been pursued at great cost to the American people and to American society.

An emphasis is needed on pin-pointed, selected measures to get at specific problems.

On February 18, 1972, the AFL-CIO executive council presented the following program of immediate economic policies and actions:

1. We urge the Congress to adopt an expanded and strengthened public service employment program—Federal grants to the States, local governments, and Federal agencies for the creation of jobs to provide needed public services.

A special program of Federal financial aid is required to step up job-creating, short-term public works construction and repairs in areas of high unemployment.

We urge the President to release immediately a major portion of the billions of dollars of congressionally appropriated funds, which he has frozen—to create jobs in a variety of Federal programs, ranging from Appalachia to highway safety.

Such actions are essential to lift sales, production, employment, and public confidence. They would also boost Government revenues as employment and incomes rise—the soundest way to reduce Federal deficits that have resulted from the administration's engineered recession and continuing economic sluggishness.

2. Justice in the Federal tax structure and additional tax revenues are required—by eliminating the major loopholes of special tax privilege for corporations and wealthy families.

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

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

4. We call on the Congress to immediately increase the Federal minimum wage and to extend the coverage of the Fair Labor Standards Act to the millions of low-wage workers who are still outside of the law's protection. Early action along these lines would improve the living standards of the working poor and provide the economy with high velocity buying power that will be quickly spent.

5. Increases in the buying power of workers' wages and salaries are a basic prerequisite for economic growth—to provide workers with a share in the benefits of economic progress and to establish the foundation for the needed expansion of consumer markets. Rapid economic growth will not be possible without a substantial boost of consumer sales, which account for almost two-thirds of

national output. The needed rise of consumer expenditures cannot possibly be achieved, unless increases in the real incomes of workers are attained.

6. We urge the administration to quickly eliminate the inequities that abound in the stabilization controls program and are undermining public confidence in the Government's ability to manage the national economy on a fair and equitable basis.

7. We urge the Congress to adopt the Burke-Hartke bill to stop the export of American jobs and to repatriate the profits of American subsidies abroad.

The Economic Stabilization Program

The administration's economic stabilization program is unfair and inequitable.

While complex controls and notification requirements are imposed on the wages of the vast majority of workers, a large part of the cost of living has been completely decontrolled. Further exceptions from price controls are announced almost weekly and the Price Commission approves price increases on a wholesale basis.

Interest rates were never controlled. Neither were the prices of fresh foods, which are part of the daily expenses of every family. Prices of used cars, used tires, used clothing and used furniture—all bought primarily by poor people—are exempt from controls.

There are no controls on life insurance premiums, State and local taxes, mortgage interest payments and the price of homes and land.

Even the President's Council of Economic Advisers reports that 21 percent of the Consumer Price Index is not subject to any controls whatsoever. Moreover, there is no effective machinery to enforce whatever price and rent controls exist on the remaining part of the cost of living.

Instead of trying to achieve a better balance in the control program, the administration is continuing to move it in a lopsided direction. On January 19, the Cost of Living Council, headed by Secretary of the Treasury John Connally and Director Donald Rumsfeld, lifted price controls from three-quarters of all retail stores and nearly half of the Nation's rental units. Its excuse was that complaints of violations were so numerous it was necessary to reduce the workload of the Internal Revenue Service, which is supposed to enforce the program.

Ten days later, the Council added to the record of unfair policies, by exempting only hourly earnings below $1.90 an hour from wage controls. This was clearly contrary to the terms of the amendments to the Economic Stabilization Act, which had been adopted toward the end of 1971.

In enacting those amendments, Congress had determined that wage controls should not be imposed on wage increases of "any individual whose earnings are substandard or who is amongst the working poor." Moreover, in response to a tentative recommendation from the Cost of Living Council, a clear majority of the Pay Board had decided that a $1.90 limitation was too low and would be "inconsistent with the purposes of the amendments to the Economic Stabilization Act."

The Council rejected the Pay Board's advice and flouted the congressional mandate.

A wage of $1.90 an hour results in annual earnings of $3,952 for a full working year—below the Government's poverty line of more than $4,100 for a four-person family at current prices. It is about 44 percent less than the hourly earnings needed to reach the $7,000 annual income, which is the Labor Department's lowest estimate of what it costs a family of four to live in an American urban area.

The unbalanced character of the economic control program is further compounded by the big-business orientation of the Price Commission decisions. The Price Commission permits businesses to profiteer on cost increases—to allow businessmen to pass on additional cost increases on a percentage basis, rather than on a dollar-for-dollar basis. On February 3, the Commission announced that it planned to waive the prenotification requirement on price increases of conglomerate subsidiaries, which have less than $100 million annual sales in a particular industrial classification.

Under these conditions, it is no wonder that prices continue up so rapidly and that profits have begun to skyrocket, despite the disappointing improvement of sales and production. In the second half of 1971, corporate after-tax profits were up 18 percent from the same period of 1970—nearly three times faster than the 6½ percent rise of total wage and salary payments to all employees in the Nation.

At its recent meeting, the AFL–CIO executive council declared:

> No amount of slick propaganda can hide these self-evident facts from the American people—there is no fairness and equity in the administration's so-called control program. It is weighted against workers and their families, with the greatest burden placed on the backs of those at the bottom of the economic ladder, who are least able to protect themselves.
>
> This flagrant favoritism is rapidly destroying the public support that is a prerequisite for a successful stabilization effort in a free society. It is undermining confidence in the ability of the Government to manage the Nation's economy in the public interest.
>
> There must be fairness and equity in the economic stabilization program. America's workers and the poor must not be forced to bear the full burden of economic stabilization.
>
> A key to achieving economic justice is ending the $1.90-an-hour limitation for exemption from wage controls. We do not believe the unconscionable rejection of the needs of low-wage workers and their families by the Cost of Living Council can be allowed to stand.

Price Controls

While nearly universal wage controls are policed by employers, retail price controls, such as they are, are rapidly being phased out.

Exempt from controls are all fresh fruits, vegetables, and other unprocessed foods, all new and used houses, all second-hand goods, including used cars, more than 40 percent of all rental housing units and 75 percent of the Nation's retail stores. Until early February, regulatory agencies, with the approval of the Price Commission, continued to grant price increases in gas, electric, telephone, and insurance rates; and the only Federal Government action has been a 30-day freeze. Interest rates remain without mandatory controls, despite clear legislative authority to impose them.

Enforcement of remaining controls has been sporadic and for all practical purposes, virtually nonexistent.

To date, there has been no vigorous action taken by the Government to protect the consumer through recovering overcharges or by punishing price violators. And while the administration has recently made a show of bringing suits against retailers for failing to post base prices, it disposed of the greater part of this problem simply by exempting most noncompliers from all controls. Since enforcement by a corps of 3,000 Internal Revenue Service agents is impossible, the answer is to "exempt" and bury the problem.

There are, in fact, no direct retail price controls. Price restraints, where they apply, are based on individual company costs, profit margins and markup percentages that are concealed in documents available only to the Price Commission and the Internal Revenue Service.

Large companies required to obtain advance approval of proposed price increases from the Price Commission have obtained such approvals on a speedy and virtually automatic basis.

Despite the administration's plea for help in making the price program work, the consumer is rapidly being phased out of any direct participation in aiding enforcement procedures. Consumer organizations, as such, have no representation on the Price Commission. Retail shoppers have no way of knowing whether any particular price increase is legally permissible or not. In effect, the consumer is on his own, just as he would be without any official price control program at all.

The AFL-CIO Executive Council, at its recent meeting, urged adoption of the following measures:

1. Consumer representation on the Price Commission.
2. Application of price controls over items not covered and the closing of all loopholes.
3. Mandatory labeling of base and current prices on all retail items.
4. Establishment of adequate compliance and enforcement machinery.
5. Prompt processing of consumer complaints, including reports to consumers on the disposition of their complaints.
6. Elimination of secrecy from Price Commission proceedings and provision for open hearings.
7. Government action to assist consumers in the recovery of overcharges.

Wage Controls

The wage control setup, under the administration and business-dominated Pay Board, continues to extend a web of confusion and chaos in labor-management relations across the country.

Instead of simple and clear policies and procedures, with a great degree of self-administration, the Pay Board has painfully complicated regulations and reporting requirements sometimes followed by official interpretations and reinterpretations that add to confusion. Such developments have frequently left unions and managements in the dark as to allowable increases in wages and fringe benefits and required procedures. As a result, smaller unions and newly organized groups of workers, in particular, have been vulnerable to the tactics of unscrupulous employers who attempt to stall and confuse contract negotiations.

Moreover, the Pay Board's decision have added inequities to the basic lack of balance in the administration's economic stabilization program.

While major parts of the cost of living are exempt from price and rent controls—and further exceptions are added almost weekly—the Pay Board attempts to apply stringent controls on the pay increases of the overwhelming majority of workers.

Pay increases for workers in even the smallest establishments require approval if they exceed the Pay Board's guidelines, although their employers are not required to file any notification about price or rent increases and even may be completely exempt from such controls.

The Pay Board's disapproval of the aerospace contracts represented a flagrant rejection of responsible collective bargaining, with a loss of about $350 for each aerospace worker. There is now pending a legal test of this inequitable determination by the Board.

In addition to hampering collective bargaining relationships, the inequities and continuing confusion in the control setup are contributing to the lack of confidence among consumers that pervades the national economy.

Whatever justice has been achieved for workers in the wage stabilization program—such as the granting of deferred increases that were due during the freeze period, under previously negotiated agreements—has been largely the work of the Congress, backed by the Pay Board's labor members.

Tax Justice

A few years ago the shocking fact that 154 individuals with annual incomes of $200,000 and over in 1966—including 18 with annual incomes of more than a million dollars—paid not 1 cent in Federal income taxes, raised the specter of a taxpayers' revolt, and sparked enactment of the Tax Reform Act of 1969. Although this act fell far short of the major overhaul necessary to achieve true Federal tax reform, it represented a badly needed and long overdue forward move. Some of the loopholes for wealthy businesses and individuals were closed, others trimmed a bit, and some relief was granted to low- and moderate-income individuals who have shouldered too much of the Federal tax burden for far too long.

To many, including the AFL–CIO, the 1969 act was viewed as the first step toward tax justice, carrying with it the promise that further steps would be taken.

Unfortunately, the reverse has occurred. The administration and Congress have failed to make any efforts toward completing the unfinished business of tax reform. Rather, new loopholes and gimmicks have been added and billions of potential tax dollars needed to meet the Nations growing need for public facilities and services have been placed beyond the reach of the Federal Government.

The administration-sponsored business-tax giveaways, included in the recently passed Revenue Act of 1971, amount to a permanent reduction of the corporate tax rate of about 15 to 20 percent. The share of the Federal tax burden borne by corporations and their wealthy stockholders will fall precipitously, and the great majority of Americans, whose living standards depend on a job and a paycheck, will be called upon to make up the balance or suffer the consequences of shortages or cutbacks in badly needed public facilities and services.

The yearly cost of the business-tax bonanzas to the American taxpayer and the Federal Treasury will be over $5 billion in 1972, rising to an annual loss of more than $10 billion by 1981, a decade total of some $83 billion in Federal revenues foregone that could be used for schools, hospitals, housing, pollution controls, and other public investments which would strengthen the economy and provide jobs, while improving the quality of American life.

The economy is in a mess as a result of 3 years of game plans, new economic programs and "phases"—policies geared to the discredited "trickle-down" economic theories of the 19th century. As a result, the Federal budget, like the budgets of most working men and women and their families, is in deep trouble.

Huge successive deficits—unprecedented during any period since World War II—have been racked up by the administration. Fiscal year 1970 closed out with a $2.8 billion deficit, which rose to $23 billion in 1971, and for the year ending June 30, 1972, a deficit of $38.8 billion is anticipated by the Treasury. The President recently reported that a deficit of $25.5 billion is expected in fiscal year 1973. These deficits have been created essentially through the failure of the economy to grow at a sufficient pace to provide enough jobs, incomes, and tax revenues.

And a significant portion of these deficits could have been avoided through fulfillment of the promise of tax reform.

The shortfall in economic growth as a result of recession and stagnation accounts for 80 percent of the $38.8 billion deficit expected by the Treasury. Revenue losses of over $27 billion, and $3.5 billion in added expenditures for unemployment insurance, are anticipated in the official estimates for fiscal year 1972.

Closing some of the more glaring loopholes in the tax structure—such as capital gains and depletion allowances, and eliminating the administration-sponsored business-tax giveaways of the 1971 Revenue Act—would add an additional $15–$20 billion in Federal tax revenues.

Thus, through high employment and tax reforms, as much as $50 billion of additional revenues could have been made available. This amount would be sufficient to wipe out the $38.8 billion deficit and add billions of dollars to the Federal funds available for national priority needs.

Such reforms would put us back on the road to tax justice and provide a badly needed increase in the confidence the American people have in the ability of their Government to tax fairly and provide appropriate levels of public facilities and services, and a healthy economy. The AFL–CIO commends Congressman Mills and other Members of the House of Representatives who are demanding that the administration submit tax reform legislation before March 15, so that more Federal tax money can be raised before any further increase in the debt limit is voted.

Unfortunately, the administration continues in its relentless pursuit of policies geared to rewarding those who need it least at the expense of those who need it most.

The administration successfully convinced the Congress that the 20-percent depreciation speedup and the 7-percent investment credit business-tax bonanzas of the Revenue Act of 1971 would create jobs. The investment credit gimmick was even proposed under the name "job development credit." Yet, there were no requirements in the administration's proposals or the law that was subsequently enacted that require firms to add jobs in order to receive the tax breaks. Moreover, there is nothing to prevent a business from using the windfall cash increases, resulting from tax breaks, to buy machinery and equipment which displace workers and destroy jobs. And the sad fact remains that it is now 15 months since the 20-percent depreciation speedup, and the investment credit has been effective for 6 months; yet unemployment has failed to subside.

In his pension message, the President has proposed income tax deductions to provide hefty pensions for the well-to-do while delivering nothing to today's elderly and very little in the future for low- and moderate-income retirees. His proposal raises tax-exempt pension contributions for lawyers, doctors, and other self-employed from the present 10 percent of income with a limit of $2,500 a year to 15 percent with a limit of $7,500 a year. His scheme would add to the profits of the banks, insurance companies, and mutual funds which would handle the huge additional amounts going into pensions for the rich.

Because of economic mismanagement and business-tax giveaways, the need for money is acute. Yet, to meet this need, the administration is planning to package and merchandise an inequitable, national sales tax under the deceptive label "Value Added." Such a tax would increase prices. It would increase the burden borne by low- and middle-income workers and consumers, it would reduce still further the business contribution to the costs of running the Government, and could completely eliminate the thin margin of equity that remains in the Federal tax structure.

The value-added tax (VAT) was first proposed for the United States by the Committee for Economic Development, a big-business-supported research organization. The CED, however, did not attempt to obscure the impact of this tax or veil the real reason for its advocacy. The CED recognized the tax for what it was and recommended the VAT simply and directly as a means to reduce the corporate income tax.

The administration is pursuing the same end but hiding behind the veil of dissatisfaction with the property tax as the means to this end.

The AFL-CIO holds little brief for the property tax. Substantial reforms are necessary to bring this tax closer to the concept of ability-to-pay and alleviate the particular hardship this tax places upon the poor and those whose income falls due to unemployment, death, disability, or retirement. The tax breaks in many localities given to industrial and commercial property at the exepnse of the homeowner and renter through inequitable assessments are scandalous and must be corrected. What is more, it is our view that it is particularly unfortunate that education, one of our most important public investments, is supported in the main by local taxes on real estate.

The AFL-CIO believes that the Federal Government can and should greatly expand its role in helping the States and localities reform their tax structures and attain the funds needed for education and the many other public investments in facilities and services necessary to the Nation's interest. The States should be encouraged to rely more heavily on equitable taxes based on income and ability-to-pay and there should be a sharp increase in Federal grants-in-aid to State and local governments. The AFL-CIO believes the Mills bill represents a sound step in this direction.

There is, however, no justification for the Federal Government to attempt such goals by getting into the sales-tax business.

The Federal tax structure is full of loopholes of special privilege for wealthy people and corporations. In 1970, the most recent date for available information, there were still 112 individuals with incomes of $200,000 and more—including three with annual incomes of more than a million dollars who paid no Federal income taxes whatsoever. The tax structure is rigged against wages and salaries, which are taxed in full, while only half of capital gains are subject to taxation and some other forms of income are not taxed at all.

The Congress and the administration should fulfill the promise implied in the Tax Reform Act of 1969.

The inequities that have been added since that time must be redressed, any and all devices and gimmicks that run counter to the goals of tax justice such as a value-added tax or so-called business incentives through tax relief must be rejected and the unfinished business of tax reform must be completed.

The cost of a 5-percent value-added tax to the average American family of four will be about $200 a year. That would be equivalent to cutting the personal exemption in the income tax structure from $750 down to $500 per person, a loss of $1,000 in personal exemptions for a family of four.

A national retail sales tax, no matter how fancy a name it is given, should be rejected.

The Fair Labor Standards Act

The Fair Labor Standards Act, more than any other piece of social legislation, is in desperate need of updating. Its benefits and protections, absolutely essential to millions of America's working poor, have been seriously eroded by the economic policies of the administration.

The buying power of the $1.60 minimum wage adopted in 1966 has been all but destroyed. Since that time, living costs have risen more than 25 percent.

The minimum wage, which was an acceptable floor in 1966, no longer even approaches the federally defined poverty level for a family of four. There must be immediate, affirmative congressional action to keep American families from being destroyed.

The House congressional hearings, which demonstrated the truth of these contentions, produced H.R. 7130. The Senate committee has not completed executive action on its bill, S. 1861.

The House bill would immediately raise the minimum wage for most covered employees to $2 and would extend coverage to about 5 million more workers. Its immediate adoption would be a valuable forward step.

However, as the Ninth Constitutional Convention of the AFL–CIO stated, labor's goals for the Fair Labor Standards Act continue to be:

1. A minimum wage of at least $2.50 an hour.
2. Full minimum wage and maximum hours coverage for all workers engaged in interstate commerce, the production of goods for commerce or affecting commerce.
3. Equal minimum wage, maximum hours, and child labor protection for farmworkers, as for other workers.
4. The same minimum wage protection for workers in Puerto Rico as on the mainland.
5. A single minimum wage and maximum hours standard for all workers, regardless of age, sex, color, or creed.

While the Congress is considering modest improvements, the administration is recommending a measure that would undermine the minimum wage, by establishing a special subminimum rate for youth.

In his economic report to the Congress on January 27, 1972, the President proposed "revision of the minimum wage system to remove obstacles to the employment of young and inexperienced workers." What the President failed to report is that a subminimum rate for youth would not create any new jobs for young people.

Obviously, some employers would fire older workers, including heads of families, and substitute for them the cheapest labor available—the youths the President would condemn to subminimum wages. That would not increase employment; it would merely rearrange the statistics of unemployment.

The AFL–CIO categorically rejects a subminimum wage for young workers or any other class of workers.

In the name of simple dignity and commonsense, the AFL–CIO demands the Congress update the Fair Labor Standards Act without further delay.

Social Security and Welfare

The Senate Finance Committee now has under consideration a bill, H.R. 1, which could be the most momentous social security and welfare legislation since the New Deal social legislation in the 1930's. The AFL–CIO Executive Council recently urged the Congress to grasp this opportunity by promptly enacting H.R. 1 with the changes the AFL–CIO is recommending. This bill, if sufficiently improved, could move the Nation a long way down the road toward resolution of the persistence of poverty.

Social Security and Medicare

The social security system is a tremendously successful program which has been a major force in improving the quality of life in America. Social security has provided regular income and medical care as a matter of right to millions of the Nation's most economically vulnerable. But it has yet to fulfill its potential for providing economic security with dignity for the victims of death, disability, and old age.

Poverty is more prevalent among the old than in any other age group. And for the majority of the aged who barely manage to stay above the poverty line, destitution is an ever-present threat. The current average benefit for an individual is $128 a month—$1,536 a year; and for a couple, $221 a month—$2,652 a year. Current Government poverty standards are $1,900 a year for an individual and $2,400 a year for a couple.

At its recent meeting, the AFL–CIO Executive Council urged the Senate Finance Committee and the Congress to strengthen H.R. 1 to insure adequate income and health care to millions of Americans who rely on social security. Among the improvements needed, the AFL–CIO Executive Council pointed to the following:

1. A 15-percent increase effective January 1, 1972, followed by a minimum 10-percent increase next year instead of the woefully inadequate 5 percent in H.R. 1.
2. An occupational definition of disability for older workers so that disabled workers unable to work at their usual occupation would be entitled to disability benefits.

3. An increase in the number of dropout years in the benefit formula over that provided in H.R. 1 as a first step toward a formula based on the high 5 or 10 years of earnings.

4. An increase in the minimum benefit to at least $100 a month. In addition, we support the provision in H.R. 1 for a special minimum benefit for beneficiaries with long-term employment at low wages which will guarantee such workers a minimum benefit of $150 a month for 30 years of covered work.

5. To raise the wage base in steps to $15,000 to provide additional revenue for improvements and to keep benefit levels more closely in line with rising earnings.

6. To gradually increase general revenue contributions to the social security trust funds to an eventual one-third of the program cost.

7. To cover the disabled by medicare, but eliminate or drastically reduce the 2-year waiting period for eligibility in H.R. 1.

8. To include prescription drugs under medicare.

9. To eliminate the monthly premium beneficiaries must pay for part B (physician services) of medicare but without adding to payroll taxes.

The administration has recently recommended combining part A (hospital care) and part B (physician services) of medicare into a single program, and elimination of the monthly premium the elderly must now pay, soon to be $5.80. This is what the AFL-CIO has advocated since 1965. But the administration proposal would eliminate the general revenue contribution which pays for one-half the cost of the part B program and would place the cost totally on the payroll tax. The AFL-CIO rejects this proposal and urges that at least half of the cost of the combined program be paid for by general revenue. This would make unnecessary any increase in payroll taxes to cover this cost.

The AFL-CIO also urges rejection of another administration-inspired proposal, now in H.R. 1 in modified form, to increase the period when coinsurance must be paid for inpatient hospital care. This would be an unconscionable additional financial burden on the elderly who need long duration hospital care.

Medicaid

The AFL-CIO condemns the regressive changes in the medicaid program in H.R. 1 which would deprive millions of the poor and the medically indigent of needed medical care. The only fully satisfactory solution to the health problems of the poor as well as for the general population is adoption of a national health security system. But until health security is in effect, every effort should be made in medicaid to move toward the goal of comprehensive health care for the needy and medically needy.

Welfare-Reform

The ninth convention of the AFL-CIO in November 1971, unanimously reiterated support for enactment of genuine welfare reform with Federal financing and administration, and support of the thrust of President Nixon's family assistance payment program.

The convention called for a Federal minimum basic family assistance payment of $3,000 for a family of four, with automatic increases to no less than the Social Security Administration's poverty level within a few years. The convention insisted that no payments should be reduced below current levels, no welfare recipient should be referred to a job paying less than the applicable minimum wage, no mother should be referred to work in the absence of adequate child care for the children, and the job rights and employment conditions of State and local employees who presently administer welfare must be protected when the Federal Government takes over the program.

The House of Representatives has again passed its version of welfare reform (title IV of H.R. 1). During its consideration in the House, we advised all Members to pass the bill intact in order that the Senate would have an opportunity to improve upon the very substantial inadequacies of its provisions.

The Finance Committee of the Senate has completed its hearings.

Senator Ribicoff and 21 cosponsors have introduced amendment No. 559 to H.R. 1. This omnibus amendment includes the changes called for by the ninth convention of the AFL-CIO as a first step toward genuine reform of the welfare system.

At its recent meeting, the AFL-CIO Executive Council declared:

> We urge the Congress and the administration to support the Ribicoff Amendment—Amendment No. 559.
>
> It has been 2½ years since President Nixon, in a nationwide telecast, called for welfare reform. The welfare mess has grown worse, not better. High, long-term unmeployment has aggravated this situation.
>
> The Ways and Means Committee has held hearings; the House of Representatives has twice debated and acted upon the issue; the Finance Committee has twice held in-depth hearings on the family assistance payment program; the Senate has debated the issue, but because the debate came in the closing hours of the 91st Congress, no action was taken in the Senate.
>
> We believe the time for debate is over. We believe the time for action has come.

The Export of American Jobs, Technology, and Capital

America's first officially reported trade deficit in this century, coupled with a sharp rise in the import of manufactured goods and persistent joblessness, have marked 1971 as this Nation's most disastrous year in world trade.

The erosion of America's industrial well-being by the export of technology, capital, production capacity, and jobs is not abating. Each day's movement of U.S. production abroad only increases the torrent of formerly U.S.-made goods into this country, causing a further toll of American jobs.

Imports now account for large and growing shares of U.S. domestic sales of consumer electrical goods of all types: Steel, autos, glass, shoes, tires, typewriters, calculating machines, and many product lines of industrial equipment, textiles, and apparel. In addition, many of the parts and components of products assembled in the United States are imported, including defense items and sophisticated products.

Despite clear warnings, the administration has refused to offer realistic remedies for dealing with the trade problems of the seventies and, instead, attempts to use gimmickry and patchwork methods having only short-range effect.

The August 1971 currency crisis and temporary border tax have given way to devaluation of the dollar. Business experts concede that this will have only minimum impact on imports and will have no effect at all on the outflow of jobs, capital, and technology. The recently enacted tax incentive for export corporations—the so-called DISC—is a gimmick that will help corporate profits but will provide few if any jobs. Other unrealistic trade proposals being considered by the administration would allow for antitrust exemptions and research and development tax subsidies. In today's world of multinational corporations, managed foreign economies, nontariff barriers and high-speed communications and transportation, such proposals are hopelessly unworkable.

Ominous for all Americans is the warmness with which the administration has embraced the multinational corporations as being good for America. These international runaway firms, however, don't have the same sense of warmness for America. These companies insist they are not American but are "international" in fact. Many of these companies have abandoned U.S. factories and U.S. communities where they made their profits. They have abandoned tens of thousands of American men and women who once worked in their plants here, leaving their care to the community and to State and Federal governments.

A principal role of most U.S.-based multinational corporations is the export of U.S. production and the American standard of living, not the export of manufactured products of U.S. workers. Toothless remedies that fail to deal with this fact only deceive hard-pressed Americans and accelerate the crisis.

Americans are told to work harder and use better salesmanship to promote exports. But America certainly cannot promote the export of products, which are no longer produced here. More and more, when new technology is developed, it is not put into U.S. production, but is exported to foreign subsidiaries of American-based multinational companies or to foreign firms with whom they have license, patent, or other joint venture agreements. Technologoy is a high-priority American export to Mexico, Taiwan, and elsewhere.

The deterioration of the U.S. position in world trade has already wiped out many parts of American industries. The American-flag merchant marine has nearly gone down the drain—wiping out jobs and skills.

Current reports from the Common Market indicate that agreements are being reached dealing with U.S. exports of grains, citrus, and tobacco. While these matters should be resolved, it is clear that the administration's chief concern is for the export of America's highly subsidized agriculture products, not manufactured goods where America is suffering its greatest losses in world trade.

The concern of the Congress and the administration should be toward the preservation of the U.S. manufacturing base and the U.S. standard of living.

Currently before the House Ways and Means Committee and the Senate Finance Committee, the Burke-Hartke Foreign Trade and Investment Act of 1972 is a realistic and workable approach to this problem. The recent meeting of the AFL-CIO Executive Council declared that this tax-trade-consumer measure deserves early hearings and congressional attention to bring about legislative remedies that include:

- Taxation of U.S. corporations' overseas operations so that they more closely relate to the tax rules domestically.
- Regulation of the torrent of imports that have smothered U.S. production and cost hundreds of thousands of U.S. jobs.
- Regulation of the outflow of capital from the United States. Currently billions in U.S. dollars, equipment, technology, and patents are being exported without regard to the harm done to U.S. citizens and U.S. communities.

- Procedures for the collection of more pertinent data on foreign trade and labeling procedures. Foreign grants and foreign loan programs should show their effect on U.S. production and jobs. Goods containing foreign-made components should be identified on the product and in advertisements.
- Repeal of section 807.00 and section 806.30 of the Tariff Code, thus ending an abuse whereby U.S. companies assemble products in foreign countries and ship them into the United States as "Made in U.S.A.," paying only a minimum duty on the so-called value added.
- A new Foreign Trade and Investment Commission to administer new legislation and bring modern concepts and methods to its operations.

The AFL-CIO Executive Council also called for an all-out effort to rebuild a strong and balanced American-flag merchant marine, including measures to encourage the use of American-flag ships in carrying a substantial portion of waterborne trade between the United States and other countries.

AMERICAN LIFE CONVENTION AND THE LIFE INSURANCE ASSOCIATION OF AMERICA

This statement is submitted on behalf of the American Life Convention and the Life Insurance Association of America, two trade associations with a combined membership of 359 life insurance companies which account for about 89 percent of the legal reserve life insurance in force in the United States. The total assets of the life insurance business aggregate $220 billion, which represents the funds that have been entrusted to our companies by millions of policyholders. We appreciate the invitation of the Joint Economic Committee to offer our views on the economic issues which confront the Nation.

The objective of national economic policies in 1972 should be to curtail the rate of inflation while improving the pace of real growth and increasing employment in the U.S. economy. To accomplish these objectives, a coordinated and balanced use of Federal budgetary policy, Federal Reserve monetary policy, and phase II controls over wages and prices is required. These policies are described and analyzed in the "Economic Report of the President" on which the Joint Economic Committee is presently holding hearings and in the annual budget message presented to the Congress in January.

In approaching the question of appropriate economic policies for 1972, a primary concern of the life insurance business is the need to conserve the purchasing power of the billions of dollars of insurance protection and savings accumulated through the purchase of life insurance. The past 5 years have witnessed substantial increases in price levels to the detriment not only of those who save for the future but also those unable to raise their incomes sufficiently to offset the rising prices of everyday purchases. In spite of the slower pace of inflation since August 15, the battle against inflation has not yet been won. We would emphasize strongly the need to persist in the application of monetary and fiscal policies designed to avoid a resurgence of inflationary pressures not only in 1972 but for the years beyond.

ECONOMIC OUTLOOK FOR 1972

The Council of Economic Advisers in its annual report for 1972 offers a forecast that gross national product will rise to a total of $1,145 billion this year, an increase of $98 billion or 9½ percent over 1971. Real output in 1972 is expected to increase about 6 percent, while the Council anticipates that price inflation will be reduced to around 3¼ percent, compared with 4.6 percent last year. The GNP forecast of $1,145 billion is roughly in line with estimates prepared independently by many private forecasters, but the composition of real growth versus price increases is more questionable. In our view, the annual rate of real growth is likely to be about 5½ percent, somewhat lower than the Council's estimate. We think the year-to-year advance in prices for 1972 will be about 3½ percent, or somewhat higher than the Council has estimated.

These differences, though small in percentage terms, are nonetheless critical to the appraisal of economic policy over the months ahead, because it is dangerous to assume that inflation will become less of a problem as the year progresses. Unless appropriate policies are pursued, there is a strong possibility that the rate of inflation will be rising again in the latter half of 1972, rather than declining by year-end to the 2- to 3-percent range that is the administration's target.

Inflationary forces remain very much alive in this country. We have real concern that the economic policies described in the economic report will reactivate these forces by overstimulating total demand. Examination of the fiscal and monetary policies that are envisioned for the coming year heightens this concern.

Annual Budget Message

The most striking features of the administration's recent budget proposals are the $38.8 billion deficit project for the current fiscal year and the $25.5 billion deficit estimated for fiscal year 1973. The current year's deficit reflects an increase in fiscal 1972 budget outlays of $25 billion or 12 percent above fiscal 1971, while Federal reciepts are estimated to rise less than $10 billion. The failure of receipts to rise in line with outlays results from sizable tax reductions that have been recently enacted as well as the slow pace of economic recovery during calendar 1971. On the expenditure side, the budget figures indicate a very substantial acceleration in Federal spending during the balance of the fiscal year ending June 30, in an attempt to reduce the level of unemployment through stimulative fiscal actions. One consequence of these proposals is to push the "full employment" budget into an $8 billion deficit, in contrast to the near balance foreseen only a year ago.

For the fiscal year 1973, the budget proposes a further $10 billion increase in Federal outlays to a total of $246 billion. However, the new obligational authority requested for fiscal 1973 is scheduled to increase by $21 billion to more than $270 billion. Such authority empowers the government to commit itself to specific expenditures in advance of actual payments, thus providing an immediate spur to private business activity based on Government contracts. On the revenue side, receipts for fiscal 1973 would increase by an estimated $23 billion, leaving a deficit of $25.5 billion. The combined budget deficits for the 3 fiscal years 1971, 1972, and 1973 would aggregate $87 billion—a staggering total by any standard.

It is our judgment that the fiscal program proposed in the annual budget message is overly expansionary and threatens to rekindle inflationary forces in the latter part of 1972 and into 1973. The $39 billion deficit indicated for the current fiscal year has already reawakened inflationary expectations, particularly in the sensitive capital markets. Among foriegn officials and investors, the annouced size of the 1972 and 1973 deficits has already raised grave doubts as to our determination to bring inflation under control. In their eyes, it has dimmed the prospects for international stability of the dollar.

We believe that the massive deficits and sizable increases in spending indicated in the recent budget message are likely to have their greatest impact on the economy just about the time when private business is in strong recovery, with consequent pressures of excess demand. Prospects for this outcome are heightened by the possibility that actual

Federal outlays in fiscal 1973 may in fact exceed current budget estimates, as has occurred repeatedly in recent years. Moreover, Treasury borrowing needs resulting from the massive deficits are likely to concide with rising private credit demands, with consequent upward pressures on interest rates. Unless the projected growth of Federal expenditures is slowed down and the proposed deficits reduced, an unwelcome renewal of inflationary pressures surely faces us in the near future.

At the same time, we realize that there is a need to strengthen national policies to relieve localized and structural unemployment. Among teenagers and women, unemployment rates are especially high; indeed, they appear to account for a substantial part of the national rate of unemployment. We believe that special measures are required to meet this problem, not the huge fiscal expansion contemplated by the budget proposals.

Federal Reserve Monetary Policy

The Economic report includes an analysis (pp. 56–59) of Federal Reserve monetary policy during the year 1971 and takes note of the difficulties experienced by the monetary authorities in controlling the monetary growth rate during the year. One lesson that should be drawn from this experience is that there are variable and perplexing timelags between Federal Reserve actions and monetary growth, and between monetary growth and economic activity. In view of these lags, current monetary policy must take into account the dangers of excess liquidity and the serious impact it may have on the economy 6 months or a year from now.

Over the past 2 months, the Federal Reserve has pursued a policy of "aggressive ease" which resulted in pushing down short-term interest rates and raising the growth rate of the money supply. As noted in the Economic Report (p. 26), "The role of monetary policy in the expansion ahead will be to provide for the increase of liquidity required to support increases in activity and income." However, a continuation of aggressive ease throughout 1972 carries a threat of excessive expansion which, together with a stimulative fiscal policy being proposed, could have inflationary consequences for the economy.

We are deeply concerned that the combined stimulus of expansionary fiscal policy and aggressively easy monetary policy will result in regeneration of inflationary demand pressures, particularly during the latter part of 1972 and continuing into early 1973. Accordingly, we urge that monetary policy move toward less ease than at present and gradually adjust to a firmer position as the economy gains strength. A move toward firmness in monetary policy cannot be postponed for long, if a recurrence of excess demand is to be avoided.

Wage-Price Controls Under Phase II

The life insurance business supports the efforts of the administration to help suppress the inflation through a temporary system of direct controls over wages and prices under phase II of the new economic policy. We believe that this program has had the desirable effect of giving national prominence to the nature of cost-push inflation and the effect of wage contract settlements on our national cost structure. By calling public attention to the terms of major labor contracts, the phase

II mechanism has brought pressure to bear on both unions and management to justify their positions. We believe that a firm and effective Pay Board is essential under present conditions to combat cost-push inflation at the source and to restore public confidence in the possibility of achieving more stable price levels over future years.

In the implementation of phase II policies since mid-November, widespread disappointment has developed over Pay Board decisions to permit substantial departures from its announced guidelines in individual cases. Public acceptance of the phase II mechanism, and national confidence in the ultimate effectiveness of its operations, will be severely undermined unless closer adherence to the announced standards is evident in future decisions. We therefore urge that a firmer policy should be followed in the administration of wage controls, not only to restrain a fundamental cause of cost-push inflation but also to strengthen public confidence in the fairness and impartiality of the program.

We are equally concerned over the impact of expansionary fiscal and monetary policies upon the effectiveness of temporary wage-price controls under phase II. The Economic Report states: "If our fiscal and monetary policies are prudently managed there is little likelihood that the controls will be exposed to the pressure of excess demand." Later it is stated that "One of the most common causes of the breakdown in price-wage control systems has been excess demand for goods and labor, which places upon the control system the burden of resisting market forces." (pp. 26–27.) If the direct control mechanism is to prove effective, the importance of avoiding expansionary fiscal and monetary policies cannot be stressed too strongly.

Wage and price controls apparently are now being relied upon as the primary safeguard against inflation. This is leading to the use of dangerous stimulative fiscal and monetary polices in the hopes of expanding business activity and reducing unemployment. The Economic Report on pages 101–102 argues that "* * * the existence of price and wage controls will reduce the pressure both of inflation and of inflationary expectations. This permits fiscal and monetary policy to exert a more expansive thrust than was prudent earlier when the inflation objective was more vulnerable." We believe that this approach is highly questionable. It is clear from past history that a flexible system of direct controls, based in part on voluntary cooperation, cannot be relied upon to withstand the pressures of excess demand for products and labor. If we genuinely wish the phase II control system to succeed it is imperative that we avoid the creation of excess demand stemming from a coincident expansion in the private sector and an overstimulus from governmental policies.

The Longer-Term Outlook

For the past 3 years, the budget document has included a longer view of budgetary trends, thus providing a much-needed perspective on the future effects of current spending proposals. The 1973 budget sets forth a prospective "budget margin" which is derived from (*a*) Federal receipts projected through 1976; (*b*) outlays for present and proposed spending programs projected through 1976; and (*c*) the resulting budget surplus or "margin" that is foreseen for 1976.

In this year's budget analysis, the projected budget margin for 1976 has been reduced to $5 billion, compared with a margin of $30 billion foreseen a year ago. The budget document properly warns that the available leeway for future needs or new initiatives has been substantially reduced during the past 12 months and notes that "actions which add to Government spending must be constrained to a small fraction of former levels. The only alternatives are higher taxes or higher prices." (Page 48.)

The startling shrinkage of the budget margin has resulted from a combination of tax reductions enacted recently and the addition of new and expanded Federal programs for higher spending in future years. New programs proposed in the 1973 budget are expected to increase budgetary outlays in 1976 by $19 billion while the cost of existing programs is expected to rise by another $45 billion. A related analysis, summarized in the attached table, spells out certain legislative proposals for new and expanded programs in the 1973 budget that will add approximately $30 billion to Federal expenditures by the fiscal year 1976. These include revenue sharing, social security expansion, welfare reform and certain other programs that will add heavy new burdens to the budget as they reach full implementation levels.

This type of analysis clearly demonstrates a major reason why Federal spending continues to mount steadily year after year. When first introduced, the price tag on new programs often appears modest in the startup stages, since the longer-run cost of full implementation is seldom emphasized. If we continue this practice, our budget situation 4 years hence will merely imitate the mistakes of the past, entrapping both the Congress and the administration with long-term commitments for "uncontrollable" expenditures. This process has made more difficult the task of economic stabilization in past years and it threatens to build in irreversible budgetary pressures for future years. In these circumstances, we strongly urge that the Congress exercise the greatest possible restraint in the authorization of new and expanded spending programs which threaten to add inflationary pressures not only in the latter part of 1972 but for the ensuing years.

Concluding Remarks

To summarize briefly, we believe that the Council's forecast of a $1,145 billion GNP in 1972 is a reasonable estimate, but that real output will expand by less, and price inflation will rise by more, than the Council has projected. Federal budgetary proposals set forth in the January budget message are designed to provide a massive stimulus to the economy, but we are concerned that the stimulus of fiscal actions will become more inflationary than expansionary by the latter part of this year unless timely steps are taken to check the rapid growth of Federal expenditures. The enormous budget deficits projected for fiscal 1972 and 1973 threaten to reawaken inflationary expectations, to place strains on financial markets and exert upward pressures on interest rates, and to raise doubts abroad as to our ability to protect the exchange value of the dollar. Federal Reserve policy recently has been aggressively easy in an attempt to quicken the monetary growth rate, but we urge that monetary policy move toward less ease in the near future, to avoid regeneration of excess demand as the economy gains strength over the next several months.

Government efforts to lessen inflation through direct controls on wages and prices under phase II have had some desirable results, but we are concerned that public acceptance and national confidence in the control mechanism could be undermined unless the Pay Board adheres more closely to the announced standards. We are also concerned that highly stimulatory fiscal and monetary policies could lead to a breakdown of the control mechanism by creating a resurgence of demand-pull inflation. Phase II controls should not be used as the sole means of curbing inflation, or used to justify overly stimulative fiscal and monetary policy.

For the longer term, the budget document has revealed a substantial narrowing of the projected "budget margin" for 1976, because of the magnitude of expanding Government programs. We strongly urge that Congress exercise the greatest possible restraint in the authorization of new Federal programs in order to avoid both near-term and long-term inflationary pressures.

We appreciate the opportunity to present to the Joint Economic Committee our views on these important national issues.

CHANGES IN OUTLAYS DUE TO LEGISLATIVE PROPOSALS FOR MAJOR NEW AND EXPANDED PROGRAMS [1]

[In billions]

	Fiscal year estimates				
	1972	1973	1974	1975	1976
Revenue sharing:					
General revenue sharing	$2.2	$5.0	$5.7	$6.4	$6.9
Special revenue sharing		.6	2.8	3.4	3.3
Other legislation:					
Department of Health, Education, and Welfare and Labor (total)	.1	4.9	13.5	15.8	18.5
Social security reform	(2)	3.5	4.3	5.9	8.1
Family health insurance			1.1	1.5	1.8
Welfare reform programs		.4	5.5	5.9	6.0
Other programs	(2)	1.0	2.6	2.6	2.6
Department of Defense (additional costs of Volunteer Army and reform of military retirement pay system)		.7	.8	0.8	0.7
Other new or expanded programs	.2	.1	.8	1.1	1.4
Total, major new and expanded programs [3]	2.6	11.3	23.6	27.5	30.9

[1] The estimates in this exhibit represent simple projections of cost expressed in constant dollars at prices existing at the time the estimates were prepared except for cost-of-living adjustments for social security and veteran's compensation. These estimates are derived from a new budget table required by the Legislative Reorganization Act of 1970.

[2] Less than $100,000,000.

[3] No totals are shown for this table in the budget because of the varying bases and assumptions on which the projections for different programs were made.

Source: The Budget of the U.S. Government for the fiscal year 1973, pp. 540–542.

CHAMBER OF COMMERCE OF THE UNITED STATES

By CARL H. MADDEN, *Chief Economist*

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

THE STATE OF THE ECONOMY

As had been anticipated by most economists, last year's recovery from 1970's recession was less than exuberant. Nor is this year's extension of the recovery expected to be strong enough to depress the average annual unemployment rate much below the 5½ percent level. Unfortunately, the twin problems of unemployment and inflation will continue to plague us this year, although in lessened measure, as they are plaguing our competitors abroad. But if the proper policies are pursued in 1972, the groundwork can be laid for high prosperity in 1973 and beyond. This is the challenge to economic statesmanship in 1972—whether to break the back of the inflationary psychology which still has the Nation in its grip and thereby prepare the economy for a sustained period of prosperity, or whether to adopt shortsighted, on-off monetary and fiscal policies that will solve neither inflation nor unemployment in the long run.

The business community has been officially criticized for not stepping up its investment spending more sharply than the planned 9 percent reported in the end-of-year Commerce-SEC survey, considering the stimulus of the improved depreciation guidelines and the job development tax credit. But we should keep in mind that typically business underestimates its investment spending when the business cycle is in an early recovery phase, just as it overestimates its planned expeditures at the upper turning point of the cycle. Evidence is already appearing of the usual pattern this time: the McGraw-Hill survey taken last October projected a 7-percent rise in business plant and equipment expenditures for this year over last. A special check run by that company between mid-January and mid-February indicates that "growing confidence" in the economy plus the restored investment tax credit and liberalized depreciation rules have caused businessmen to boost their spending plans by another 4 percent to an 11 percent increase over last year. Moreover, total employment is growing and, with it, personal income, encouraging rising consumer spending, which in turn will encourage business to expand, despite the high personal savings rate.

Most remarkable in their impact on the economic outlook for the year, in our estimation, are the outsized deficits for the current and new fiscal year, the turnaround in productivity, the success or failure of phase II in decelerating cost-push inflation, and the international position of the dollar.

THE FISCAL YEARS 1972 AND 1973 DEFICITS

Although properly expansionary in impact this year, the outsized planned deficits for the current and new fiscal year pose formidable problems, both short and long term. In the short term, spending for this calendar year is slated to rise 13 percent—the fastest rate in recent memory—resulting in a deficit that will be extremely difficult to finance in a noninflationary manner, especially if the Treasury finds itself competing for funds with business and consumers as the recovery gathers strength later in the year. The two planned back-to-back deficits create the danger that the precarious toehold on inflationary expectations secured last August 15 by the President is in danger of slipping. It would be tragic if the complex negotiations for new trade, investment, and monetary arrangements among the free world nations were drowned in a sea of budgetary red ink. Over the long term the awesome fact is that less than one-third of the new budget is open to the Presidential knife. The President did cut such items by $1.6 billion in the new budget, only to see uncontrollables rising by $8 billion this fiscal year. In the new budget, relatively uncontrollable expenditures come to 71 percent of the total. Since 1965 the Federal Government has grown 20 percent faster than the GNP. If this trend keeps up until 1980, the Government will spend over 26 percent of GNP.

This trend toward a growing and largely uncontrollable budget raises serious questions about the full employment budget concept as an operating rule. In fact, except during wartime, we have had many more years when this concept would have justified actual budget deficits rather than balances. It is not a rule, therefore, that imposes restraint on rising expenditures. Moreover, the crux of the concept is the unemployment rate taken to be normal. The Secretary of the Treasury in testifying before this committee has joined the growing group of those who now believe that 4 percent is too low a target rate if our goal is stable, noninflationary economic growth.

Because the revised fiscal year 1972 and the fiscal year 1973 budget give strong evidence that Federal spending is out of control, the national chamber's board of directors last month approved the following recommendations to the administration and the Congress:

(1) The adoption of 5-year budget projections, not only in aggregate but also in program detail for major functional categories of spending, to be published each year in the budget document. These 5-year projections should be made both in the form of obligational authority and expenditures in two separate budgets. Recognition of implicit, ultimate costs of programs will lead to better decisionmaking by both the administration and the Congress. Furthermore, discipline in the budgetary process has to begin with obligational authority.

(2) The adoption of the zero base budgeting technique, at least on a 3-year rotating basis, for every major program in the Federal budget. This means that, instead of concentrating administration and congressional attention on the mere increases in old programs, entire programs should be carefully evaluated, with the objective of reducing or even eliminating those programs which are clearly counterproductive.

(3) Adoption whenever feasible, as a general budgetary method, of pilot testing for all new programs. Pilot testing can determine un-

productive and unintended effects without massive expenditures on unsuccessful programs.

(4) Designation of an appropriate congressional committee, to be charged with the responsibility of evaluating the budget as a whole rather than in individual pieces as now is the custom. The machinery is already in being and would merely require the activities of the Joint Committee on the Legislative Budget.

The Outlook for Productivity

Productivity is bound to improve this year by more than last year's gain. There is the danger of confusing short- and long-term changes in productivity. Much has been made of the undoubted fact that in the half decade 1965–70 productivity dropped by about one-third. But we should remember that productivity gains averaged over 3 percent in the preceding two decades. The 1965–70 record reflected an overheated economy. Under such circumstances productivity always declines as less efficient workers are employed and as production rates approach capacity. Conversely, productivity rises above the secular trend line in recovery periods such as the present.

It is true that certain structural changes are occurring in our economy that threaten to reduce our secular growth. These include a marked slowdown in the shift of labor from agriculture to higher productivity industry and continued movement of labor from industry to presumed low productivity services. But neither the Bureau of Labor Statistics nor the Bureau of Economic Analysis in the Commerce Department has reliable figures on service industry productivity. Failure to take into account quality improvement in some services, such as medical treatment and financial services, leads to possible understatement of real GNP and overstatement of the rate of inflation. As better methods of measuring output in the services are developed, they may very well offset the depressive effect on average productivity of occupational shifts.

In short, it is premature to predict a slowdown in the secular growth of productivity and its constribution to stable economic progress. Too rapid a reflation of the economy, however, in the next year or two, through misguided Government spending programs or too easy a monetary policy, runs the risk of trimming productivity gains and reviving the inflation that has distorted the economy and worsened our international position.

Evaluation of Phase II

In our view the evaluation of phase II for the several weeks covered in the economic report is reasonable. It is certainly true that any control program creates inequities and phase II from the beginning has created its share, notably in Pay Board decisions involving big unions, resulting in inequities for nonunionized workers. Since the purpose of wage-price controls is to slow down and eventually arrest cost-push inflation arising from above-productivity wage increases, the pre-August 15 escalating wage-price pattern must be broken if the program is to succeed. The removal of excess demand from most markets had already resulted in a slower rise in nonunion than in union wages before the new economic policy was launched on August 15 last year. It is to be hoped that with major contract settlements now effected, the Pay Board will soon establish a pattern of wage increases more in line with trend-rate productivity gains plus cost-of-living adjustment, which at the present would call for settlements much closer to its 5½ percent guideline than has been the case so far.

At issue, of course, is public faith in the control program which evoked widespread acclaim at its inception but which, according to recent polls, now suffers diminished credibility.

It would be tragic to see the great gains of the August 15 "shock treatment" frittered away either by weak administration of the controls or by premature efforts to accelerate recovery through intemperate fiscal and monetary measures at the expense of longer term stable economic growth.

On the other hand, the national chamber believes that controls should be dropped as soon as there is reasonable evidence that the administration's wage-price targets have been substantially attained. Such controls do not go to the heart of cost-push inflation, which is the result of impediments to competition in the marketplace. The chamber has long maintained that free markets and competition should be maximized in the public interest. Impediments, both public and private, to such free markets and competition should be removed.

The International Economy

The United States emerged from World War II as the undisputed military and economic power and the source of billions of dollars of Marshall Plan aid and other forms of economic and military assistance to our allies. Domestically, after a faltering start in the early fifties, we embarked on a decade of unprecedented prosperity in the sixties. But, even as the tempo of economic activity quickened and America became the "affluent society," domestic-social problems mounted and doubts about our historic mission multiplied, accentuated by our growing involvement in Vietnam. This social malaise, sharpened by inflation and its speculative excesses in the last half of the sixties, was accompanied by a sharp rise in sentiment for more effort to be devoted to national problems and less to international ones.

The great economic paradox of the sixties was intensified by American preoccupation with domestic problems while the economy rapidly internationalized. A negative balance of payments in the 1950's was tolerable so long as there was a "dollar shortage" internationally; but in the late sixties inappropriate Federal deficits and related monetary expansion in a drum-tight economy brought on inflation and a hemorrhage of gold to other countries, along with a sharp increase in our short-term liabilities to foreigners. Finally in 1971, for the first time since 1893, even our merchandise balance of trade turned negative.

The drastic action taken by the President in mid-August of 1971 represented the culmination of a series of dollar crises abroad. The subsequent "Smithsonian Agreement" of December 18, 1971, although a definite step in the right direction of reordering exchange rates, was far from sufficient to reestablish a viable, long-term, flexible exchange system operating within the framework of a reconstructed international monetary fund. Excessively large Federal deficits and unduly expansionary monetary policies that revive foreign dollarholders fears of renewed U.S. inflation can only postpone the badly needed changes in the international monetary system along with continued negotiation of lower trade barriers.

We ignore the international effects of overheating our economy at the peril of forcing the major nations, including ourselves, into neo-mercantilistic policies, including more exchange controls and trade protectionist measures.

Thus, in considering the appropriate national economic policies to be pursued this year and in the years to come, we must face the fact that increasingly the foreign economic effects of these policies will necessarily serve as a constraint on domestic excesses. The only alternative is to lead the world economy back into the kind of autarky that characterized the economically stagnant decade of the 1930's.

COMMUNICATIONS WORKERS OF AMERICA

A great many things have changed since the presentation of the Economic Report of the President of 1970. Not the least of the changes is the character of the report which, for 1970, was described by many economists as a travesty. In contrast to the assertions of the 1970 report to the effect that the economy was progressing as it should, and as administration policy was providing that it should, the 1971 report acknowledges that things were not going according to Hoyle at all.

The much heralded increase in real national output for the first quarter of the year turned out to be largely a catchup from the decline for the last quarter of 1970, resulting from the auto strike. While unemployment declined from 6.1 percent in December 1970 to 5.9 percent in February 1971, it bounced right back and stayed at around 6 percent for the remainder of the year.

While prices (reflected in the Consumer Price Index) rose only 2.8 percent on an annual basis the first quarter of the year, they rose again at a 5.3-percent annual rate through the second quarter. The increase for the entire year has been 4.3 percent in spite of a "freeze".

National Product and Productivity

The increase in real gross national product for 1971, following an actual decline in 1970, was 2¾ percent. However, there was a six-tenths-percent decrease from 1969 through 1970, and the 1971 increase in only a 2-percent increase over the output of 1969. While the index of industrial production rose 3 percent from December 1970 through December 1971, the average for the year was only two-tenths of a point above that for 1970 as a whole. With some increase in real output, therefore, it is evident that productivity increased substantially more—an average for the year of 2.9 percent over 1970 as a matter of fact.

It is quite evident, therefore, that we still are in a recession and improved productivity has hardly gotten us out of it. The increase in real gross national product is completely accounted for by the increase in productivity.

The evidence of stagnation is reinforced by the figures on total personal income. The annual figures on preliminary estimates indicate that personal income for the year advanced at a rate of 6.6 percent. But the Consumer Price Index for the year advanced 4.3 percent. The remaining 2.3 percent was hardly sufficient to enable people to purchase the additional product of improved productivity.

Employment and Unemployment

The one substantial increase in payroll jobs came in the service categories—2.4 percent for the year. The increase in civilian nonagricultural employment averaged seven-tenths of 1 percent for the year. Even from December 1970 to December 1971, the increase was only 2.2 percent. This increase of 790,000 jobs in a context of 5 million persons actually looking for work and unable to find it hardly represents recovery.

By contrast, there were substantial decreases in manufacturing jobs, particularly in durable goods; there was a decrease in contract construction jobs for the year; there was a decrease even in transportation and public utilities which had shown an increase in 1970 over 1969. The unemployment situation would look even worse if it were not for some slippage in the labor force participation rate and a considerably reduced rate of growth in the total labor force for 1971. In 1971, the total labor force increased only slightly more than 1 million—less than 1.2 percent. The increase in 1970 was 2 percent; in 1969, 2.4 percent.

Taken on balance, there is little in the employment picture for anyone to be happy about. Increased productivity has provided very little growth. The increase in total civilian employment for the year was only six-tenths percent—insufficient to absorb the increase in the labor force by about half, and we conclude that progress toward business recovery during 1971 was a myth.

Total civilian employment was increased 2 percent by the end of the year over what it was at the beginning of the year. But, the total civilian labor force rose, too, 2.1 percent As a result, the unemployment index stood at the same 6 percent the last 2 months of 1971, as it was the first month of 1971.

Effects of Phase II

The effects of both phase I and phase II controls under the new economic policy are difficult to assess. On paper, there was little in the new system of controls specifically directed toward providing some stimulus for the economy. The reintroduction of an investment tax credit is an indirect stimulus which may induce the horse to water, but hardly is designed to make him drink. There was a marked improvement in gross private domestic investment the fourth quarter of the year, after an outright decline the third quarter. Total fixed investment was pushed upwards fairly steadily during the year and producers' durable equipment finished strongly the final quarter. Adjustments in business inventories were positive the final quarter after being negative the third quarter. But, rather than being due to any sustaining effect of an investment stimulus, these results may have been an outright result of the "shock" effect of the new price controls. Total domestic investment appears to have been winding its way back throughout the year from the disaster of 1970. As a matter of fact, the second quarter increase was substantially stronger than the fourth quarter improvement across the board.

The more probably cause of the improved investment situation is some resurgence in personal consumption expenditures which came back rather strongly in 1971 from a poor fourth quarter in 1970. This improvement was strongest in the first half of the year and appeared to be fading somewhat during the last half. Nevertheless, this was accomplished in spite of a rate of savings as a percent of disposable income that reached a record level of 8.1 percent for the year.

Consumer expenditures are expected to improve, and, on this basis businessmen have projected a 9-percent rise in plant and equipment expenditures for 1972. A much more important stimulus, however, is expected to be provided by somewhat lower Federal tax rates and an expanded Federal deficit. This weighty factor in an already delicate balance between inflation and unemployment provides considerable apprehension. It is assumed that the inflationary impact of a deficit is to be restrained by price controls

One or two years ago, the administration regarded this approach as unthinkable. There was also considerable suggestion by economists that some kind of incomes distribution policy was needed to blunt the inflationary impact of an expended fiscal policy. This also was regarded as unthinkable. Now, it appears we are to have both. But, the projected 1972 deficit of $38 billion appears likely to have a "sieve" to run through rather than a well-oiled distribution mechanism if the present loose price controls are given their present course.

Of phase II of the current controls the President's report says: "The control system which has just been established is meant to assist market forces that would be working to hold down inflation; it is not meant to resist market forces working to accelerate inflation."

This statement is not the less remarkable because it is difficult to imagine any market force that would work to hold down inflation that would not also work to resist market forces to accelerate inflation. But, it almost suggests a Freudian slip—as if, "Yes, we intend to hold down wages, but we do not intend to hold down prices." Whether true or not, certainly the statement itself surely makes about as much sense.

Prices did rise during phase I, August through November, by only about four-tenths percent of the CPI for the whole 3-month period. Then, with price adjustments the order of the day in phase II, they shot up an additional four-tenths percent for the final month of the year. This monthly increase was exceeded before phase I only in May and June. The index for food prices alone in December rose 1.1 percent—the largest rise in 2 years. This does not augur well for the administration goal of price changes by the end of 1972 of only 2 to 3 percent per year. Indeed, it is very difficult to escape the conclusion that the administration is engaged in a program in which, apart from the controls on wages, it does not believe.

The Outlook for 1972

With the fiscal stimulus of an unbalanced budget, the administration looks forward to a 6-percent gain in real national output for 1972. With the size of the deficit contemplated, this would appear to be a possibility if prices were sufficiently controlled, and, in that event, it even might be contemplated that unemployment could be reduced to 5 percent. Few believe this can be accomplished. The distributive mechanism, as it exists in the present tax structure and in the structure of prices as they respond to the pressures of inflation, is such that lukewarm price controls will result in higher money incomes for those who have them and little improvement for those who do not.

Corporate profits for 1971 rose 13 percent, and already has surpassed the 1970 and 1969 levels. While this will be a stimulus for additional activity, the taking up of unused plant capacity must go a long way before it will cut into accumulating unemployment. Meanwhile, the administration is gradually upping the goal for tolerable levels of unemployment. While the increasing proportion of the young and women in the labor force does suggest long-term increases in a full employment level of unemployment, there is little comparison with the past that suggests that level should now be regarded as 5 percent instead of 4 percent or lower.

SUMMARY

In general, while we are gratified that the administration finally has seen fit to abandon a discredited "game plan," we feel that the new plan is too loose. We do not feel the administration has squarely faced up to the twin problems of underemployment under conditions of creeping information. We visualize the problem, as do many, as more of a distributive problem. It is perfectly conceivable, economically, that there can be some recovery, that economic growth can take place, that the stock market may improve, and more, without there being any pronounced change in the balance of the economy. Those who have incomes will improve their incomes; those who have wealth will increase their wealth. But, there remain certain glaring inadequacies related to continuing problems that simply are not addressed:

(1) Nothing, currently, is projected to reduce the great gap between those people who are at poverty levels of existence and those in the mainstream of our society. Welfare reform now has been postponed until fiscal year 1973.

(2) There is very little in the recently changed Federal income tax law which will affect in any substantial way the existing inequities in the distribution of income. In 1968 the 16.4 percent of all families who had less than $4,000 annual income had only 5 percent of the total national income.

(3) While, for the year 1971, the average rate of unemployment for the entire labor force was 5.9 percent, the rate was 16.9 percent for those seeking work between the ages of 16 and 19; 9.9 percent for nonwhite groups; 7.4 percent for blue-collar workers.

(4) The largest additional chunk of unemployment over the last 2 years, howevcer, has come to adult men, or fulltime workers. At the end of 1971 there were 2.1 million men aged 20 or over unemployed, an increase of 81 percent from 2 years ago.

(5) Comparison of the Federal budget for 1971 with the projected budget for fiscal 1973 reveals where the national priorities are directed under this administration. National defense expenditures are to be increased almost 10 percent amounting to more than $7.7 billions, expenditures on natural resources and the environment are to be increased more than 8 percent, amounting to all of $228 million.

(6) While budgetary improvements are projected for 1973 for community development and housing and for education and manpower development, which is gratifying, the President vetoed the HUD appropriations increase in August and vetoed the education appropriations bill before it was passed over his veto.

(7) A bill to assure employment and training opportunities for the Nation's unemployed and underemployed was vetoed in December. The bill would have provided $9.5 billion for public service employment at a time when the Nation's unemployment rate had reached a 9-year high of 6.2 percent.

(8) A bill to extend the Office of Economic Opportunity's programs for 2 years, and establish a new, comprehensive day care

and child development program was vetoed in December 1971. The bill would have provided all-day care for the preschoolers, after school and vacation programs, medical, nutritional, and social services for 8 million children whose mothers work.

Attention to the so-called structural problems relating to composition of the labor force—improved opportunities for minorities, women, and the young—is inceasingly necessary, but this will deal with only part of the larger unemployment problem. The basic problem is that the economy is not growing fast enough to keep up with an increasing population and rising productivity.

Productivity has gone up; the increase in unit labor costs was cut in half during 1971, but the major share of the productivity gain has gone to profits and other business income. When the 1971 increases in types of income are deflated by the overall price deflator for the gross national product, while total national income increased by 2.1 percent over 1970, compensation of employees increased but 1.9 percent; incomes increased 3 percent; before taxes increased 8.1 percent.

We believe the economy is not growing fast enough because of some basic structural problems in the entire economy. The distribution of income is too rigid. Only a combined program of welfare and tax reform will change it.

We reject the notion that profits have to improve first —so that the benefits of a free enterprise system may then trickle down to everyone else.

The price system also now is too rigid. The large national firms and conglomerates no longer compete—except for the consumer's dollar. Large national firms will willingly sacrifice volume of sales and employment before relaxing their hold on profit margins or prices. The Government's present program of price controls must be extended far beyond the present program of allowing "needed business adjustments." It must be extended to examination of business pricing practices.

Not since 1946, when the economy was experiencing shortages of all consumer goods, has the consumer held on to such a high proportion of his disposable income, despite increasing unemployment. Consumers are uncertain about the future with respect to either employment or prices. Consumers are not going to reactivate the economy by having their savings extorted. The administratoin is going to have to convince them with its deeds, and not its rhetoric, that it is all worthwhile.

(1) Price controls must be stabilized.

(2) Welfare reform should be proceeded with immediately.

(3) Further reform should be undertaken in Federal income tax law, and current proposals for a "value-added" tax, which would be nothing more nor less than a regressive Federal sales tax, should be rejected.

(4) Much more needs to be done by the administration on problems related to the environment, and if this is going to reduce productivity, the Federal Government had best look into some possibilities for making economic activity less dependent upon profits.

(5) If the problem of unemployment is structural, and if the percentage of the labor force unemployed tends to increase, the administration had best quit vetoing education programs and programs for public employment. If it is going to run a deficit, it had better "run it" wisely.

CONFERENCE ON ECONOMIC PROGRESS

By LEON H. KEYSERLING [1]

I appreciate very much the opportunity, once again, to bring to the committee my views on the economic issues confronting the nation, and what I think ought to be done to deal with them in the public interest.

GENERAL APPROACH

In preparing for this task, I have of course examined carefully the 1972 Economic Report of the President and the accompanying annual report of his Council of Economic Advisers. But this year, I do not think it would be most helpful to the committee for me to relate my comments specifically and in detail to what is contained in these two documents. The reasons are that my differences with what they contain are not mere matters of degree, nor do they involve the fine shadings to which economists frequently resort. Instead, I disagree most profoundly with these two documents almost in their entirety. They are far too complacent about where we are now, and where we are going. Their policy recommendations are too far afield, in my view, from those properly designed to get us where we ought to be. Their entire analysis of causes and effects in the economy seems to me rather superficial and seriously in error. Their sense of values, especially as these relate to our great national priorities, seems to me dull and irresponsive. Their diagnosis of the real causes of and remedy for inflation was proved mistaken some time ago, and remains on the wrong track today. They are not responsive enough to the urgency of restoring maximum employment, production, and purchasing power.

Therefore, I shall adopt this year the method of setting forth my own views as to the economic situation and outlook, and as to the appropriate policies under the circumstances. These are so clearly different from the position of the President and his economic advisers that I need not encumber my own discourse by making these differences explicit at the various points of my analysis.

THE LONG DURATION OF OUR ECONOMIC SHORTFALLS

The Unsatisfactory Record, 1953–71

The first and foremost fact to be considered—and it is an unchallengeable fact—is that for almost 20 years now our economy has performed dismally short of its capabilities and needs. Throughout this long period, we have had nothing better than a roller coaster prosperity, with periods of substantial but inadequate recovery being followed by stagnation and then recession. There have been several complete cycles of this since 1953, and now we are in the stage of a very inadequate recovery movement.

[1] Former Chairman, Council of Economic Advisers. Consulting economist and attorney; President, Conference on Economic Progress.

During 1953–71 as a whole, our real rate of economic growth averaged annually only 3.3 percent, or far less than the 4.7-percent averaged during 1922–29, the 4.5-percent averaged during 1947–50, or the 5.1-percent averaged during 1950–53 and 1960–66. During 1966–71, our average annual rate of real economic growth was only 2.4 percent. And although we grew 5 percent in real terms from fourth quarter 1970 to fourth quarter 1971, this rate of growth was immensely below the 8.5 percent we need to average annually during 1971–73 to restore reasonably full resource use by the end of 1973.[2]

In 1971, full-time unemployment, as officially recorded, averaged 5.9 percent, contrasted with 2.9 percent in 1953, and 3.6 percent in 1968. In December 1971, full-time unemployment was 6.1 percent, and the true level of unemployment was 7.7 percent, taking into account the full-time equivalent of part-time unemployment, and the concealed unemployment in the form of those who are not counted as unemployed because scarcity of job opportunity prevents them from "participating" in the civilian labor force.[3]

By fourth quarter 1971, measured in 1970 dollars, total national production was 17.6 percent or $217 billion (annual rate) short of where it would have been if we had grown at an optimum rate from 1953 forward. This does not mean, however, that we would now need to increase output by $217 billion to reach a full economy, because some of our productive capabilities have been eradicated by the long shortfall of performance from 1953 to 1971.[4]

The Inadequacy of the President's Program

The programs and policies put forward by the President fall dangerously short of the requirements for the restoration of reasonably full resource use even by the end of 1973. This deficiency may be measured by comparing the performance in 1972 with what it would need to be if we were moving adequately toward reasonably full resource use by the end of 1973.

Roughly speaking, the statements of the President and his advisers import the goal of total national production for 1972 as a whole about $60 billion higher than in 1971 as a whole, measured in 1970 dollars. But my view is that the programs and policies now in being and underway are likely to result in a lift of only about $55 billion, and many others share this view. This, in turn, is about $21 billion, or more than 27 percent, short of the $76 billion lift in 1972 which would be consistent with restoration of reasonably full resource use by the end of 1973, according to my estimates.

The administration seems to be pointing toward reducing full-time unemployment to 5 percent by the end of calendar 1972. My judgment, which many others share, is that the actual result is more likely to be 5.2 percent. This, in turn, would be about 30 percent higher than the 4-percent, full-time unemployment by the end of calendar 1972 which would be consistent with getting the rate down to 2.9 percent by late 1973. This is the rate which I regard to be consistent with maximum employment.

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[2] See my chart 1.
[3] See again my chart 1.
[4] See again my chart 1.

Although there are many elements in the President's program which lead me to these conclusions, one important element is the deficiency in his spending program. Measured in current dollars, this program imports total budget spending of about $245 billion in calendar 1972. Consistent with other projections which I set forth,[5] I hold that Federal spending in calendar 1972 should be about $250 billion. The President seems to estimate a deficit of $36 billion in calendar 1972, which I think is more likely to be $37 billion. I estimate the deficit under my proposed program as about $36 billion. Moreover, a deficit resulting automatically from policies conducive to a laggard economy is far less rewarding than one resulting from conscious policies to activate the economy sufficiently, and offers far less prospect of achieving anything approximating a balanced budget in the long run.[6]

The question may be raised as to how I derive a $21 billion difference between my GNP goal and the likely result of the President's program, but a difference of only $5 billion in Federal spending. The answer is that there are many other reasons for our troubles besides inadequate Federal spending: the distorted tax and monetary policies, the repressive wage policies, the inadequate price restraints, etc., all of which I shall discuss.

The Essential Goals

The enormous cost of the roller coaster economic performance should galvanize us to do very much more than we are now attempting to do. During 1966–71, the "gap" in our total national production (the difference between actual production and maximum production) aggregated about $810 billion, measured in 1970 dollars. This equated with 9.2 million man-years of lost employment opportunity. If our average annual rate of real economic growth during the decade ahead were to be no better than the average from 1953 to date—and the current complex of national policies and programs assures nothing better—we would during 1972–80 inclusive forfeit about $1,809 billion of total national production, also measured in 1970 dollars. This "gap" is projected from a 1971 base, and writes off what happened between 1953 and 1971. Correspondingly, we would forfeit 19.2 million man-years of employment opportunity.[7]

I estimate that, from a 1971 base, our goals for 1973 should involve total employment up by 6 million (in man-years of work). True unemployment should be down by 2.8 million. Total national production, measured in 1970 dollars, should be up $180.1 billion, consumer spending up $85.9 billion, private business investment up $43.9 billion, Federal outlays for goods and services up $23.2 billion, and State and local public outlays up $26.4 billion.[8] Meanwhile, wages and salaries should be up $80.6 billion, productivity in the total private economy up 12.1 percent, and average wage rates up 10 percent.[9]

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[5] See my chart 22.
[6] See my chart 2.
[7] See my chart 3.
[8] See my chart 4, which also projects goals for 1980.
[9] See my chart 5. Some of the projections on this chart differ slightly from those on my chart 4, because of some revisions in the data.

The Need for a Revolutionary Change in the Entire Approach to the Problem of Inflation

I have already made it manifest—and hardly needed to, because on this point there is general agreement—that the programs and policies of the President and his administration are in no proximity to essential goals I have stated in accord with the "maximum" objective of the Employment Act of 1946. Instead, these policies would consign us to a slow and aborted recovery, a mere repetition of the roller coaster performance from 1953 to date.

A natural question is to ask why men of good conscience and high abilities have committed themselves to this course. The reason is as plain as day. Their position in fact, whether they admit to it or not, is that our economic growth should be held within limits which inflict intolerable burdens upon millions of unemployed, and intolerable forfeitures upon the Nation and people at large, because of their obstinate adherence to the dogma of the "trade-off." To be sure, the advent of the "freeze," and then phase II under the President's new economic policy, susbtituted action for inaction in important sectors of the economy. But the action is still contrived deliberately to hold the real economic growth rate too low, in the name of fighting inflation. There are many examples of this, but perhaps the most salient example is to compare the 3-percent average annual increase in real wage rates contemplated under phase II with the 5 percent required annually during 1971–73 to be compatible with a balanced program for full economic restoration by the end of that year.[10]

Even if this vast contrived idleness of plant and manpower resulted in substantial reduction of inflation, it would not be worth the cost. But far beyond that, all empirical evidence since 1953 to date has shown conclusively that there is an inverse rather than a positive correlation between the use of our resources and the amount of price inflation.

This issue is of such vast importance, and so generally neglected, that a complete revolution in our thought and action on the subject of how to control inflation is a sine qua non to our finding a rational solution, either to the inflation problem or any of our other ecnomic and social problems. For just so long as we sacrifice production and employment on the altar of an erroneous crusade against inflation, we will have more and more of the "stagflation" which has bedeviled us during recent years.

Because of the paramount importance of this issue, I shall now trace in some detail our experience with the inflationary problem, going all the way back to our World War II experience.

The World War II Experience, and Its Relevance

As the prime example of refighting old wars under the diametrically opposed economic conditions of more recent times, let us look just at what happened in the World War II era. During 1939–45, total national production grew at the phenomenal average annual rate of 9.1 percent in real terms, and the average annual rate of increase in

[10] See again my chart 5.

industrial production was 11.8 percent. Unemployment dropped from 17.2 percent of the civilian labor force in 1937 to 1.9 percent in 1945, and was less than one percent in 1944. Contrary to a common belief, this drawing upon the unemployed to fill jobs did not mean that the economy was not under a serious manpower strain. For numerically, the reduction in unemployment was roughly only about half of those drawn into the armed forces, and therefore not available for civilian work.

Under these circumstances, all of our productive capabilities, both human and plant, were under immense pressure. Moreover, as about half of total production was consumer by the war effort, the personal incomes before taxes of the working population enormously exceeded the goods and services available for civilian use. This excessive purchasing power or potential demand, relative to goods and services available for civilian use, was further aggravated by a wartime tax policy which financed only about half of the war through taxation. Federal budget expenditures increased at an average annual rate of almost 50 percent. Meanwhile, the Federal deficit, measured in 1970 dollars, averaged annually $77 billion during 1940–45 inclusive, and the nonfederally held money supply increased at an average annual rate of 15.7 percent.

All this was a supreme example of classical inflationary pressures. Therefore, the anti-inflationary program and policies applied were directed basically toward reducing the purchasing power in the hands of consumers. Taxes were raised enormously, although not enough. Voluuntary saving, through the purchase of Federal bonds, also occurred on an enormous scale. Control and allocation of materials, as well as severe limitations upon civilian home construction and the use of fuel, were resorted to. Selective credit controls were applied, albeit the unusually large expansion of the money supply. And price and wage controls were superimposed upon, and made auxiliary to, all of these other measures. In this context, the price controls were reasonably effective, after they were put in full motion. Profits were restrained by very high taxes, including an excess profits tax.

But the price and wage controls during World War II were not used simply to restrain consumer purchasing power in the aggregate. They were also used in a highly selective sense, in that they were designed to reallocate resources in accord with national needs. This reallocation included the reallocation of manpower use, without a compulsory manpower program. Even while some prices were reduced and others held stable, some prices were increased (or subsidies were used) to promote particular kinds of production, and some wages were increased to promote the allocation of manpower use.

The real meaning of these kinds of price and wage controls was that they were not attempted without comprehensive and long-range planning, involving fundamental quantitative goals for growth, priorities, and justice. And above all, at no time did an obsession about the inflation problem turn our attention away from the three basic goals and purposes. We never adhered to the proposition that inflation was a greater danger to us than the totalitarian enemy. This is why we won the war.[11]

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[11] See my chart 6.

The Relevance of the Reconversion Experience

The rampant inflation during the reconversion period 1945–48 should have taught us another lession, of an entirely different kind from the lesson of World War II. Both total national production and industrial production were declining on the average. Unemployment in relation to the civilian labor force rose from 1.9 percent to 3.4 percent. Federal budget expenditures, measured in uniform dollars, declined at an average annual rate of 35.5 percent. The Federal deficit during the fiscal years 1946–48 inclusive, measured in 1970 dollars, averaged annually only $8.8 billion, compared with an annual average of $77 billion during World War II. Yet consumer prices rose at an average annual rate of 10.2 percent, wholesale prices 15.1 percent, and industrial prices 13.3 percent. These price increases were within a range of roughly two to three times as fast as during World War II.

A very limited explanation of the extreme inflation during reconversion may be found in the fact that the wartime controls were abandoned prematurely. A more important explanation is that about half of the cost of the war was financed by borrowing or voluntary saving, while the revenues thus obtained were blown up in fighting the war instead of being invested for productive purposes. Thus, the release of these savings after the war added to the inflationary pressures. But despite these two explanations, the fact remains that a rampant inflation occurred when the use of our productive resources was becoming slacker rather than tighter. This should have given us some intimation about the vulnerability of the "tradeoff" idea that rising idleness of plant and manpower reduces the rate of price inflation. It should have given us some clue as to the real causes of what we recently have called the new inflation.[12]

Relevance of the Korean War Experience

During the Korean war period 1949–53, there occurred on a smaller scale the developments characteristic of World War II. Measured in real terms, the average annual rate of growth was 6.2 percent for total national production, and 9 percent for industrial production. Unemployment dropped from 5.5 percent in the recession year 1949 to 2.5 percent in 1953. Measured in uniform dollars, Federal budget expenditures increased at an average annual rate of 14.2 percent. But due to more vigorous tax policies relative to the need than during World War II, the Federal deficit, measured in 1970 dollars, averaged annually only 5.1 billion. Again, the basic economic situation called for direct and definitive wage and price controls, and these were used. The average annual increase in consumer and industrial prices was only 3 percent, and in wholesale prices only 2.6 percent.

During the Korean war as during World War II, wage and price controls were superimposed upon and made subordinate to planned quantitative goals for growth, priorities, and justice. At the start of the Korean war, there were those who argued that the threat of inflation was so serious that the production base should not be expanded greatly; that sharp curtailment of many types of civilian goods should

[12] See my chart 7.

be undertaken; and that controls, including allocations, should be the basic if not the sole weapon for combating inflationary pressures. Fortunately beyond description, this advice was rejected completely. The industrial base was greatly expanded. This was founded upon the proposition that it was the best way to overcome inflation without sacrificing the value of economic growth, and that we would have brains enough after the war to utilize for civilian purposes the increased capabilities which resulted.

This turned out to be correct, despite the relatively small recession of 1953–54. Moreover, the expansion of production capabilities brought us to the point where the inflationary thrust virtually ended considerably before the end of the war, and the need for controls became minimal.[13]

The Entirely Different Conditions of "the New Inflation": Empirical Refutation of the "Tradeoff" Idea

This brings us to the consideration of the so-called new inflation, first observed during the period 1956–58, confronting us with virulence from 1966 to the date of the 1971 "freeze", and resumed since the "freeze." This new inflation, as already shown, occurred during economic conditions diametrically opposed to those during World War II and the Korean War. Nonetheless, national programs and policies have continued to be founded upon the proposition that restraint upon already deficient production and employment would be the solvent of the inflationary evil. But all practical experience and empirical observation have demonstrated more and more conclusively that, short of the phenomenal pressures of World War II on one extreme, and the conditions of a Great Depression as during 1929–33 on the other, the economy manifests much greater price stability under conditions of reasonably full resource use than under other conditions.

During 1952–55, when the rate of economic growth was moderately high, there was a very much lower rate of price inflation than during 1955–58, when the economy moved toward stagnation and then into recession. During 1958–66, when the real average annual economic growth rate was 4.9 percent and when employment was reduced from 6.8 to 3.8 percent, the average annual rate of inflation was only 1.5 percent for consumer prices, 0.7 percent for wholesale prices, and 0.6 percent for industrial prices. But during 1966–71, when the real average annual rate of economic growth fell to 2.4 percent and when unemployment rose from 3.8 to 5.9 percent, the average annual rate of inflation was 4.5 percent for consumer prices, 2.7 percent for wholesale, and 3 percent for industrial. Then, from fourth quarter 1970 to fourth quarter 1971, when the economic growth rate was 5 percent and when unemployment rose from 5.5 percent of the civilian labor force to 6 percent, the average annual rate of inflation was 3.5 percent for consumer prices, 3.4 percent for wholesale, and 3.3 percent for industrial.[14]

The record since the end of the "freeze" certainly does not indicate that an effective formula has been found for restraining inflation. During the 2-month period, from November 1971 to January 1972, the seasonally adjusted annual rate of price advance was 4.2 percent

[13] See my chart 8.
[14] See my chart 9.

for consumer prices, 6.6 percent for wholesale prices, and 4.2 percent for industrial prices. In other words, greatly excessive idleness of plant and manpower is continuing to spawn the inflationary process.

All of this has been repudiation in fact of the "trade-off" idea that more idleness of plant and manpower reduces inflation, and the claims to the contrary have come close to the ridiculous. For instance, it has been insisted that a "timelag" must be taken into account, that progress was being made toward reducing inflation, and that the rampant inflation of early 1971 could be explained by the failure to increase taxes circa 1966, when Vietnam war spending accelerated greatly. But in the first place, the inflation from 1966 forward occurred in the face of a growing deficiency of total demand relative to production capabilities, and lifting taxes in 1966 would have made the basic economic situation even worse. It is a strange contradiction that those who now confess that fiscal policy does not meet the problem of "the new inflation" nonetheless maintain the proposition that the failure to increase taxes in 1966 explains the inflation occurring from 3 to 5 years later. And in the second place, the "timelag" argument might have had some validity, if it had appeared that the rising idleness in plant and manpower was reducing the rate of inflation, even if not bringing a complete remedy within a limited time. But when, in the main, the inflation accelerated for several years as the idlness of manpower and plant increased greatly, and was never reduced to a tolerable pace before the "freeze," the "timelag" argument also falls by the wayside.

The Genuine Causes of "the New Inflation"

Relying, as one should, primarily upon the enduring and by now compelling empirical evidence to the effect that thwarting economic growth and employment aggravates inflation, it is nonetheless desirable to construct a general theory as to why this is the case.

First, as already demonstrated by facts I have frequently set forth, prices in dominant "administered price" sectors of the economy tend strongly to be raised more rapidly when the economic weather is bad than when it is good. This reflects the desire to compensate for inadequate volume by higher prices and higher profit margins, which may be designated as the desire to achieve preestablished profit goals despite changing economic circumstances.

Second, an economy in stagnation or recession registers a tremendously lower growth rate in productivity or output per man-hour than an economy moving vigorously toward or maintained at reasonably full resources use.[15] These drastic declines in productivity push up per-unit labor costs. And this almost always leads to price increases, even where the preestablished price levels were adequate to absorb these increased costs, and should have done so.

Third, just because the stunting of the economy aggravates price inflation, the restrictive fiscal and monetary measures deliberately designed to stunt the economy in the name of fighting inflation are actually inflationary. The conventional economists have come halfway toward recognizing this, when they now say that fiscal and monetary measures are "ineffectual" in dealing with "the new in-

[15] See my chart 10.

flation." But these economists do not take the next logical step. They do not recognize that the restrictive fiscal and monetary measures have been very effective indeed in what they deliberately set out to do; namely, to increase idleness of manpower and plant. They have been "ineffectual" in restraining inflation only because, contrary to the "trade-off" idea, this increased idleness is highly inflationary. It is the thinking of these economists that has betrayed us; not fiscal and monetary policies. Fiscal and monetary policies can be used just as efficiently to reduce idle resources as to increase them; and if they were not used promptly to do just this, it would be seen that they would be, in doing just this, the most powerful single weapon for fighting inflation, founded upon a correct diagnosis.

Fourth, the excessively restrictive fiscal policies, on the spending side, have contributed to the inflation, not only by restraining economic growth unduly, but also by creating or tolerating critical shortages of facilities and services throughout the public sector.

Fifth, the policy of tight money and excessively high interest rates is terribly inflationary, not only because it stunts the economy and starves essential facilities and services, but also because the high cost of money is passed along and pyramided at each stage in the economic process.

Sixth, the faulty internal composition of Federal spending policy and tax policy, and the entirety of the prevalent monetary policy, allocate resources and incomes in directions which defeat growth, priorities, and justice. This poignantly embodies the most undesirable type of inflation—feeding the fat and starving the lean.

Seventh, the roller coaster economic performance, included by all of these errors in the battle against inflation, is also inflationary in the long run. When the economy is on the downswing, inflation tends to augment, for reasons already stated. And it may also be argued that the first stages of an upswing, or at least that the measures needed to make the upswing strong and steady enough, tend toward some inflation. But these inflationary impulses, on both downswing and upswing, result from the sharp and wayward changes in business expectancies which stem from the roller coaster performance itself. In the long run, few matters in economics appear more certain than that sustained and optimum economic growth would generate far less inflation than the roller coaster economic performance.

And such growth would confer so many other overwhelming benefits upon the Nation and the people that it would be preferable to the roller coaster performance, even if one continued to accept the very dubious theory that such growth might yield slightly more price inflation in the long run.

The New Economic Policy Adheres to the Moribund Diagnosis as to How Best To Fight Inflation

The general reader may ask this question: Granted that the "trade off" has been proved so tragically erroneous, does not the new economic policy of the President represent a vast sea change? The answer to this question must be a resounding "No." It does represent a change in method, from pure voluntarism to controls of one sort or another. But methods, it should be made clear, should not be confused with basic goals and purposes. The new economic policy still clings to the discredited "trade off." In the cause of fighting inflation, it still espouses a wide range of policies and programs which sacrifice growth, priorities, and justice, in the false belief that moving rapidly toward the attainment of these goals would reinvigorate and enlarge nflationary pressures. Virtually nothing has been learned by observing the record from 1953 to the period of the "freeze," as to the real causes of "the new inflation."

Of course, the 3-month "freeze" did stop the manifestations of virulent inflation, for the time being. But suppressing inflation is entirely different from a lasting remedy based on sound causal analysis. Insofar as phase II of the new economic policy continues to stunt the amount and speed of economic restoration we need, it continues to aggravate the real causes of "the new inflation," and in the end "murder will out." There are already some disturbing signs that this is happening, on into 1972.

Although the most powerful and cogent argument for reversing the course in the battle of inflation is the bankruptcy of the trade-off idea, there are other arguments as well. Most of these have already been set forth in the discusion up to this point. Trends in prices are not an end in themselves, but instead must be viewed in terms of their positive or negative impact upon growth, priorities, and justice. It is unconscionable, in line with recent and current policies, to claim "that inflation is the cruelest tax of all," and then to apply policies in the name of stopping inflation which inflate the fat and starve the lean. And there is still another valid consideration: the recent inflation, though excessive, has not been so extraordinary as to justify erecting it into an obsession which distracts us from even more important concerns.

The Worldwide Aspects of the U.S. Inflation Problem

The average annual rate of price inflation in the United States during 1960–70 was hardly different from that averaged during 1950–70, very much less than that averaged during 1940–70, and on balance not more excessive than that averaged during 1930–70. These comparative trends should introduce more rationality, and less frenzy, in the treatment of the problem.

Futhermore, the obsessionary preoccupation with the problem of inflation is not justified by a worldwide view. During many decades to date, our unfavorable balance in the international exchange of goods and services has occurred in only one year at most (1971), and even here the reasons are not entirely clear. Thus, our unfavorable balance of payments has been due to our military establishment overseas, the flow of American private capital overseas for investment purposes, and our loan and grant programs in aid of others. Some of these activities may require review, but this has little or nothing to do with relative price trends in the United States and elsewhere. Further, the outflow of U.S. private capital has not been due to relative price trends, but rather to the belief that profitable operations were more available elsewhere than in a stagnant and retarded U.S. economy. There has been a rather close correlation between the worsening of our economic condition at home and the worsening of our balance-of-payments position. And the main trouble has not been our unfavorable balance of payments, but rather our reluctance to join in moving toward various international adjustments, including a replacement of an anachronistic method of conducting worldwide exchange with a modernized method.

Finally, in this connection, we have actually experienced less price inflation than others. During 1960–70, the average annual increase in consumer prices was 2.8 percent in the United States, 4.1 percent in the United Kingdom, 3.6 percent in France, 2.5 percent in Germany, 4 percent in Italy, 2.7 percent in Canada, and 5.8 percent in Japan. During 1966–70, our average annual rate of consumer price inflation of 4.6 percent was exceeded by 4.7 percent in the United Kingdom and France, and 5.6 percent in Japan. The very fact that Japan, over the years, has had the most outstanding record of real economic growth to a degree far outweighing her great amount of price inflation, should give pause to those who believe that we can reduce or overcome the margin of her superiority in basic economic achievement by attempting to deal with price inflation at the expense of all else. In the European economies more like our own, and in denial of the "trade-off" theory, the record of Germany, which has also experienced rapid economic growth and a constantly tight labor market, shows that such conditions are consistent with a slow rate of inflation.[16]

The Core Problem of Economic Balance or Equilibrium and Its Gross Neglect in the Development of Programs and Policies

I now come to the very heart of my criticism of the development of national economic programs and policies. This discloses a problem grossly neglected over the decades, regardless of the administration in power. This neglect occurs because of the failure to come to grips with the central problem of all economic analysis and action, which is to maintain that balance among various resource uses and income flows which achieves and maintains equilibrium at full resource use. This balance must, of course, take account also of the priorities of our national needs, and the issue of social justice. But contrary to the prevalent view, there is no conflict whatsoever between meeting priority needs and doing justice on the one hand, and maintaining maximum resource use, on the other hand, through optimum economic growth. In the very nature of the U.S. economy these three objectives interpenetrate and interact, and enduring success on one front is not possible without equivalent attention to the other two fronts.

The Misuse of the "Keynesian" Approach

The gross neglect to which I refer may be illustrated by depicting briefly the complete misuse of the so-called Keynesian approach during the years under review. The prevalent position is that, when the economy is too slack, more spending power should be pumped into it by one means or another; and when the economy is too tight and subject to inflationary pressures, spending power should be reduced by one means or another. If the word "spending" was substituted for "spending power," the prevalent theory would be correct. For it is a truism that full resource use without inflation requires, albeit among other things, that total spending be equivalent to our maximum pro-

[16] See my chart 11.

duction capabilities and restraint of inflation requires, inter alia, that total spending not be in excess of these capabilities.

But there is all the difference in the world between the allocation of spending power and the allocation of actual spending. If the spending power is misallocated, the intended amount of spending does not occur, and too much savings results instead. In the alternative, the actual spending in some sectors of the economy becomes very much too exuberant, with inevitable reaction. Meanwhile, the allocation of too little spending power to some sectors of the economy neglects priorities and social justice, and also destroys the equilibrium or balance between investment and consumption essential to optimum overall performance.

To develop programs and policies which deal effectively and efficiently with the core problem of economic balance as equilibrium, it is necessary to construct a long-range budget of the whole economy in action, as a means to evaluate past performance, and as a guide to needed remedial action. Nothing approximating this has been done in the operations under the Employment Act. Instead, the prevalent approach has been that, if spending power is increased or decreased as the need may seem to dictate, it makes no difference to what points in our economy this is directed. Such an approach is almost incredibly naive, and even hard to explain.

Nonetheless, our recurrent changes in tax policy during the recent years have represented just this naive approach, and consequently have come a cropper. Too large a part of the tax reduction or concessions have been granted where they were needed least, and too little where they were needed most, by all tests of economic balance, priorities, and justice. Similarly, the changes in levels of Federal spending, and the choice between changes in spending and changes in tax policy, have suffered from the same deficiencies.

The monetary policy, in the final analysis, has been subject to exactly the same deficiencies, and the well-advertised battles between the proponents of monetary policy and proponents of fiscal policy have largely avoided the real issue. In an economic equilibrium sense, monetary policy has worked contrary to balance. And in a priority and social sense, it has done incalculable damage.

Instead of dilating further upon these general propositions, I turn now to more detailed and specific supportive analysis.

The General Nature of the Imbalances

The economy operates at or near maximum employment and production when growth of our ability to produce is kept closely in line with growth of ultimate demand for goods and services in the form of private consumer spending plus total public outlays for goods and services at all levels. The roller-coaster performance from 1953 to date has resulted because, during each "boom" period, investment in the plant and equipment which add to our ability to produce grew tremendously faster than ultimate demand. Whenever the excess production capabilities thus generated became sufficiently enduring and severe, investment was cut back very sharply. This cut resulted from inadequate ultimate demand, and not from inadequate prices, profit margins, or total profits. These investment cutbacks, plus the more enduring deficiencies in ultimate demand, led into the periods of stagnation and recession. But even during these periods, while ultimate demand did in fact expand much more rapidly than investment, it did not expand rapidly enough to reactivate full investment growth. Recovery movements gained momentum only when ultimate demand grew sufficiently more rapidly than investment in plant and equipment to work down idle plant capacity, and thus to stimulate more investment on sound terms. However, none of the recovery movements under review witnessed enough expansion of ultimate demand to induce a full-resource rate of growth in business investment.

Details of the Investment-Ultimate Demand Imbalances

To be sure, for the period 1953–1970 as a whole, there was a small average annual deficiency of investment in plant and equipment. But this is entirely consistent with the finding that the periodic shrinkages in investment growth were induced entirely by previous periods of excessive investment relative to ultimate demand.

My analysis of these trends begins with the first three quarters of 1955, but a discussion of more recent periods will suffice. During the so-called "boom" period from the first half of 1961 to the first half of 1966, investment in plant and equipment, measured in uniform dollars, grew at an average annual rate of 11.2 percent, while ultimate demand in the form of total private consumption expenditures plus total public outlays for goods and services grew at an average annual rate of only 5.2 percent.

Then, the inevitable reaction set in. During the period from the first half of 1966 to the first half of 1970, a mixed period of growth, slow-down, and recession, the average annual growth rate in real terms was only 2.4 percent for investment, and 3.4 percent for ultimate demand. The significance of this comparison is that ultimate demand, which grew at an average annual rate only a little more than as fast as during the period from the first half of 1961 through the first half of 1966, did not grow nearly rapidly enough to reactivate vigorous business investment. And in the same context of restoration of balance between production capabilities and ultimate demand, investment grew too fast relative to ultimate demand.

Coming even closer to the present, during the period from the first half of 1970 to the fourth quarter of 1971, investment declined at an average annual rate of 1.3 percent, while ultimate demand grew at an average annual rate of 2.5 percent. Superficially, this might seem to be an indication that ultimate demand was growing too rapidly relative to investment, and that specific public policies should concentrate upon the stimulation of investment. But in fact, the lag in investment, despite tax concessions to reactivate it, occurred because the 2.5 percent average annual rate of growth in ultimate demand was far below the rate of about 8 or 9 percent required to achieve the growth rate in total national production required for satisfactory economic restoration.[17]

This analysis of the imbalances within the economy needs to be carried further. During 1960–66, measured in constant dollars, while total national production, private consumer spending, and Government outlays all grew less than 35 percent over the period as a whole, private

[17] See my chart 12.

investment in plant and equipment grew 61.3 percent. Contributory to these seriously disparate trends, corporate profits grew 46.4 percent; wages and salaries, the main contributory factor to consumer spending grew only 33.1 percent, and total labor income only 34.2 percent; and farm proprietors' net income grew only 23.3 percent. This explains how the so-called "boom" period moved into stagnation and recession.

During 1966-first half 1970, the inevitable reaction set in, for reasons already disclosed. The trends for this period as a whole, again measured in real terms, were that total national production rose 9.7 percent, private consumer spending rose 13.9 percent, and Government outlays for goods and services rose 11.1 percent, while private investment in plant and equipment rose only 7.5 percent. Concurrently, wages and salaries rose 17.4 percent, total labor income rose 17.8 percent, and farm proprietors' net income declined 7.5 percent. But despite the corporate profit decline, the rate of growth in private investment in plant and equipment, although very slight when compared with the rate in the preceding period, was too high in ratio to the growth in ultimate demand, as evidenced by the fact that idle plant capacity rose considerably, and unemployment also rose.

From the first half of 1970 to the second quarter of 1971, the total increase in real terms was 2.3 percent for total national production, and 3.5 percent for private consumer spending, while Government outlays for goods and services decreased 2.2 percent, and private investment in plant and equipment declined 3.1 percent. Concurrently, wages and salaries increased only 1.3 percent and labor income only 1.5 percent, and farm proprietors' net income declined 16.1 percent, while corporate profits increased 3.1 percent.[18]

The conclusions to be drawn from the most recent trends are as follows: The absolute decline in business investment, despite the increase in corporate profits, indicated that the factor militating against investment was excess plant capacity rather than price or profit levels, and that deficiencies in the main types of personal income were the vital factor inhibiting a vigorous recovery movement. Further, as will be shown later, the very moderate growth rate in profits was not due to inadequate price or profit margins, but rather to inadequate volume. This points to the need for programs and policies diametrically opposed to those actually undertaken. We must concentrate upon powerful stimuli to consumer spending and a vast increase in public spending, rather than upon unsuccessful attempts to stimulate business investment by the reckless granting of tax concessions to business.[19]

Magnitudes of the Deficiency in Consumer Spending and Ultimate Demand

Moving over to a more specific scrutiny of the consumer spending problem, it is clear that, at least from 1960 to date, the deficiency or "gap" in private consumer spending has been the dominating factor in the total national production "gap." My estimate is that, in fourth quarter 1971, with all measurements in 1970 dollars and at annual rates, and $217 billion national production gap included a gap of

[18] Data beyond second quarter 1971 are not uniformly available, or are still subject to too drastic revisions to make them of much use.
[19] See my chart 13.

$97.9 billion in consumer spending, and a deficiency of $56.1 billion in public outlays for goods and services at all levels. Thus, these deficiencies in ultimate demand came to 71 percent of the national production gap. There was also a deficiency of $63 billion in gross private investment, but this included a huge gap in investment in residential construction, while the gap in private investment in plant and equipment was relatively small, and induced by the other gaps.

A word of explanation is required about the absolute growth rates. During 1960–66, the growth rate in consumer spending was somewhat higher than the needed growth rate for 1960–70 as a whole. But the very large lag in consumer spending prior to 1960, and the great deficiencies to be made up at that time, called for an even higher growth rate of consumer spending thereafter through 1966 than actually occurred. The growth rate of 4.4 percent in consumer spending from the fourth quarter of 1970 to the fourth quarter of 1971 should not be judged in terms of the needed growth rate for the decade as a whole. This is because the condition of the economy during the most recent 12 months has been such, and the cumulative deficiencies in consumer spending so great, that an annual growth rate of about 6.4 percent in consumer spending is needed during 1971–73 in support of total production growth averaging annually about 8.5.[20]

The Confusion About the "Abnormally High" Rate of Saving

It is frequently urged that the extreme deficiency in consumer spending is unrelated to the problem of consumer incomes, but instead can be solved by a reduction in the rate of saving from what is asserted to be an "abnormally high" rate. But this argument is entirely fallacious, because it ignores the maldistribution of saving which results from the maldistribution of income. The families in the higher ranges of the income structure have a propensity to spend for immediate consumption a relatively smaller portion of their disposable incomes, and to save for investment purposes a relatively higher portion, than the families in the lower income ranges. And when this saving cannot actually be absorbed by investment, because of economic conditions militating against investment, savings plans exceed investment programs, and unemployment mounts. In contrast, the families in the lower parts of the income structure hardly save at all, and a very large proportion of them actually dissave, and incur excessively high debts.

It follows that the maldistribution of income which results in the "abnormally high" rate of saving is a direct byproduct of erroneous programs and policies affecting income distribution. Until this is recognized and remedied, mere exhortations will not reduce the rate of saving enough to bring adequate economic expansion. It is noteworthy that, from the fourth quarter of 1970 to the fourth quarter of 1971, measured in constant dollars, total private consumer spending increased 5.3 percent, while total personal income after taxes increased only 4.4 percent. This indicates strongly that the "abnormally high" rate of savings has not been due to favorable consumer-income trends at large, and that a large part of the population has not been saving.[21]

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[20] See my chart 14, and also see again my chart 5.
[21] See my chart 15.

Salient Facts on Maldistribution of Income

To portray the maldistribution of income: In 1969, the upper fifth of all multiple-person families received 41 percent of total multiple-person family income, and the upper two-fifths received 64 percent, while the lowest fifth received only 6 percent, and the lowest two-fifths only 18 percent. Among single-person families and unattached individuals, the highest fifth received 51 percent, and the highest two-fifths 75 percent, of the income flowing to unattached individuals, while the lowest fifth received only 3 percent, and the lowest two-fifths only 11 percent.[22]

Coming back to the close relationship between deficient consumer spending and deficient total personal income after taxes (a powerful factor in addition to the maldistribution of personal income), this study estimates that, measured in 1970 dollars, a deficiency of $621 billion in consumer spending during 1960–1971 reflected a deficiency of 903 billion in total consumer income before taxes.[23]

The Wage and Salary Lag, and Its Large Significance

The Wage-Push Explanation of Inflation Is, in the Main, Wrong

The previous portrayal of the lag in consumer incomes and spending creates the natural presumption that there has been to date a serious lag in real-wage progress. This must certainly be the case, when wages and salaries usually compose about two-thirds of consumer income. Yet, the entirety of the new economic policy, and much that went before it for 10 years at least, has been based upon the assumption that the main fly in the ointment of the American economy has been excessive rates of increases in wages and salaries.

In attempting to substitute reality for fiction on this entire subject, it is obviously essential to look at real wage and salary rate trends, rather than at trends in money wage and salary rates as affected in part by adjustments to previous increases in the cost of living. For these latter types of increases have been wages chasing prices, not prices pushing up wage.

As the factual record negates, in the main, the prevalent assumption that real wages and salary rates have increased more rapidly than productivity, or output per man-hour of employment, the whole case for wage-push inflation breaks down. Manifestly, no one in his right mind has tried to advance the theory that wage and salary rate increases have contributed to demand-pull inflation, during periods when total demand has fallen so egregiously short of production capabilities and requirements for maximum employment and production.

This study estimates that, at annual rates and measured in 1970 dollars, a deficiency of $106.3 billion in wages and salaries accounted for 81 percent of the 130.5 billion deficiency in total consumer income before taxes in fourth quarter 1971. And all the way back to 1953, the wage and salary deficiency dominated the deficiency in pretax consumer incomes. This, in itself, vitiates the assumption that wage-push inflation has been the main problem all along; and this assumption

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[22] See my chart 16.
[23] See again my chart 15.

is completely nullified by examination of the trends in the growth of real wages and salary rates compared with the growth trends in productivity.[24]

The Lag in Real Wage Rate Gains Behind Productivity Gains

During 1960–66, when the overall economy was growing at the healthy although not optimum rate of 5.1 percent annually in real terms,[25] productivity in the total private nonfarm economy grew at an average annual rate of 3.4 percent, while wage and salary rates in real terms grew at the average annual rate of only 2.7 percent. In manufacturing, where most of the hue and cry has arisen about wage-push inflation, the respective growth rates were 3.8 percent and 2 percent. Much of the damaging lag in real wage rate progress during this period was occasioned by the erroneously devised late price-wage guidelines.

During 1966–1970, with dwindling economic growth, stagnatien, and then recession, the average annual growth rate in productivity in the total private nonfarm economy was 1.3 percent, and in wage and salary rates was 2.8 percent. In manufacturing, the average annual rate of increase in productivity was 1.9 percent, and in wage and salary rates 2.1 percent. But during this period, the rate of productivity growth was artificially repressed by the development of severe economic slack, which in turn was due in large measure to the inadequate growth rates in consumption, wages and salaries, and wage rates. Under these circumstances, to have attempted to hold real wage and salary rate gains down to the levels of the repressed productivity growth would have turned a small recession into a real depression. Instead, the desirable course would have been for real wage and salary rates to grow at somewhat less than the needed growth rate for the economy as a whole (which would have allowed for growth in employment). In other words, the growth rate in real wage and salary rates during this period was very much too low, even though it exceeded the repressed growth rate in productivity.

The developments from third quarter 1970 to third quarter 1971 were, in many respects, the most disturbing of all. In the total private nonfarm economy, the average annual growth rates were 3.2 percent for productivity, and only 2 percent for real wage and salary rates. In manufacturing, the respective rates of growth were 1.9 percent and 1.2 percent. As during the period 1966–1970, and for the same reasons, real wage and salary rates should have grown very much faster than they did, in the cause of economic restoration. Further, the situation was in some important respects even worse than during the earlier period, in that real wage and salary rates again lagged far behind productivity gains, and this contribution to economic slack aggravated the inadequacy of the productivity gains. Looking at developments in the most recent year, the concern about wage-push inflation becomes close to ridiculous.[26]

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[24] See my chart 17. These deficiencies are estimated on the basis of projections from 1953; see again my chart 3.

[25] Not optimum of the very deficient situation in 1960, after 7 years averaging very low economic growth.

[26] See my chart 18.

And it is doubly dangerous, when this misplaced concern is at the very core of the new formula under phase II to restrain the real growth rate of wages and salaries to only 3 percent annually. The reasons for this will be discussed later on. This erroneous theory of cost-push inflation manifests itself not only in current wage policy, but also in current tax and monetary policies, subsequently to be discussed.

Comparative Trends in Prices, Profits, Investment, and Wage Rates

Examination of trends in key sectors of the economy sheds further light. During 1960–1966, in these key sectors, profits after taxes grew enormously more rapidly than wage rates, and this was also true of investment in plant and equipment. In addition to the imbalances thus caused, which wrought their havoc later on, these trends demonstrate most clearly that the large price increases during this period were entirely unwarranted. Coupled with the lag in real wage and salary advance behind real productivity gains, these price increases should bury the notion of cost-push inflation, which was prevalent even during 1960–1966.[27]

Coming to the period running from 1966 to the first half of 1970, large wage rate gains were accompanied in general by profit declines; and in general, the sizable rates of advance in investment in plant and equipment were considerably slower than the advance in wage rates. But this was due, in the main, to idle plant capacity rather than to inadequate profits or profit margins, while (as earlier indicated) the rate of advance in wage rates was not large enough to fulfill its consumption function under the circumstances then existing. Under these circumstances, the huge price advances during this period were ill advised, in that inadequate profits or profit margins were not a basic factor in the restraint of investment growth.[28]

During the period from the first half of 1970 to the second quarter of 1971 (adequate comparable figures for the third and fourth quarters unavailable), profits in general advanced enormously faster than wage rates. This was entirely undesirable and unnecessary from the viewpoint of restoration of economic balances, especially in that this advance in profits did not prevent a negative rate of investment growth, due mainly to the amount of idle plant capacity. This imports that the price increases during this period were not needed, in that they stimulated a profit advance which did not reflect itself in the investment performance. A much more restrained rate of price advance, by increasing the real purchasing power of wage earners and other consumers, would have helped to bring the economy into much better balance. This, in due course, would have reactivated a vigorous rate of growth in business investment, and yielded abundant profits for this purpose without the price increases which occurred.[29]

[27] See my chart 19.
[28] See my chart 20.
[29] See my chart 21.

Basic Elements in a Viable Wage Policy

Main Approaches to Wage Rate Policy

It is generally accepted that a sound and fair wage policy, apart from adjustments for increases in the cost of living, resides in real wage rate increases roughly in accord with increases in productivity or output per man-hour worked. Within this framework, some favor the adjustment of real wage rates in general to trends in the nationwide productivity performance. Others favor real wage rate adjustments in line with industry by industry productivity performance. There is much to be said for each of these two competing approaches.

Adjustment of real wage rate gains in general to a nationwide productivity figure has "equalization" advantage of equal rates of wage advance in those industries where productivity gains are high and those industries where such gains are low. But the practical disadvantages of this approach were well illustrated by the late price-wage guidelines. What actually happened was that the wage earners in the high productivity gain industries tended to receive real wage rate increases considerably below their own productivity gains, while the wage earners in the low productivity gain industries did not tend to receive wage rate increases sufficiently in excess of their own productivity gains. In consequence, as already demonstrated, the real wage rate gains for the economy as a whole lagged far behind the national productivity gains during most of the period when the late guidelines were operative. In addition, the theory of these guidelines was that prices would be reduced in those industries where the real wage rate gains lagged behind the productivity gains. But there was neither machinery nor sufficient pressure for such price reductions. And in most such industries, prices were increases, or at best held roughly stable in some cases.

On balance I believe, for the reasons stated, that real wage rate gains in the high productivity gain industries should be adjusted to such productivity gains. The problem of adequate wage rate advance (from the social viewpoint) in the low productivity gain industries should be dealt with by appropriate minimum wage rate legislation, selective tax benefits, and other devices. This approach would tend to bring total wage rate expansion more into line with our overall economic requirements for growth, priorities, and justice. It would tend to remedy the lag in total real wage rate increases which has now become a central and chronic problem. However, for the purposes of my current analysis, it will simplify the matter, and be more relevant to cuurent policy developments, to utilize the approach that real wage rate gains in general should adhere to nationwide productivity gains, of course with some exceptions for equitable and other reasons.

But the nationwide productivity approach makes it even more imperative that appropriate adjustments be made in tax and public spending policies, and other national policies importantly affecting the national economy, to help close the total demand gap which is likely to arise from the nationwide productivity approach. Specifically and by way of example, the excessive profits in some areas which would arise when the economy approaches full resource use, if high productivity gain industries advanced real wage rates only in accord with nationwide productivity gains, should be dealt with by draining off unduly high profits through an appropriately stringent tax policy. This problem can certainly not be dealt with by the extravagant tax bonanzas, for those who do not need them, which have become the rule during recent years. To put the matter bluntly, no wage-price-profit policy can be soundly formulated nor applied, unless it is set within the vigilant framework of a consistent overall economic policy, based upon quantitative and interrelated goals for growth, priorities, and justice. The most important of these other needed policies, and how greatly we are now neglecting them, will be dealt with as I proceed.

Why the 3-Percent and 5.5-Percent Wage Guidelines Under Phase II Are Very Far Too Low

Coming back to the subject of wage policy itself, and adopting for the purposes of the ensuing discussion that nationwide productivity criterion, it may seem superficially that phase II of the new economic policy accepts this criterion. It establishes the general rule of a 3-percent average annual increase in real wage rates. But the 3-percent figure is a very wrong figure, on the low side, for two very important reasons.

The first reason is that the 3-percent productivity figure is supposedly based upon the very long-term average annual increase in nationwide productivity in the private economy, say for the last 40 years or so. But this long-term "average" includes performances at every stage in the business cycle, and such an "average" is not a norm for acceptable performance today. Moreover, except when inhibited by severe economic slack, the long-term productivity growth rate in the U.S. private economy has accelerated over the decades. The average annual rate of productivity gain rose from 0.5 percent during 1910–20 to 2.4–2.5 percent during 1920–40, and to 3.1 percent during 1940–55. It then dropped to 2.3 percent during 1955–60, a period averaging very low economic growth, and including two recessions. But during 1960–66, when the economic growth rate was relatively high, the productivity growth rate averaged annually 3.8 percent. Consistently again, the average annual growth rate in productivity fell to 2.1 percent during 1966–71, when the economic growth rate was again very low, and when idle resources mounted alarmingly. Further, during 1968–71, the average annual growth rate in productivity was only 1.8 percent. Then, from 1970 to 1971, when the recovery movement commenced, the growth rate in productivity in the private economy rose to 4 percent, indicating not only the long-term response to technological trends, but even more importantly the tendency of productivity growth to accelerate very rapidly during a stage of economic restoration.

Taking this entire productivity record into account (and also noting that productivity in the private economy grew at an average annual rate of 4.1 percent during 1947–53, which averaged perhaps a more satisfactory general economic environment than any period of equal length since), it appears clear that the growth rate in the productivity potential in the U.S. economy is now 3.7 percent at the very least, and is probably much higher, under conditions of reasonably full resource use. And the growth rate in the productivity potential really indicates what the actual growth rate in productivity would be under the dynamic impulses of a fully utilized economy.[30]

[30] See again my chart 10.

Assuredly, the growth rate in real wages should be adjusted to the growth rate in the productivity potential. For reasons already stated, and to be illustrated quantitatively as my analysis proceeds, such a wage policy is essential to bring the economy up to reasonably full resource use when it is not there, and to keep it there when it is there. And obviously, to attempt to hold the growth rate in real wage rates to a very long-term historical average growth rate in productivity, despite the modern productivity potential, is self-defeating on all scores.

Moreover, under current conditions, it is far from good enough to set the growth rate in real wage rates in accord with the estimated growth rate of 3.7 percent in the producivity potential. For this is merely an estimate of the modern productivity potential under conditions of reasonably full resource use. Just as the actual productivity growth rate is depressed far below the productivity potential as so defined when the economy moves downward into stagnation or recession, so the actual productivity growth rate needs to be considerably higher than the productivity potential so defined during a period when the economy needs to move upward vigorously and surely from very high economic slack to full resource use. As earlier stated, the actual growth rate in productivity in the U.S. private economy was already 4 percent from 1970 to 1971, and it must rise even higher if genuine economic restoration moves toward its consummation by late 1973. Indeed, the most realistic and yet dynamic targets for how much real total national production should grow from 1971 to 1973, in order to restore reasonably full resource use by the end of the later year, are in essence a composite of the realizable growth in productivity and the needed growth in civilian employment to bring unemployment down appropriately.

Thus, the 3 percent phase II guideline for real wage rate growth is dangerously off the mark on the low side; and the 5.5 percent phase II guideline is equally wrong because it merely seeks to protect the 3 percent formula by allowing for estimated increases in the cost of living.

Appropriate Guidelines for Wage Rate Increases

My analysis is based upon a complete model of integrated and quantified economic goals or purposes, to which are then adjusted the programs and policies needed for their attainment. Accordingly, it is estimated that total national production, measured in uniform dollars, needs to grow in the aggregate 17.7 percent from 1971 to 1973, and 21.5 percent from 1971 to fourth quarter 1973. Consistently, civilian employment needs to grow 7.3 and 8.4 percent, respectively. In deriving the total national production goals, productivity in the total private economy is projected at 12.1 percent higher in 1973 as a whole, and 15 percent higher in fourth quarter 1973, than it was in 1971.[31]

The next step is to determine what composition of GNP growth will be viable, from the viewpoint of restoring the equilibrium required for the growth itself, and taking into account also considerations of national priorities and justice. The resultant goal for consumer spending it that it should rise above the 1971 level by 13.3 percent in 1973, 16.6 percent in fourth quarter 1973, and 59.1 percent

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[31] See again my chart 5. The projected growth rate in employment plus the projected growth rate in productivity exceeds the projected growth rate in GNP, due to changes in work hours and other factors in the composition of the labor force.

in 1980. The reason why consumer spending is projected to grow at a slower rate than total GNP is primarily the allocation of a much higher-than-GNP growth rate to public outlays (22.6 percent, 26.8 percent, and 71.4 percent), in view of immensely urgent needs in the public sector. These projections are in 1970 dollars.

Consistent with this, real wages and salaries are targeted to rise above the 1971 level by 14.7 percent in 1973, 18.3 percent in fourth quarter 1973, and 64.8 percent in 1980, and total labor income to rise by 14.9 percent, 18.7 percent, and 65.7 percent respectively, allowing for the increasing emphasis upon fringe benefits and other compensation. These labor increments are projected to rise faster than consumer spending by combining elements of improved income distribution with improved distribution of the tax burden.

And consistent with the foregoing, real wage rates should be lifted above the 1971 level by 10 percent in 1973, 12 percent in fourth quarter 1973, and 41.8 percent in 1980. The lower growth rate in wage rates than in total wages and salaries is due primarily to factoring in the increases in wages and salaries which would result from additional employment. The reason why wage rates are projected to grow less rapidly than productivity, during 1971–73, is that it would not be desirable to move wage rate growth too far out of line with longer term sustainable trends, in view of the extremely high and unsustainable growth rate in productivity during a vigorous recovery movement.[32]

There are a number of reasons why the projected wage rate goals are conservative. They are formulated in ratio to nationwide productivity gains in the private economy, rather than productivity gains industry by industry, and it has earlier been indicated why the first of these two approaches tends to hold total wage rate increases too low. They are deliberately placed somewhat below the needed growth rate in productivity for reasons already stated, although this would tend to keep real wage rate gains perhaps somewhat short of their appropriate expansion in view of the productivity growth projections. And most important of all, the projections for gains in real wage rates, real wages and salaries, and real consumer spending are integrated with projections for increased public outlays enormously higher than those embodied in the new economic policy, or likely of attainment in any event. In other words, if the country is to be committed to a low public spending model in ratio to needed GNP, then the model for expansion of private consumption must be even higher than this study's projections, in order to reach the needed GNP.

How Far Short Are the Wage Guidelines Under Phase II?

The projection of a needed 10-percent total increase in real wage rates from 1971 to 1973 is roughly equivalent to 5 percent annually. This is a rate of growth fully two-thirds higher than the 3-percent real wage rate growth contemplated under phase II. Correspondingly, with phase II allowing 2.5 annually for estimated cost-of-living increases, the appropriate guideline for money wage rate adjustments should be 7.5 percent rather than 5.5 percent. Moreover, as the Govern-

[32] See again my chart 5. From fourth quarter 1973 to 1980, the projected percentage increase in wage rates is almost exactly the same as the projected growth of productivity.

ment's target or goal for 2.5-percent inflation is as of the end of 1973, this is consistent with an average annual rate of inflation in excess of 3 percent during 1971–73, and this imports average annual money wage rate gains of more than 8 percent. And even this figure should be lifted 1 percent or more, for the reason earlier stated that the increases in public spending are not likely to come anywhere near the needed goals projected by this study.

There is much room for captious economists to quibble about the details of these findings. They lay claim to no perfection. And other economists might develop projections which might appear to be preferable. But this has nothing to do with the main point I make. For no one can gainsay the central point that the wage rate guidelines set forth under phase II are so greatly off the mark on all scores that commitment to them by the well-informed would require a subservience to government fiat not compatible with a thoughtful democracy. And no higher purpose can be served than for the informed student of public policies and programs to question them when they are wrong, no less than to applaud them when they are right.

Desirable Price and Profit Policies

The Confusion About Needed Relative Trends in Wages, Prices, and Profits

Viewing the wage policy recommendation which I have just set forth, this question naturally arises: Would prices need to be raised greatly, in order to support the proposed wage-rate gains without hurting profits to a degree inimical to the amount of business investment required at this stage in the restorative process? The prevalent answer today is that the herein proposed wage-rate policy would necessitate large price increases, and therefore be inflationary by definition; and thus also defeat the other objectives of the attained wage gains.

This prevalent answer continues to ignore the empirical record of what has been happening, and continues to evade the basic task of constructing an integrated economic model, responsive to the tasks of the period ahead. It thus arrives at conclusions as to needed relative trends in wages, prices, and profits, which superficially seem reasonable and "fair." But these conclusions neglect entirely the functional purposes of each of these three factors—functions which are the same in purpose at all times, but vastly different in quantitative relationships and needed pace of advance, depending upon the specific economic conditions at a given time.

The Implications of Proper Functional Analysis

The comprehensive economic model used in my analysis sets forth needed GNP growth, needed consumer spending, needed wages and salaries, needed wage rates, needed gross private investment, needed investment in plant and equipment, and needed public outlays at all levels for goods and services. It also includes some additional refinements.

The functional purposes of economic growth, in the context of the current economic situation, is to restore maximum employment and production by late 1973. The function of growth in wage and salary income, and in wage rates, is to promote the needed increase in consumer spending.

The function of increased public outlays, together with expanded consumer spending, is to yield adequate growth in ultimate demand, or private and public consumption combined, and to meet priority needs.

These goals or quantifications on the private side have already been discussed, and on the public side will be discussed as I proceed.

The function of private investment in plant and equipment, during the movement from very high idleness of plant capacity in a severely retarded economy to reasonably full use of capacity in a fully restored economy, is to grow at the pace—and neither faster nor slower than this pace—which will work down idle plant capacity (rather than maintain or augment it), as the overall economy expand sufficiently and in workable balance. The type of private investment in plant and equipment which is of most concern to a study of wage-price-profit relationships is found in manufacturing, and in other sectors such as mining and transportation. Technically, such investment includes commercial buildings and some other types of enterprise, but these are not of primary concern here. In fact, in developing my overall economic model, I consider gross private investment, which includes also residential construction and net foreign investment, but these elements do not require extended analysis for the purposes of this presentation.

In this perspective, the function of prices and profit margins, at any given level of wages and other costs, is to yield enough profits to induce the amount and pace of investment needed as the economy proceeds from where it is now to where it should be by late 1973. And the factor of timing is all important.

Prices and Profit Margins, in General, Have Not Been Too Low, and Frequently Have Been Too High

The earlier portions of my analysis lead to the conclusion that there has been no time during the entire period under review when actual prices and profit margins were insufficient in general to generate the total profits needed to support the level of business investment in plant equipment needed at that particular stage in the business process. During the periods of so-called "boom,' prices, profit margins, and total profits and investment were all seriously excessive relative to ultimate demand, and this brought on the periods of stagnation and recession. During the periods of stagnation and recession, although profit margins, total profits, and investment looked alarmingly low at first glance, they remained too high relative to ultimate demand, from the viewpoint of reversing the course of the economy, and thereby working down excessive idleness in plant and manpower.

Broadly speaking, the same situation has also occurred during periods of disappointingly slow and uncertain economic recovery. This was especially true of the period from the first half of 1970 to the second or third quarter of 1971—depending upon the availability of data. In general, rapidly rising prices caused total profits to advance more rapidly than wages or wage rates, which was not the proper mixture for restored balance and growth, and did not prevent a serious decline in the rate of investment growth. This experience demonstrates clearly and dramatically that the road toward higher investment and higher profits is not through the lifting of prices and profit margins, but rather through prompt and adequate stimulation of ultimate demand.[33]

Why the Price Guidelines Under Phase II Fall Down, and What the Proper Price Guidelines Should Be Now

The policies to date under phase II indicate partial recognition of what has just been said. These policies indicate that, even where allowed money wage rate gains exceed the 5.5-percent guideline, prices should not be increased unless there is an increase in costs which drives profit margins below those which were achieved during a specified past period. But this is much too lenient a price policy. For it is based in part upon the erroneous idea, at least by implication, that labor costs are increased when real wage rate gains exceed the 3-percent productivity assumption, although this is a grossly low figure for reasons already stated. There are many industries where real wage rate gains far in excess of the 3-percent assumption would still fall far below the productivity gains registered in these industries, and thus not increase but rather decrease labor costs. The phase II approach is even more seriously erroneous, on the ground that it assumes that prices and profit margins in the designated period were appropriate. This is not only a wrong assumption, for many were too high, on the basis of data already set forth in my discussion. It is also unusually ironic and even "unfair," in that one of the fundamental (and erroneous) assumptions of phase II policies is that wage rate gains have been too rapid, and have resulted in cost-push inflation. The bias against wages runs throughout.

It follows that the current price policies under phase II are in error, insofar as they couple an assumption that consumer price inflation may be about 2.5 percent at an annual rate by the end of 1973 (which may be a realistic or even optimistic assumption) with the major premise that substantial further price increases in general are justified. The proper policy would be to set an overall goal of price stability, with variations in specific cases. This was the appropriate goal under the late price-wage guidelines, even though it did not include any mechanism for achieving this objective. These late guidelines were deficient and damaging because they were too harsh on the wage side as against the price and profits side. This is even more true of policies thus far declared under phase II.

It may be argued with some validity that the wage rate policies recommended herein would prevent profits from rising at an "encouraging" rate until the increase in ultimate demand pulls them upward. But such a policy would be desirable nonetheless. Under any appropriate model, prices and profit margins should be set at levels which will yield enough investment and profits to fulfill their functional purpose in a balanced program for economic equilibrium. In short, if a price is high enough to yield a proper level of profits to support a proper level of investment at the full-resource use level of economic activity, that price in general is high enough now. This is akin to the

[33] See again especially my earlier charts 13, 19, 20, and 21.

generally accepted idea that the tax and spending programs of the Federal budget should produce a balance or surplus when the economic program approximates reasonably resource use.

What About "Profit Control"?

Even if it were to be argued (this study believes incorrectly) that the wage policies recommended herein would bear down too harshly upon investment and profits from the viewpoint of investment needs, the proper remedy would not be to hold wage progress below the amounts and pace required for prompt and adequate economic restoration. That would be economic "budgeting" for continued stagnation or inadequtae growth. The proper remedy, on such an hypothesis, would be to remedy the investment-profit situation by an even more stimulative tax policy. This, however, is not to be interpreted in favor of the reckless and wasteful bonanzas thus far granted to "activate" investment, which will be treated subsequently.

Granted that wage controls require price controls for reasons too obvious to be detailed, profit control as such, until current or foreseeable circumstances change, is highly questionable. If wage and price policies are tolerably correct, appropriate profit levels tend to result almost automatically. Besides, the proper way to avoid excessive profits is through a tax structure, whether or not it includes an excess profits tax, which apportions incomes and resources in accord with a specific model for growth, priorities and justice. This we do not now have, nor are we moving toward it. As I proceed, the use of the model developed for my general purposes will be applied toward the momentous issue of an appropriate Federal fiscal policy. This we now do not have either, nor are we on the way to getting it. And without it, no price-wage-profits policy can work. As already pointed out, the damage done by the wrong fiscal policy has led to the really silly refrain that "fiscal policy does not work." Fiscal policy is still, and will remain, the chief arm for an effective national economic policy, including inflation control, and the problem is to get it to work properly.

Suggestions for Fiscal Policy

The Key Importance of Fiscal (and Monetary) Policies

The general view today is that the new economic policy of the President represents an abrupt turn from (*a*) reliance on fiscal and monetary policy to contain inflation to (*b*) the use of wage and price policy for the same purpose. Insofar as this abrupt turn is based upon any idea that wage and price policy alone can contain inflation, without powerful use of fiscal and monetary measures, this idea is torpedoed by the entire history of successful containment of inflation during World War II and the Korean war, which I have already discussed.

Moreover, as earlier pointed out, the failure of fiscal and monetary measures to contain inflation did not "discredit" such measures. They "succeeded" admirably well in their direct purpose, namely, to reduce the rate of economic growth and increase idleness of manpower and plant. They failed to contain inflation only because the entire "tradeoff" notion that these hammer blows against the real economy would restrain inflation was directly contrary to their actual results. The reconstruction of fiscal and monetary policies, directed toward priorities, growth, and justice, remains the most important approach to containment of inflation.

In fact, I might well argue that this should be the only approach now used, in that prompt and adequate economic restoration would in itself stabilize prices to an acceptable degree. And it might well be argued that price and wage controls, under current conditions of large economic slack and uncertainty, may do more harm than good, in that their unsettling effects upon the upward economic movement might well outweigh any gains which they may score on the front of price stabilization. Price and wage controls efforts are really called for when a central need is to reduce civilian incomes and enjoyments below the levels which would otherwise obtain, for example, during World War II. In contrast, to reconcile these control efforts with what should be a vast effort to galvanize civilian incomes and enjoyments, is at least a very doubtful undertaking.

But such arguments are unnecessary to my current analysis, which assumes for practical purposes that controls are on the scene. The first really germane point is that the price and wage controls now being undertaken are sorely misdirected, both from the viewpoint of economic performance and the viewpoint of price stability. This argument has been amply developed earlier in my discussion.

The second really germane point is that, whether price and wage policies are right or wrong, they cannot be disassociated from fiscal and monetary policies, because all major policies interact in their effect upon the economy. What is happening now is not really a changeover from reliance upon fiscal and monetary policies to reliance upon price and wage controls, but rather the introduction of wrongful price and wage controls to supplement wrongful fiscal and monetary measures. Conversely, even if the price and wage policies were corrected fully, they could not do their job, if fiscal and monetary policies continued to pull in the opposite rather than in the same direction. All types of economic policies are now pulling in the direction of economic restraint; and all now should be pulling in the direction of rapid economic expansion.

The model which I use has already been drawn upon, in earlier phases of my discussion, to quantify the needed goals for major components of the total economy, including wages and salaries and wage rates, and to relate these goals to price-profit-investment policies. But even assuming that actions in accord with these goals are taken, these goals themselves are interrelated to the goals which the model contains with respect to fiscal and monetary policies. Further, if fiscal and monetary policies are not to be as expansionary as this study urges, then an even greater expansion of wages and salaries and wage rates that this study urges would be essential to full economic restoration.

Needed Increases in Federal Outlays

My entire analysis leads me to conclude that total Federal outlays under the Federal budget, measured in fiscal 1973 dollars, should rise from $246.3 billion in fiscal 1973 to $279.5 billion, or about $33 billion higher, in calendar 1973. In ratio to total national production in an economy growing at an optimum rate, the rise should be from 20.67

to 21.60 percent. Thus, the President's fiscal 1973 budget is far too low.

It is not necessary to discuss the allocation of these projected expenditures between national defense, space technology, and international, on the one hand, and domestic programs, on the other hand, because this does not have much impact upon the desirable price and wage policies, although it is of tremendous importance for other reasons. The essential point, for the purpose at hand, is that increases in Federal outlays greatly in excess of any now contemplated are essential to the goals of growth, priorities, and justice, and essential to avoid changing the designation of the wage rate goals set forth in this study from "reasonably conservative" to "almost deflationary."

Moreover, the implications of my proposed $13 billion increase in Federal spending for the domestic priority programs (from fiscal 1973 to calendar 1973) have a great bearing indeed upon the appropriate wage rate policy. For it may be stated as a rough rule that the need for wage rate gains is substantially diminished by more satisfactory public facilities and services, and vice versa. Bearing this is mind, and again comparing fiscal 1973 with calendar 1973, Federal outlays for all domestic programs, measured in constant prices, should rise about $13 billion, as I have said; for retirement and social insurance, about $1.2 billion; for housing and community development, about $6.8 billion; for agriculture and natural resources, about $3.6 billion; for education, about $0.8 billion; for health services and research, about $1.1 billion; and for manpower programs and welfare services, including income supports, about $8.6 billion.[34] The commitments involved in these gains would carry us by 1980 to levels of performance, rather than mere promises, where practically all the basic material needs and aspirations of our people could be well served.[35]

There is another respect in which the impoverishment of public services impairs the economic balance. It is hurtful to both labor and industry, insofar as it makes necessary, or at least intensifies the demand for, a more rapid rate of wage advance than in the case of adequate exercise of public responsibility. At one and the same time, it imposes upon labor the charge of cost-push inflation, and imposes upon industry the choice between lifting its prices excessively and bearing too large a share directly of the cost of human improvement.

Federal-State-Local Relationships

A powerful aspect of the case for vastly increased Federal spending is the relative financial condition of the Federal Government, as against that of the States and localities. During 1947–70, the annual average rate of increase in public expenditures was 6.4 percent at the Federal level, compared with 9.6 percent at the State level, and 8.9 percent at the local level. Over the same period of years, the average annual increase in the public debt was 1.5 percent at the Federal level,

[34] These categorical items add up to about $22,300,000,000, compared with the about $13,000,000,000 shown for all domestic programs. This is explained by the fact that my model budget provides lesser amounts for a number of other categorical items than the President proposes. For example, I propose very much lower interest charges against the Federal budget, and the elimination of more than $6,000,000,000 for general revenue sharing, in that I do not favor revenue sharing without string, favoring instead increases in grants for specific purposes along the lines developed in my model budget.

[35] See my chart 22.

compared with 14.1 percent at the State level, and 8.8 percent at the local level. Even from 1961 to 1970, the average annual increase in the public debt was only 2.8 percent at the Federal level, compared with 8.7 percent at the State level, and 6.7 percent at the local level.[36]

These disparate trends also have their impact upon needed wage and price policies. This is because the tax burden is infinitely more regressive at State and local levels than at the Federal level. Thus, any attempts to compensate for the regressive inroads of the tax burden upon those in the lower portion of the income structure, through advances in wages and salaries, need to be greater when this regressivity persists and even increases, than if it were reduced by more adequate assumption of Federal fiscal responsibility.

Regressive Distribution of the Nationwide Tax Burden

To illustrate, during 1968 (later comprehensive data not available), if one looks at Federal income taxes only, the taxes paid as a percent of income ranged from 1.2 percent for those with incomes under $2,000 to 19.8 percent for those at $50,000 and over, and with the differentials generally progressive with respect to each intervening income group. But looking at the total tax burden of all kinds at all levels, the percent of total income paid in taxes by those at $50,000 and over was 45 percent, compared with 50 percent for those at $2,000 and under. And those with incomes ranging from $4,000 to $6,000 paid a higher percent in taxes than any of those ranging from $6,000 to $25,000. The impact of the regressive property taxes upon housing and other aspects of construction is severe and obvious.[37]

Regressive Federal Tax Action, 1963 to Date

The decade of the 1960's and the early 1970's have witnessed, as earlier indicated, a veritable orgy of regressive tax reduction. Taking into account all of the Federal tax reduction of all kinds (including concessions by the Treasury), beginning with 1964 and estimated through 1973 in terms of the 1971 tax legislation as sent to the President, families with incomes of $50,000 and over will benefit, as of 1973, to the tune of a 6.1 percent increase in their annual income after taxes, compared with only 5.1 percent for those under $3,000, and 4.5 percent for those between $5,000 and $10,000.[38]

Viewing the same tax actions, those with incomes under $3,000 will have received only 7.9 percent of the total tax cuts during 1964–73, although they comprise 16.1 percent of the tax returns, while those with incomes between $20,000 and $50,000 will have received 10.3 percent of the tax cuts, although they comprised only 4.7 percent of the tax returns.[39]

During 1973, under the 1971 tax legislation as sent to the President, $7.4 billion of the tax cuts will be allocated to the investment function, and only $2.7 billion to the consumption function, and these disparities will persist in later years.[40]

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[36] See my chart 23.
[37] See my chart 24.
[38] See my chart 25.
[39] See my chart 26.
[40] See my chart 27.

If these kinds of tax policies persist, even the gains for consumption, wages and salaries, and wage rates set forth in my analysis will be inadequate to play their part in bringing total demand into line with needed growth, priorities, and justice. To establish the foundations for any workable and viable wage and price policies, we therefore need to reconstruct the tax as well as the spending side of the Federal budget.

Needed Tax Changes

The needed changes on the spending side have been set forth already. On the tax side, I do not propose any attempt at this time to increase the total tax take through changes in the tax rates. That would run too large a risk of impeding economic restoration. But the hour is already late to begin to improve the Federal tax structure, especially after what has been done to it in recent years. The tax burden in the lower half of the income structure should further be lightened. The tax rate reductions in the top sectors of the income structure have been far too great, and the ground should be partly retraced. The wayward tax concessions, mostly in the form of investment tax credits and the like, should be abandoned. The most serious of the loopholes should be closed.

It would not be fair to assert that the managers of phase II should assume responsibility for corrections in fiscal and monetary policies. But this cannot absolve them from their responsibility to adjust their wage-price-profit thinking to these policies as they are, rather than to what they ought to be. It cannot absolve them from the responsibility for their evolving contribution, through distorted wage-price-profit guidelines, to the imbalances created by distorted fiscal and monetary policies. In short, it cannot absolve them from their responsibility to substitute a mature and comprehensive perspective for the obsessionary preoccupation with inflation.

The Prevalent Monetary Policy Must Be Reversed

General Consequences of the Prevalent Monetary Policy

Just as price and wage controls or guidelines cannot work effectively without a sound fiscal policy with respect to Federal spending and taxation, it is true in considerable degree that they cannot work without sound monetary policies on the part of the Federal Reserve System.

The prevalent monetary policy, in effect with relatively mild variations since the end of the Korean war, has been nothing short of a national disgrace. It has succeeded in restraining private and public programs most closely related to the great domestic priorities, but has had very little effect upon the recurrent investment excesses, which are financed largely out of retained earnings or out of the price structure. It has distributed hundreds of billions of dollars of income in entirely regressive directions. It has imposed intolerable burdens upon State and local governments, and an excessive interest burden upon the Federal Government now running at an annual rate of more than $8 billion.

The arguments advanced from time to time by the Federal Reserve System for exorbitantly high interest rates have been inconsistent and contradictory to one another. These interest rates at times have been urged to stimulate investment and restrain consumption, and at times for the opposite purposes. They have been urged at times to restrain excessive economic activity, and at times to stimulate the economy. But for the most part, they have been founded upon the discredited "tradeoff" idea, to the effect that increasing the idleness of plant and manpower is the first and foremost way to restrain inflation. And just because they have deliberately worked against economic growth, priorities, and justice, they have augmented inflation.

This monetary error is inseparably connected with the problem of wage and price policies. The failure to attribute to the prevalent monetary policy its proper share of responsibility for rampant inflation has augmented the spurious charge that wage-push has been the main cause of inflation. The toll imposed upon the average wage earner by excessive interest rates has necessitated many wage demands greater than would otherwise have been necessary. The huge public costs of the excessive interest rates have served as an excuse for not undertaking other essential public spending, which would have lessened the size of real wage rate gains required for legitimate advances in living standards. And even the real wage rate gains proposed in this study will turn out to be inadequate in terms of economic restoration or wage-earner progress, unless the pressure of intolerably high interest rates is quickly and substantially reduced.

The adverse effects of excessively tight money and excessive interest rates upon economic performance and price stability are clear. During 1955–71, the average annual growth in the nonfederally held money supply was only 3.3 percent, identical to the miserably inadequate annual average real economic growth rate of only 3.3 percent. In the main, sharp contractions in the growth rate of the money supply have contributed to the various recessions, while belated and inadequate increases in its rate of growth have prevented full economic restoration. And for the very reasons that the distorted use of tax and monetary policies to restrain real economic growth and to aggravate the roller-coaster economic performance have augmented inflation, the same has been true with a vengeance of the prevalent monetary policy.[41]

The Specific Toll of Excessive Interest Rates

From 1952 to 1970, the computed average interest rate on the total public and private debt rose 112.2 percent. This has imposed aggregate interest charges upon borrowers coming to $405.6 billion more than they would have paid if interest rates had remained at 1942 levels. In 1970 alone, these excessive interest charges amounted to more than $65 billion. Reductions in interest rates, within 1971 and early 1972, have been a mere bagatelle compared with the needed reductions.[42]

It is very significant to compare the toll of rising interest rates in the Federal budget with the size of budget outlays for domestic priority programs designed to make war against poverty, improve living

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[41] See my chart 28.
[42] See my chart 29.

standards generally, and work against idleness of manpower and plant. For the calendar year 1970, the excessive interest costs in the Federal budget (based upon comparisons with 1952 interest rates) were $8.1 billion. This was 29 percent more than the $6.3 billion outlays for education proposed initially in the fiscal 1972 budget; 80 percent more than the proposed outlays for housing and community development; and 224 percent more than the proposed budget outlays for manpower programs. Comparisons for the period 1962–70 as a whole reveal even more glaring distortions.[43]

Let us next assume that the unconscionable transfer payments in the form of excessive interest rates during 1953–70 inclusive, aggregating annually about $22.5 billion, had been used instead to increase the incomes of the poor. These increases might well have come partly in the form of public services, but they should have been mainly in the form of more adequate minimum wage legislation, and better real wage and salary progress generally. If the average annual excessive interest costs had been applied to all families with incomes under $4,000 in 1969, this would have been enough to increase the average annual income of each of these families by $3,012 above what they actually received, for each year from 1953 through 1970. This is not to imply the full use for this purpose of the savings which would have resulted if the interest-rate travesty had not been tolerated. But it does demonstrate vividly that we could have already wiped out poverty in America, at only about half the cost in dollars that has been involved in the excessive interest rates. This is entirely apart from the favorable impact of the elimination of poverty upon all else, while the impact of the excessive interest costs has been pernicious on every front.[44]

Needed Changes in the Prevalent Monetary Policy

Toward a monetary policy conducive to growth, priorities, and justice, the following changes are imperatively needed:

(1) The so-called "independence" of the Federal Reserve System, even if that System had performed well rather than poorly during recent years, is utterly incompatible with unified and consistent national economic policies. By legislation if necessary, effective control by the President and Congress over the Federal Reserve System should promptly be reestablished. The Open Market Committee should be abolished and all powers of the System should be vested in the Board; and the tenure of the Chairman, as Chairman, made subject to the discretion of the President;

(2) Legislation should require that the Federal Reserve System expand the money supply in amounts compatible with the goals for economic growth set forth in the Economic Reports of the President;

(3) Further toward unification of policies, each Economic Report should contain an annual report by the Federal Reserve Board, indicating how the policies of the System are being reconciled with the economic program recommended by the Presi-

[43] See my chart 30.
[44] See my chart 31.

dent. If any differences between the President and the Board appear to be irreconcilable, this process would promptly and properly bring the matter to the direct attention of the Congress;

(4) Aggregate or qualitative controls by the Federal Reserve System should be reinforced with specific quantitative controls, so that the allocation of credit and the terms of its availability will promote the equilibrium required for optimum economic growth, and be in accord with the great priorities of domestic needs; and

(5) The Congress by legislation should establish much lower interest rate ceilings, at least in these vital areas where excessive interest rates are bearing down so heavily upon priority needs.

The Prime Importance of the Construction Industry, Especially Housing, Including Its Role in Urban Renewal

Thus far, my discussion of programs and policies has related in the main, although not in entirety, to fiscal and monetary, and to wage price, and profit policies. As of now, the Federal Government is dealing with these matters in full swing, although very substantially in the wrong direction.

But there are other national programs and policies which are equally important, in terms of achieving and maintaining economic equilibrium or balance at maximum resource use and minimum idleness of manpower and plant. And these are crucial from the viewpoint of priorities and social justice. Such programs and policies include housing and urban renewal, social insurance, welfare, agriculture, and other aspects of the rural interest, education and health, transportation and resource development, environmental programs, and international economic programs. Even this listing is not complete.

Thus, a signal defect in the Economic Reports of the President, and in the annual reports of the Council of Economic Advisers in that they do not lift these programs to the dignity, and accord them the full treatment, which they deserve. Without doing this, it is veritably impossible to develop a mature and fully meaningful economic and social program for the Nation and the people.

The limitations of my current presentation prevent me from going into all these matters in detail, although indications of the magnitudes of the programs in many of these areas have been depicted.[45] But construction, especially housing, viewing also its bearing upon urban renewal, is so important and so neglected that I feel impelled to deal with it in considerable detail.

The Role of the Construction Industry in the National Economy

Investment in total structures rose to a post-World War II peak of 12.5 percent of total national production (GNP) in 1950, and stood at 12.4 percent in 1955. Thereafter, the ratio declined fairly constantly to 9.89 percent in 1970. The ratio in 1971 rose 10.44 percent, but this was lower than in any year from 1948 through 1965. Compared with gross private domestic investment, the ratio of investment in total structures peaked at 86.3 percent in 1954, and declined to 71.5 percent in 1970, with a slight increase to 72.6 percent in 1971. The 1971 ratio was lower than in any year from 1952 through 1964.[46]

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[45] See again my chart 22.
[46] See my chart 32.

Comparative Growth Rates

During 1947–71, the average annual rate of U.S. economic growth in real terms was 3.7 percent, and the average annual real growth rate of investment in producers' durable equipment was 3.3 percent. But the average annual growth rate of investment in residential structures in real terms was only 2.4 percent, and in other structures 4.1 percent, with the average for the two being 3.4 percent.[47]

These deficient ratios in the industry's performance, related to the performance of the economy at large and investment generally, have occurred ironically during years when we have recognized, in words but not in deeds, that the more rapid expansion of the industry than of the economy at large or investment generally is imperative for both economic and social reasons. The oft-discussed but continuously neglected "urban" problem, the oft-discussed but continuously neglected "housing" problem, depend for their solution to a major degree upon expanded construction of the right sort. Under these circumstances, the declining role of the industry in the nationwide economic performance picture is a discouraging commentary upon the unsatisfactory character of nationwide economic programs and policies, a matter demonstrated more specifically as my analysis proceeds.

The Quantitative Deficiencies, and Their Impact on the Economy

In the full perspective of the U.S. economic and social performance budget which I have developed over the years and corrected from time to time on the basis of experience, it is feasible to estimate the shortfalls in the performance of the construction industry. Measured in 1970 dollars, the deficiency in the total output of structures was $367.5 billion during 1953–71 as a whole, and $45.1 billion in 1970 alone. It is even more important to estimate the implications for the future, if the trends which have been in process during the years under review are permitted to continue. For the years 1972–80 inclusive (projecting only from a 1971 base, and writing off the accumulated deficiencies during 1953–71), it is estimated that there would be a deficiency of $448.8 billion in total output of structures.

The next step in the analysis is to estimate the impacts upon the economy at large of the industry's shortfalls as depicted above, allowing for the "multiplier" effect of activity within the industry upon the economy at large. Measured in 1970 dollars, during 1953–71 inclusive, the unsatisfactory performance of the industry might validly be held to "explain" a GNP loss of $735 billion; a Federal revenue loss of $47 billion at existing tax rates; and a State and local property tax loss of $28.2 billion at existing tax rates. The nationwide loss in man-years of employment opportunity, resultant from the inadequate performance of the industry, aggregated $18.8 million.

Looking ahead, the estimated deficiencies in the performance of the industry, under current national programs and policies, would result during 1972–80 inclusive in a loss estimated at $897.6 billion in GNP, $179.5 billion in Federal revenues, and $23.4 billion in State and local property tax revenues, measured in 1970 dollars. The aggregate nation-

[47] See my chart 33.

wide loss in man-years of employment opportunity is estimated at $15.8 million, or at an average annual rate of $1.8 million.[48]

What are the real implications of this analysis? In an earlier phase of my discussion, there were set forth the aggregate losses in GNP and in man-years of employment opportunity which would result during 1972–80 if established trends continued, and the conclusion was reached that they would continue if national economic programs and policies are not drastically reconstructed.[49] It thus appears that the GNP loss directly attributable to the projected performance of the construction industry comes to 49.6 percent of the total GNP loss, and that the man-years of employment lost directly attributable to the industry comes to 82.2 percent of the total employment opportunity lost throughout the economy.

Even allowing for some variations in the above estimates, although they are certainly realistic, what better proof could there be that the national interest calls insistently for expanding the output and services of the industry in accord with our national economy needs, to which must be added the urgency of the social needs involved?

Needed Growth Rates

Measured in 1970 dollars, it is estimated that, in order to regain and then sustain maximum employment and production, the U.S. economic growth rate must average annually 5.8 percent for the period 1971–80. The growth rate for personal consumption expenditures comes to 5.3 percent, for private domestic investment 7.1 percent, and for Government purchases of goods and services 5.9 percent. The relatively high figure for private and domestic investment derives essentially from the needed investment in construction. Investment in residential structures is projected to grow at an average annual rate of 7.4 percent, and in other construction at an average annual rate of 7.5 percent.[50] The immensity of this task is indicated by the fact that the growth rate for investment in residential structures average annually only 2.4 percent, and in other structures only 4.1 percent, during 1947–1971, measured in constant dollars.[51]

Specific Investment Goals

Adhering to measurement in 1970 dollars to present a true picture, investment in total structures should rise above the 1971 level of $101.5 billion by $35.1 billion, or 34.6 percent, for 1973 as a whole; by $39.6 billion, or 39 percent, in fourth quarter 1973; and by $92 billion, or 90.6 percent, for 1980 as a whole.

Investment in residential structures should rise from the 1971 base figure of $38.7 billion by $13.3 billion, or 34.3 percent, for 1973 as a whole; by $15.2 billion, or 39.2 percent, for fourth quarter 1973; and by $34.9 billion, or 90.2 percent, for 1980 as a whole.

Man-years of employment in the industry should rise from the 1971 base level of $2,705,000 by $541,000, or 20 percent, for 1973 as a whole; by $612,000, or 22.6 percent for fourth quarter 1973; and by $1,100,000, or 41 percent, for 1980 as a whole.[52]

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[48] See my chart 34.
[49] See again my chart 3.
[50] See my chart 35.
[51] See again my chart 33.
[52] See my chart 36.

Achieving the Goals for Housing

Translating the housing goals as I have set them forth into actuality will require thought and action far different from the smug satisfaction about "how well housing is doing now." So first of all, let us take a square look at just how housing is doing now.

In 1950, there were about 2 million housing starts. By 1968, starts had dropped to about 1.5 million, and were even lower in 1970. In 1971, there were about 2.1 million starts. This was not nearly as good as it looked, for a variety of reasons.

In the first place, the annual average of starts during 1968–71 was only 1.6 million, or 18.4 percent below the level of 1950, when we had a much smaller population and a much smaller need.

In the second place, the 2.1 million housing starts in 1971 was 8.7 percent below the above 2.3 million annual average starts we need to achieve during 1972–80 inclusive.

In the third place, the "high" rate of housing starts in 1971 was just another example of the extremely erratic pattern of housing starts over the years, as indicated by the performance from 1950 to 1971. A boom year or two like 1971 saturates the market for the upper income families for whom the preponderance of this housing is being built, and does very little for those living lower down, including almost all of those who live in slums and other substandard housing. And when the short boom has run its course by saturating the limited market, a sharp decline sets in again. Meanwhile, the dent upon substandard housing and slums has been pitifully small, related to the need.

The only possible way that we can sustain the average annual rate of housing starts needed during 1972–1980, and the only way we can possibly meet our economic and social needs, is to make sure that the composition of the housing is in accord with the real needs of the people, as determined by their incomes and ability to pay for the housing they occupy. By this test, the $2.3 million average annual needed housing starts during 1972–1980 should be subdivided as follows: About $1.3 million a year of traditionally financed private housing, including conventional Federal Housing Administration insurance for middle- and high-income families; 500,000 units a year of home construction for lower middle-income groups, aided primarily by very low interest rates and very long-term loans, requiring direct Federal lending or Federal underwriting, plus some cooperative housing; and about 500,000 units a year of low-rent and low-cost sale housing, involving a large amount of public subsidy, and primarily Federal subsidy, regardless of whether the housing is publicly or privately owned or managed.[53]

It is abundantly clear, despite billions of words, promises, and "enabling" legislation, that no such program is yet on the way. Recalling that such a program was the intent as early as the Housing Act of 1949, the proof of the pudding is the performance in 1970, the latest year for which adequate data are available. In that year, 8.9 percent of all U.S. families had incomes under $3,000, but they bought only 0.1 percent of the new houses purchased with FHA financing, and only 0.1 percent of the existing houses purchased with FHA financing. The 10.4 percent of all families with incomes between

[53] See my chart 37.

$3,000 and $5,000 accounted for only 0.1 percent of the FHA-financed new home purchases, and only 0.6 percent of the purchases of existing homes. The 11.8 percent of the families with incomes between $5,000 and $7,000 accounted for only 1.9 percent of the FHA-financed new home purchases, and only 5.9 percent of the purchases of existing homes. Meanwhile, the 19.9 percent of all families with incomes between $7,000 and $9,000 accounted for 18.8 percent of all FHA-financed purchases of new homes, and 25.7 percent of the existing homes. And the 49.1 percent of the families with incomes of $10,000 and over purchased 79.2 percent of all the new homes financed through FHA, and 67.7 percent of the existing housing so financed.[54]

There will not be any change in this serious situation until the Federal Government increases its direct investment in community housing and development along the lines set forth earlier in this study;[55] until the Federal Government undertakes in equal seriousness to get interest rates down to where they should be;[56] until the Federal Government brings its subsidy programs more into line with relative needs;[57] until the excessive tax burden on real estate is redressed by Federal action;[58] until Federal depreciation and depletion allowances are reallocated in accord with the national interest;[59] until the extraordinary low rate of return to real estate investment is alleviated;[60] and until, in a still broader sense, the Federal Government, with a higher degree of democratic planning, replaces the random, ad hoc, improvised, and conflicting nature of its current programs and policies with something akin to the U.S. Economic and Social Performance Budget which I have described.

The Need for More Planning Under Freedom

The clear import of all that I have said is that our national policies and programs are not being deployed on a consistent, integrated, and long-range basis. Nor are they being forged in the light of a vigorous and comprehensive analysis of the entire economy in action. Yet, this was the explicit mandate, and certainly the legislative intent, of the Employment Act of 1946. It is not of particular importance whether the device used for this purpose, under the aegis of the Employment Act, is strictly in accord with the U.S. Economic and Social Performance Budget to which I am committed. But it is imperative that something very much like it, in principle and practice, become the central frame of reference for thought and action under the Employment Act.

[54] See my chart 38.
[55] See again my chart 22.
[56] See my chart 39.
[57] See my chart 40.
[58] See my chart 41.
[59] See my chart 42.
[60] See my chart 43.

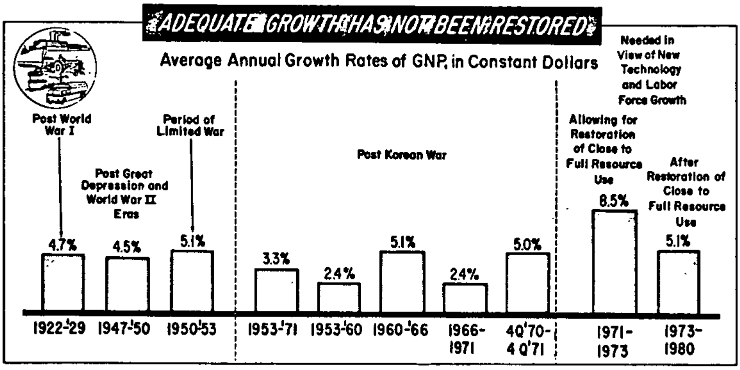
Although this is already the duty of the President and the Council of Economic Advisers, this duty has been recognized mainly in the breach. This committee on earlier occasions, in some of its reports, has expressed its strong intent that this process be activated by the President and the Council of Economic Advisers. I strongly suggest that this recommendation be made again in the forthcoming report of the committee. And if this is done and again proves unavailing, I respectfully suggest that legislation along these lines be enacted.

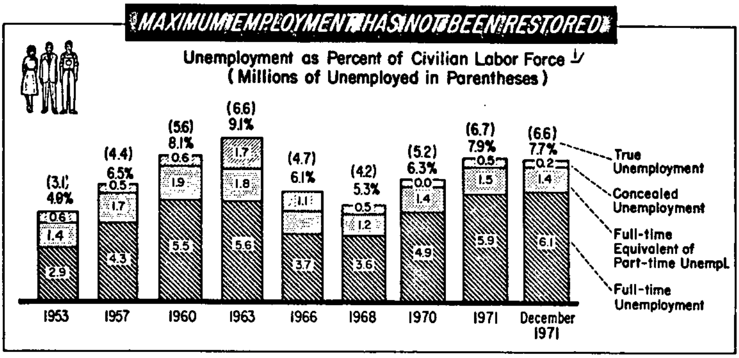
Our economic needs are too great, our social and civil pressures are too urgent, our international problems are too pressing, for us to continue to fly blind, especially when now for so many years we have suffered the unfortunate consequences of doing so.

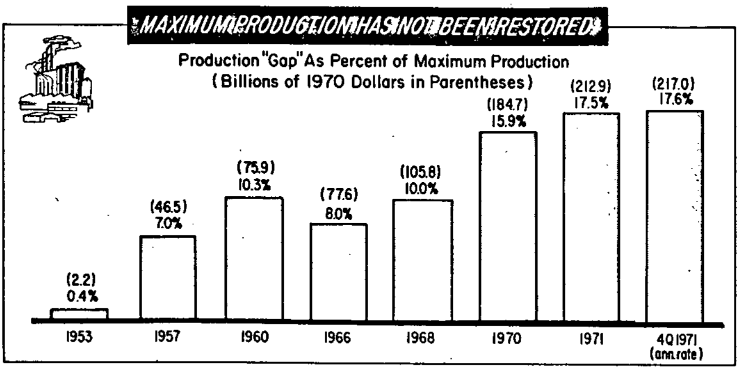
(The charts referred to in the text follow:)

Chart I

BASIC U.S. ECONOMIC TRENDS, 1953-1971



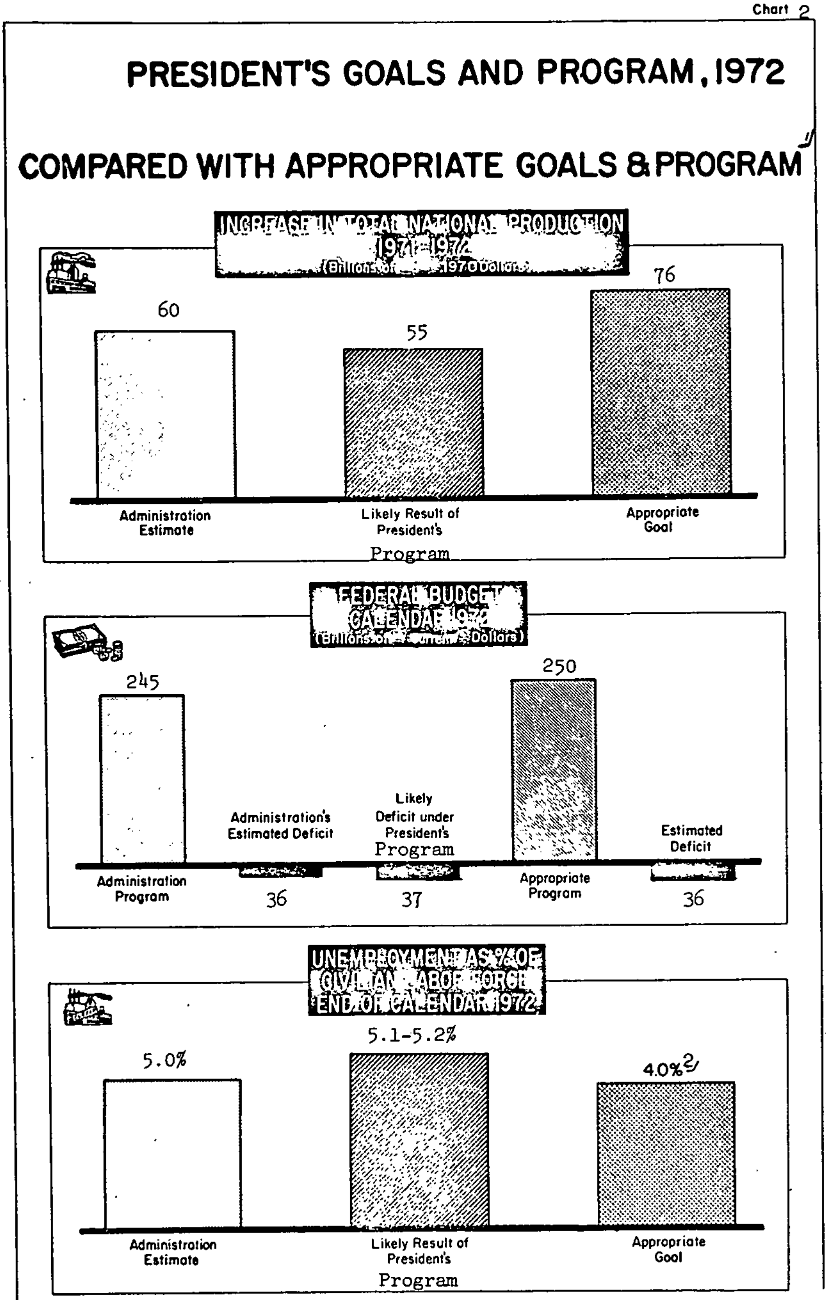




1/ In deriving these percentages, the Civilian Labor Force is estimated as the officially reported Civilian Labor Force augmented by concealed unemployment. Thus, some of the percentage figures on full-time unemployment vary very slightly from the official reports, which do not take account of the augmented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

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

Chart 2



1/ Appropriate program intended to be in effect throughout 1972. Since it was not, it is now too late to achieve these goals, but prompt action can still obtain results considerably better than those in the President's program.

2/ Toward goal of 2.9 percent by late 1973.

Chart 3

COSTS OF DEFICIENT ECONOMIC GROWTH U.S. ECONOMY, 1960-1971 AND 1972-1980

(Dollar items in billions of 1970 dollars, except average family income)

1960-1971 1/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1960-1966: $588.7 1966-1971: 810.1 4Q 1971: 217.0	1960-1966: 21.1 Million 1966-1971: 9.2 Million 4Q 1971: 2.9 Million	1960-1966: $300.6 1966-1971: 358.5 4Q 1971: 97.9	1960-1966: $136.4 1966-1971: 208.2 4Q 1971: 56.1
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1970 Dollars)**	**Wages and Salaries**	**Unincorporated Business and Professional Income**
1960-1966: $151.6 1966-1971: 243.4 4Q 1971: 63.0	1960-1966: $6,076 1966-1971: 4,839 4Q 1971: 1,557	1960-1966: $344.7 1966-1971: 412.2 4Q 1971: 106.3	1960-1966: $45.2 1966-1971: 51.8 4Q 1971: 15.2

1972-1980 3/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1972-1980: $1,809.1 1980: 323.9	1972-1980: 19.2 Million 1980: 2.6 Million	1972-1980: $1,093.3 1980: 206.0	1972-1980: $258.7 1980: 43.4
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1970 Dollars)**	**Wages and Salaries**	**Unincorporated Business and Professional Income**
1972-1980: $457.1 1980: 73.4	1972-1980: $14,520 1980: 2,588	1972-1980: $928.1 1980: 171.3	1972-1980: $107.6 1980: 17.3

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

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

3/ These deficits are projected from a 1971 base, writing off the cumulative deficits 1953-1971.

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

Chart 4

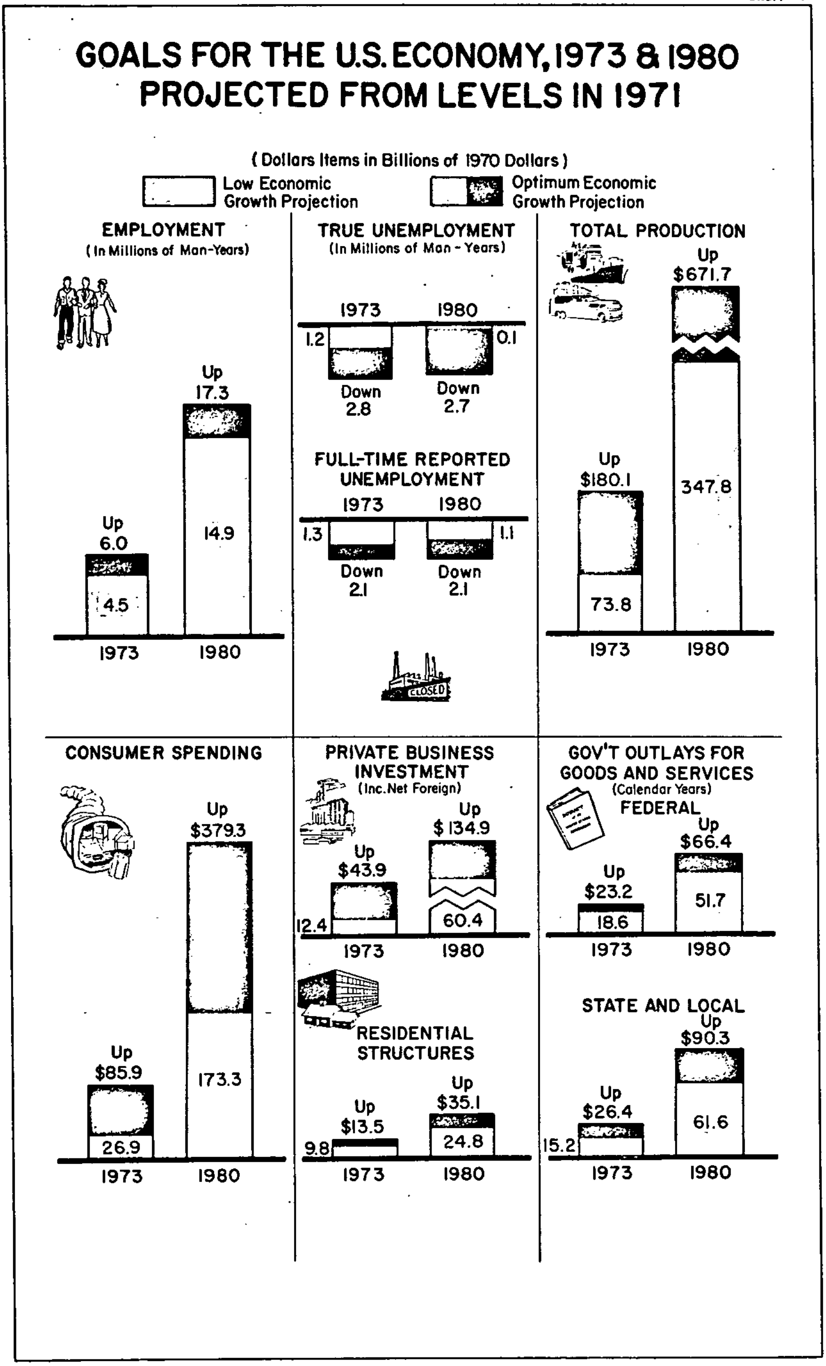
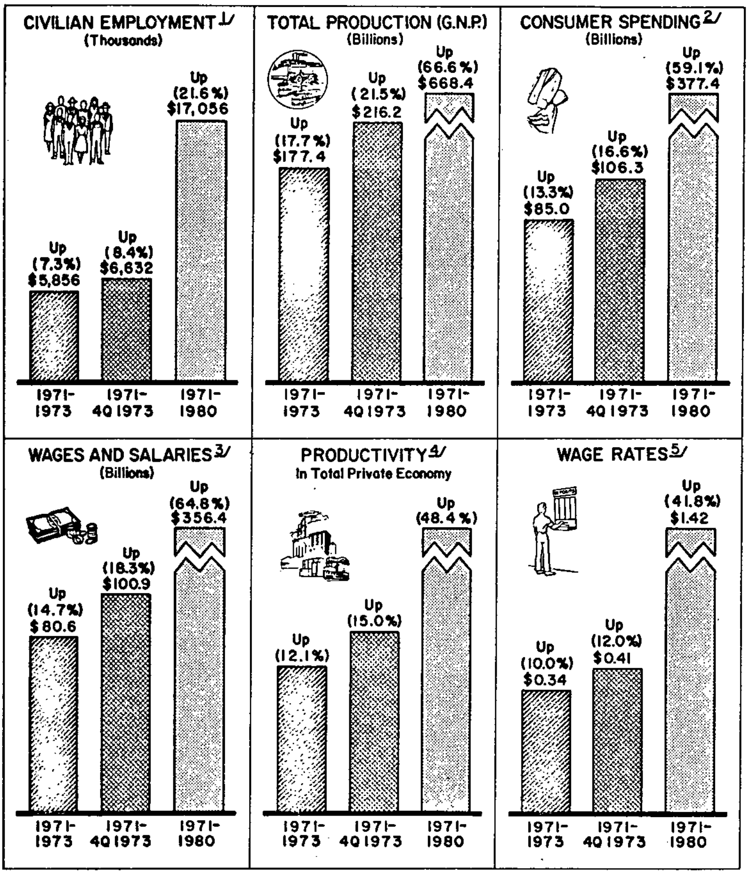

GOALS FOR THE U.S. ECONOMY, 1973 & 1980
PROJECTED FROM LEVELS IN 1971
(Dollars Items in Billions of 1970 Dollars)
Low Economic Growth Projection
Optimum Economic Growth Projection
EMPLOYMENT
(In Millions of Man-Years)
Up 17.3
Up 6.0
14.9
4.5
1973
1980
TRUE UNEMPLOYMENT
(In Millions of Man - Years)
1973
1980
1.2
0.1
Down 2.8
Down 2.7
FULL-TIME REPORTED UNEMPLOYMENT
1973
1980
1.3
1.1
Down 2.1
Down 2.1
CLOSED
TOTAL PRODUCTION
Up $671.7
Up $180.1
347.8
73.8
1973
1980
CONSUMER SPENDING
Up $379.3
Up $85.9
173.3
26.9
1973
1980
PRIVATE BUSINESS INVESTMENT
(Inc. Net Foreign)
Up $134.9
Up $43.9
12.4
60.4
1973
1980
RESIDENTIAL STRUCTURES
Up $35.1
Up $13.5
9.8
24.8
1973
1980
GOV'T OUTLAYS FOR GOODS AND SERVICES
(Calendar Years)
FEDERAL
Up $66.4
Up $23.2
51.7
18.6
1973
1980
STATE AND LOCAL
Up $90.3
Up $26.4
15.2
61.6
1973
1980

Chart 5

GOALS FOR THE U.S. ECONOMY, 1973, 4th Q 1973, & 1980 PROJECTED FROM 1971 BASE TO ACHIEVE FULL RESOURCE USE BY 4th Q 1973

(Total Percentage Changes in Parentheses)

Dollar Items in 1970 Dollars



1/ Unemployment down 42.0%, 47.3%, and 42.5% respectively.

2/ Growth is less than growth of G.N.P., primarily because of needed growth in public outlays to meet domestic priorities, projected at 22.6%, 26.8%, and 71.4% respectively.

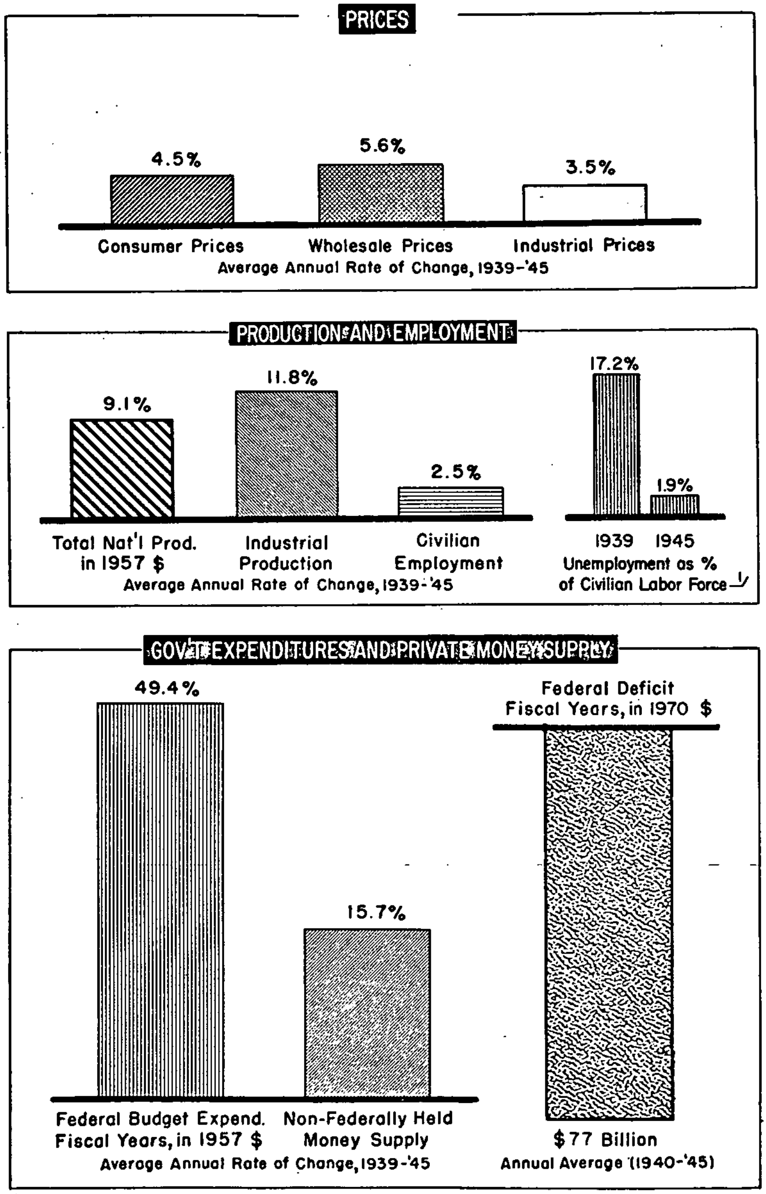
3/ Total labor income, 14.9%, 18.7%, and 65.7%.

4/ Much higher than long-term productivity growth, which must be the case in vigorous recovery movement. Less than G.N.P. growth, part of which would result from expansion of employment. Growth in employment plus growth in productivity exceeds growth in G.N.P., due to changes in working hours and other factors in composition of labor force. (Only percentage changes shown for productivity since dollar amounts are not meaningful)

5/ Projected at slightly slower than growth in productivity, so as not to move wage rate growth too far out of line with longer-term sustainable trends, in view of extremely high and nonsustainable growth in productivity during vigorous recovery movement.

Chart 6

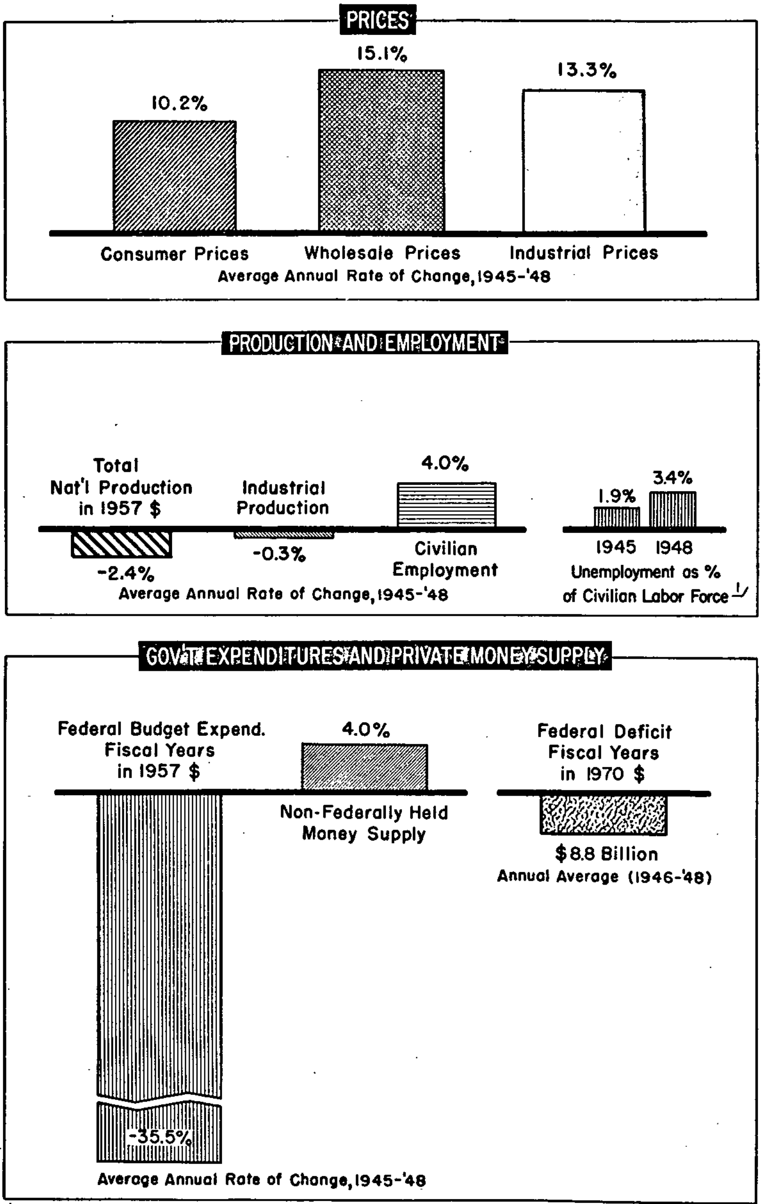
ECONOMIC TRENDS DURING WORLD WAR II
1939-1945



1/ Old concept, based on persons 14 years of age and older.

Chart 7

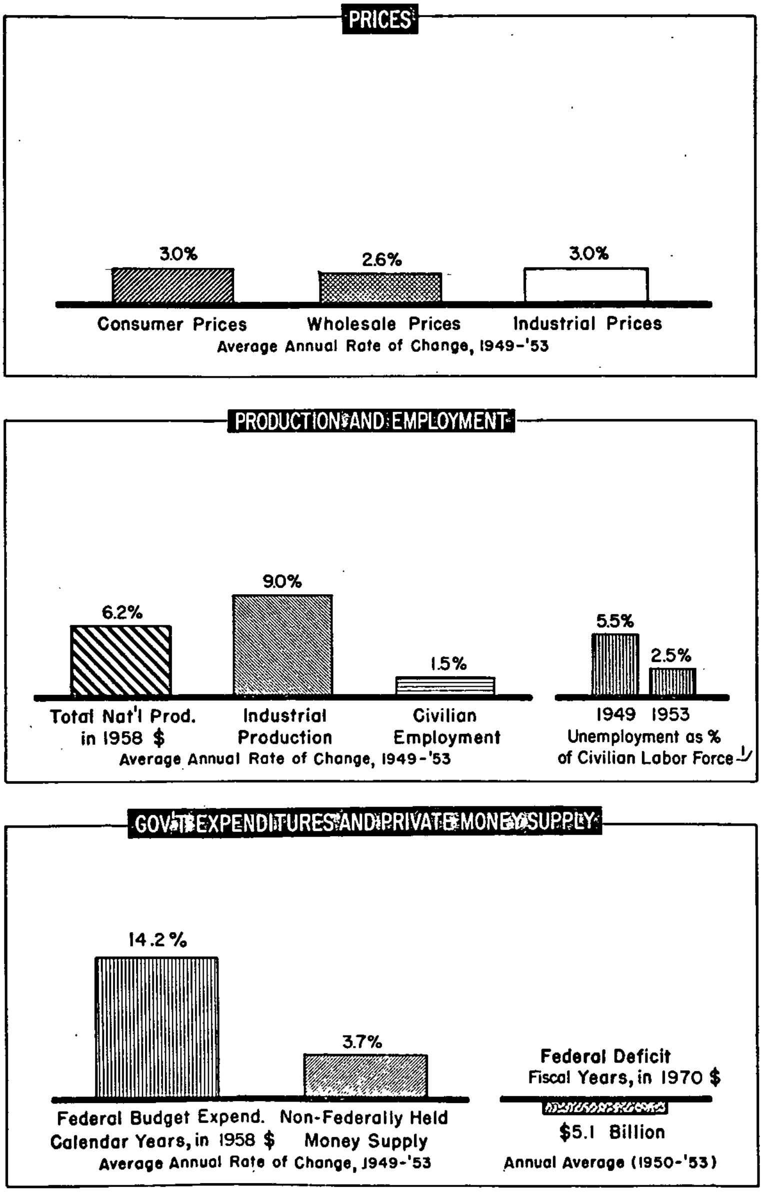
ECONOMIC TRENDS DURING RECONVERSION 1945-1948



1/ Old concept, based on persons 14 years of age and older.

Chart 8

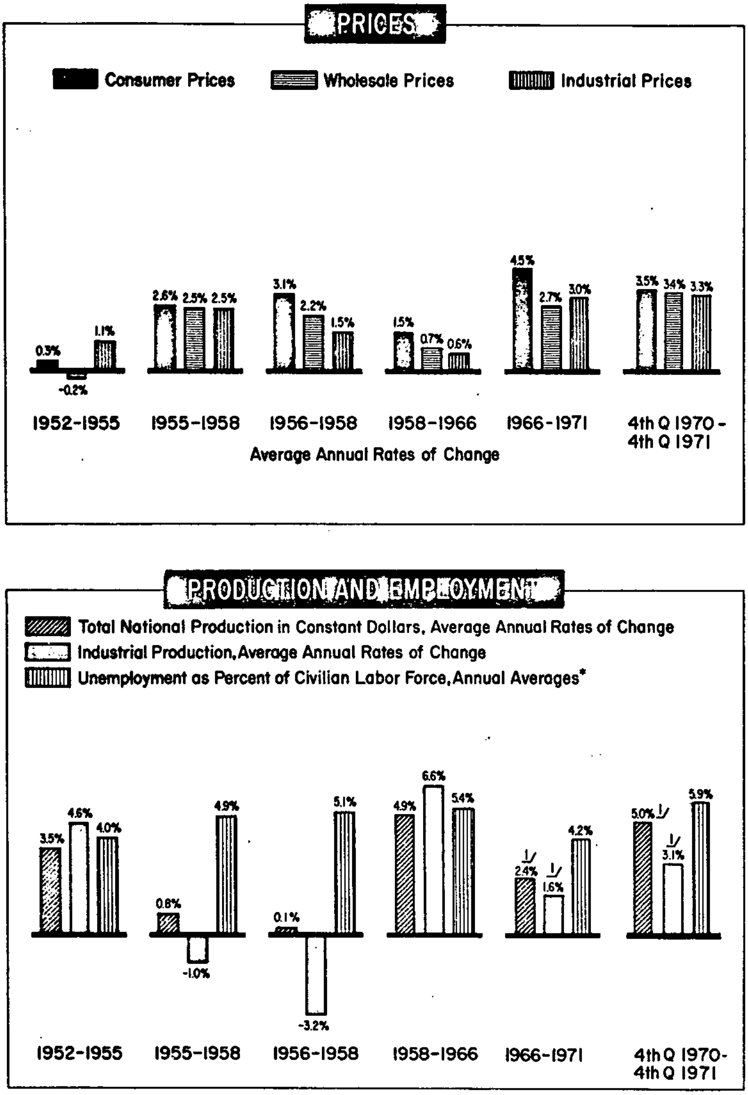
ECONOMIC TRENDS DURING THE KOREAN WAR, 1949-1953



1/ Old concept, based on persons 14 years of age and older.

Chart 9

RELATIVE TRENDS IN ECONOMIC GROWTH UNEMPLOYMENT, & PRICES, 1952 - 1971

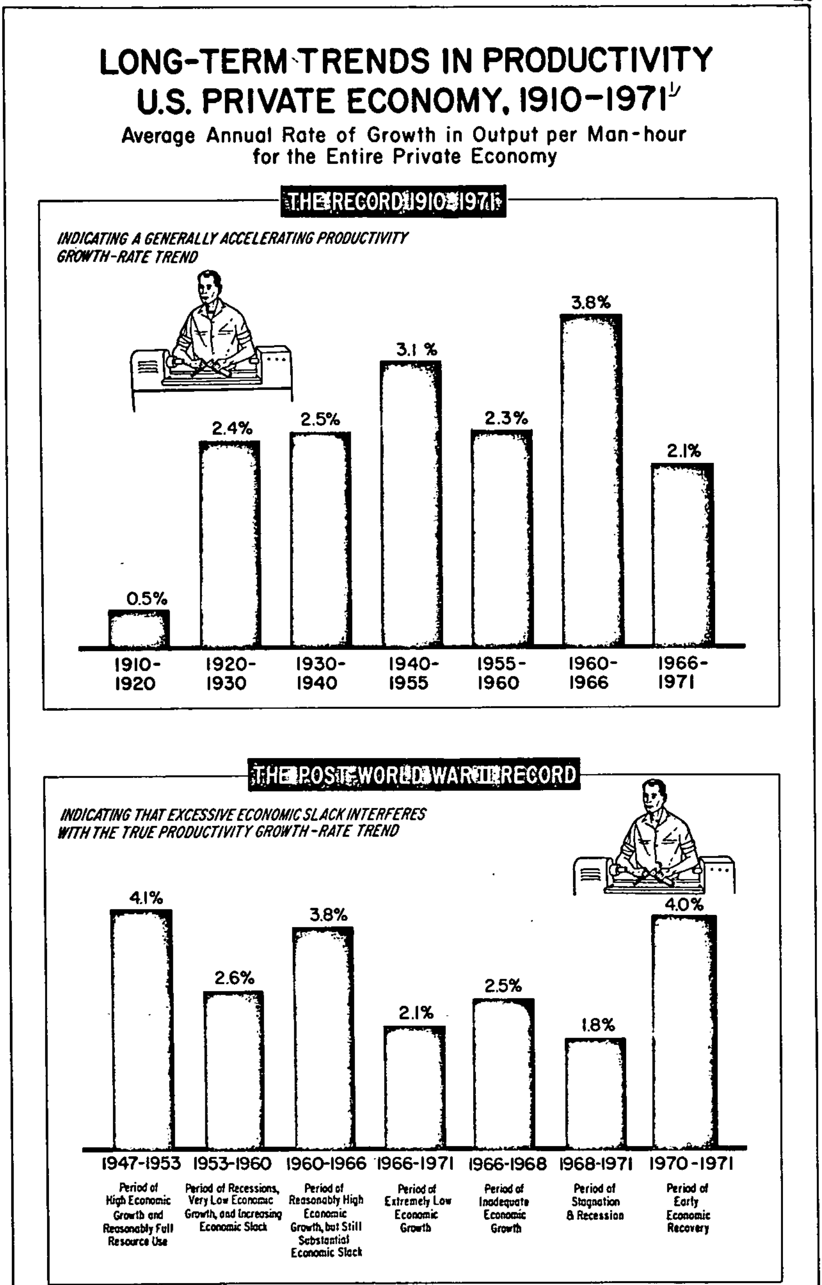


1/ Preliminary.

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

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

Chart 10



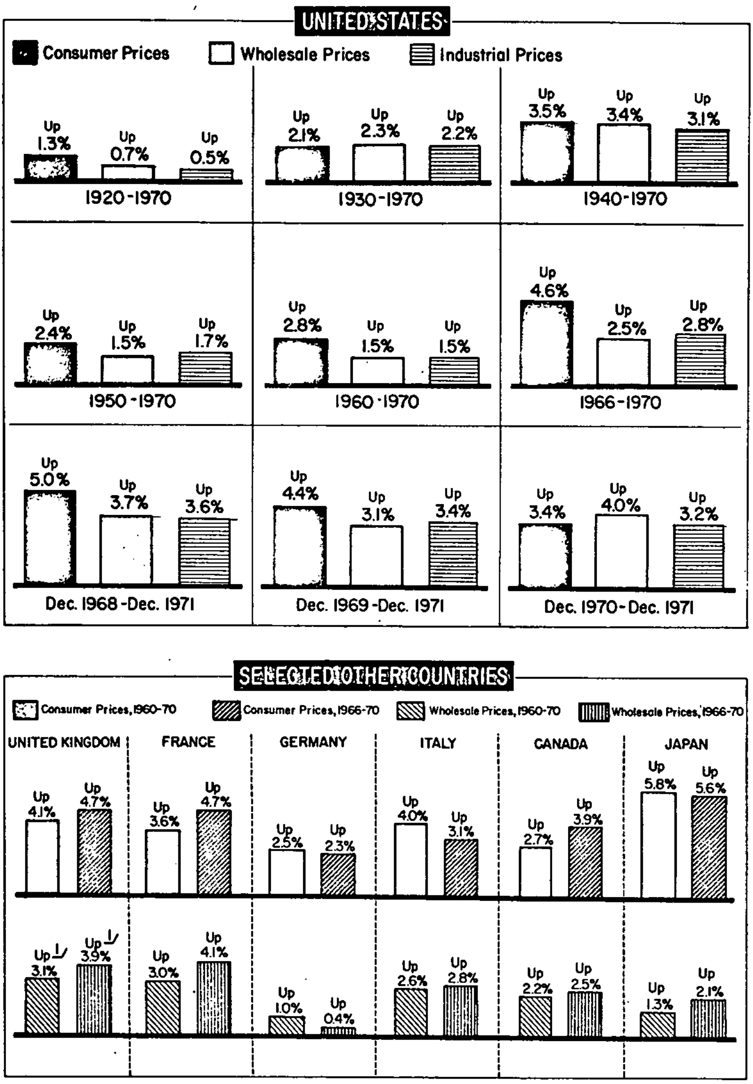
[1] 1971 partly estimated.

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

Chart 11

SELECTED PRICE TRENDS, 1920-DEC. 1971
U.S. AND SELECTED OTHER COUNTRIES

(Average Annual Rates of Change)

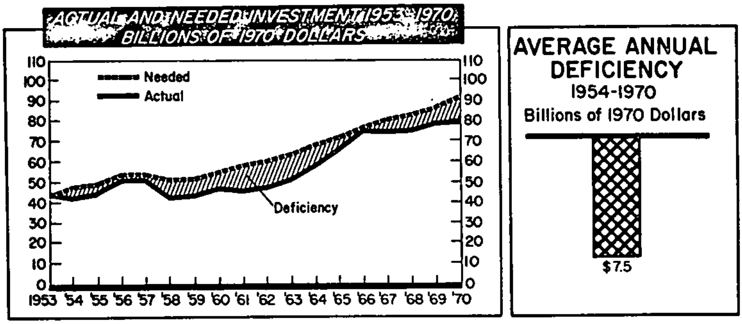


1/ Based on index for finished goods.

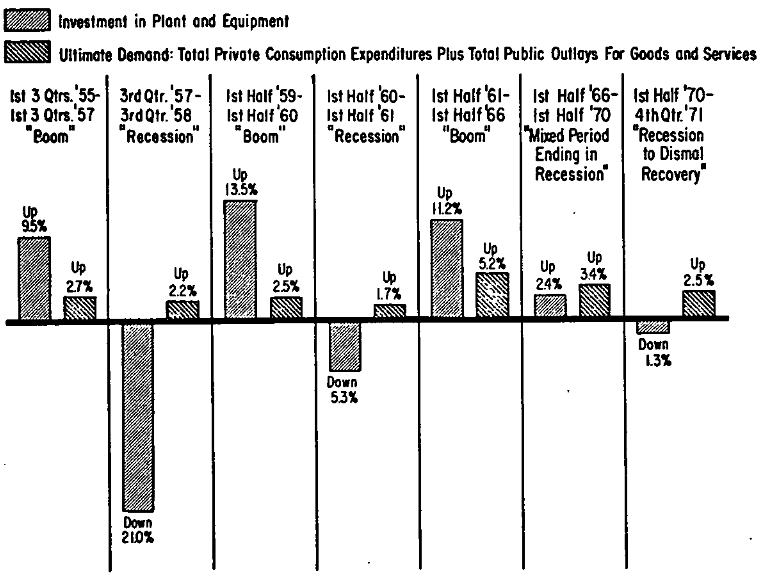
Source: Bureau of Labor Statistics, Department of Labor; United Nations

Chart 12

INVESTMENT IN PLANT AND EQUIPMENT WAS DEFICIENT, 1954- 4th Qtr 1971 AS A WHOLE



BUT INVESTMENT IN MEANS OF PRODUCTION AT TIMES OUTRAN DEMAND; HENCE INVESTMENT CUTS AND RECESSIONS



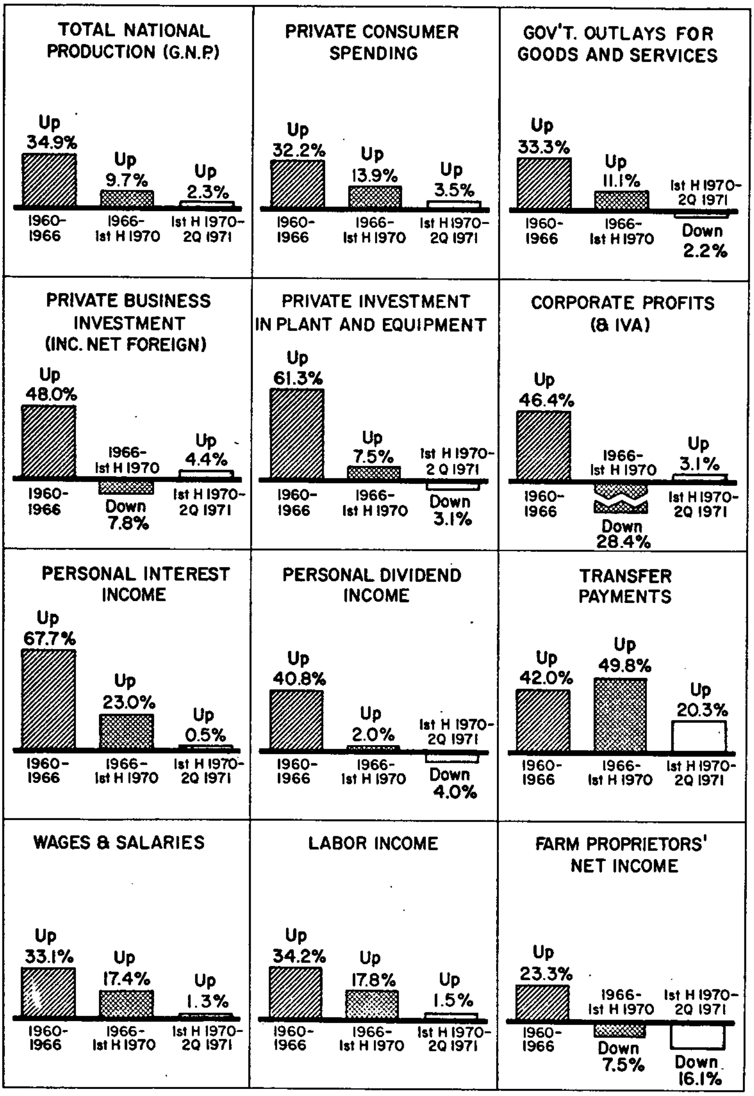
AVERAGE ANNUAL RATES OF CHANGE

In Uniform Dollars

Chart 13

COMPARATIVE GROWTH IN VARIOUS ASPECTS OF U.S. ECONOMY, 1960–2nd Q 1971[1/]

Total Percentage Changes, in Constant Dollars



1/ Ends with second quarter 1971 to conform to other available data.

Source: Dept. of Commerce, Office of Business Economics

Chart 14

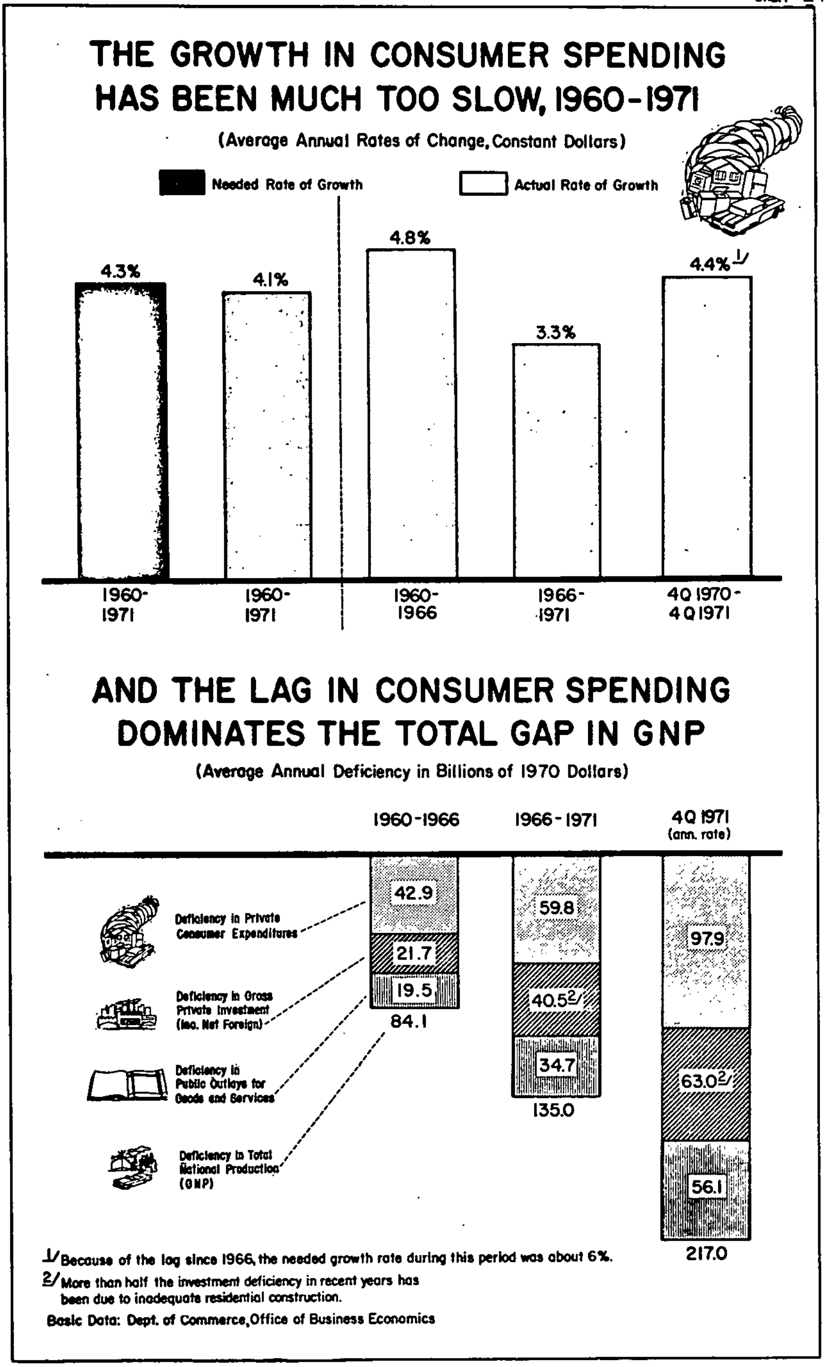
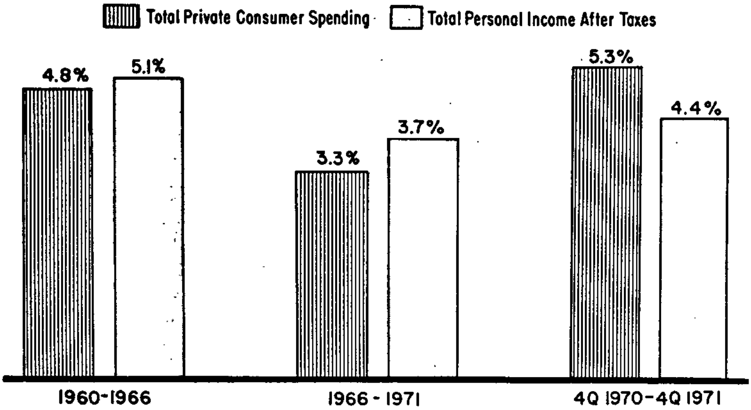

THE GROWTH IN CONSUMER SPENDING HAS BEEN MUCH TOO SLOW, 1960-1971
(Average Annual Rates of Change, Constant Dollars)
Needed Rate of Growth
Actual Rate of Growth
4.3%
4.1%
4.8%
3.3%
4.4% 1/
1960-1971
1960-1971
1960-1966
1966-1971
4Q 1970-4Q 1971
AND THE LAG IN CONSUMER SPENDING DOMINATES THE TOTAL GAP IN GNP
(Average Annual Deficiency in Billions of 1970 Dollars)
1960-1966
1966-1971
4Q 1971 (ann. rate)
Deficiency in Private Consumer Expenditures
Deficiency in Gross Private Investment (Inc. Net Foreign)
Deficiency in Public Outlays for Goods and Services
Deficiency in Total National Production (GNP)
42.9
21.7
19.5
84.1
59.8
40.5 2/
34.7
135.0
97.9
63.0 2/
56.1
217.0
1/ Because of the lag since 1966, the needed growth rate during this period was about 6%.
2/ More than half the investment deficiency in recent years has been due to inadequate residential construction.
Basic Data: Dept. of Commerce, Office of Business Economics

Chart 15

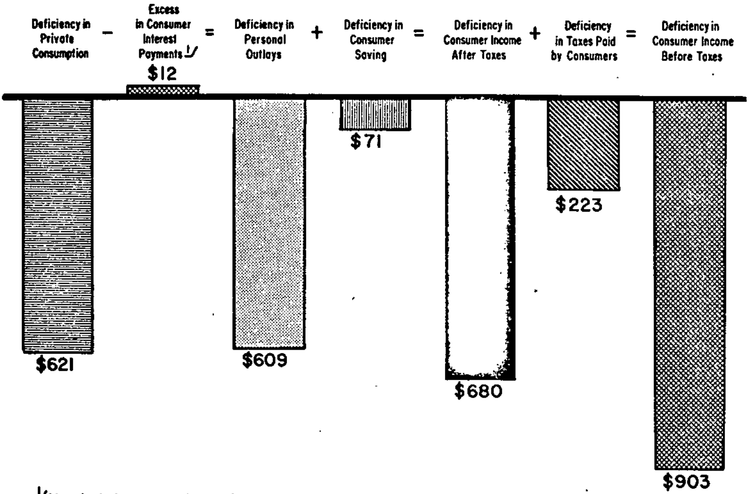
INADEQUATE CONSUMPTION GROWTH STEMS FROM INADEQUATE INCOME GROWTH

Average Annual Rates of Change in Constant Dollars



THE PRIVATE CONSUMPTION DEFICIENCY OF $621 BILLION, 1960-1971, REFLECTED A $903 BILLION INCOME DEFICIENCY

Billions of 1970 Dollars

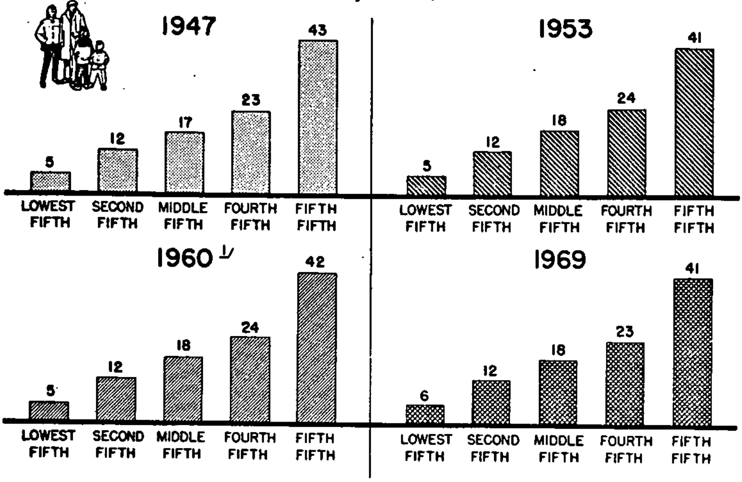


1/ Also includes personal transfer payments to foreigners, which is a minimal amount.

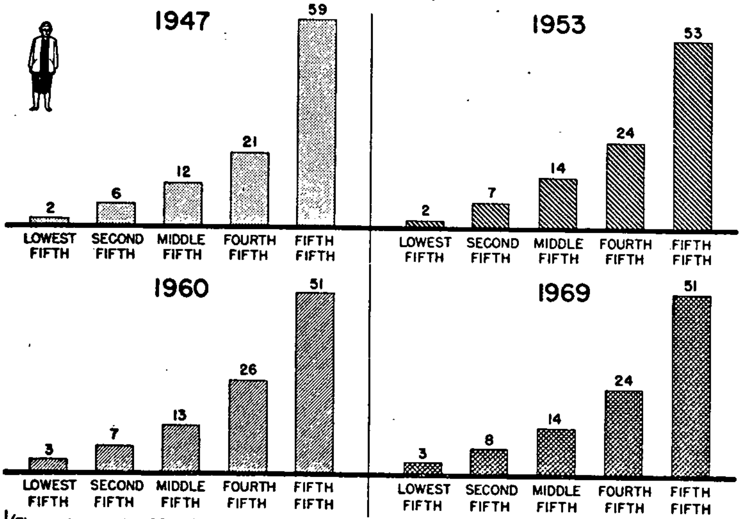
Chart 16

SHARE OF FAMILIES IN TOTAL FAMILY INCOME BY QUINTILES, 1947, 1953, 1960, and 1969

(Money Income)



SHARE OF UNATTACHED INDIVIDUALS IN TOTAL INCOME OF UNATTACHED INDIV., BY QUINTILES, 1947, 1953, 1960, and 1969



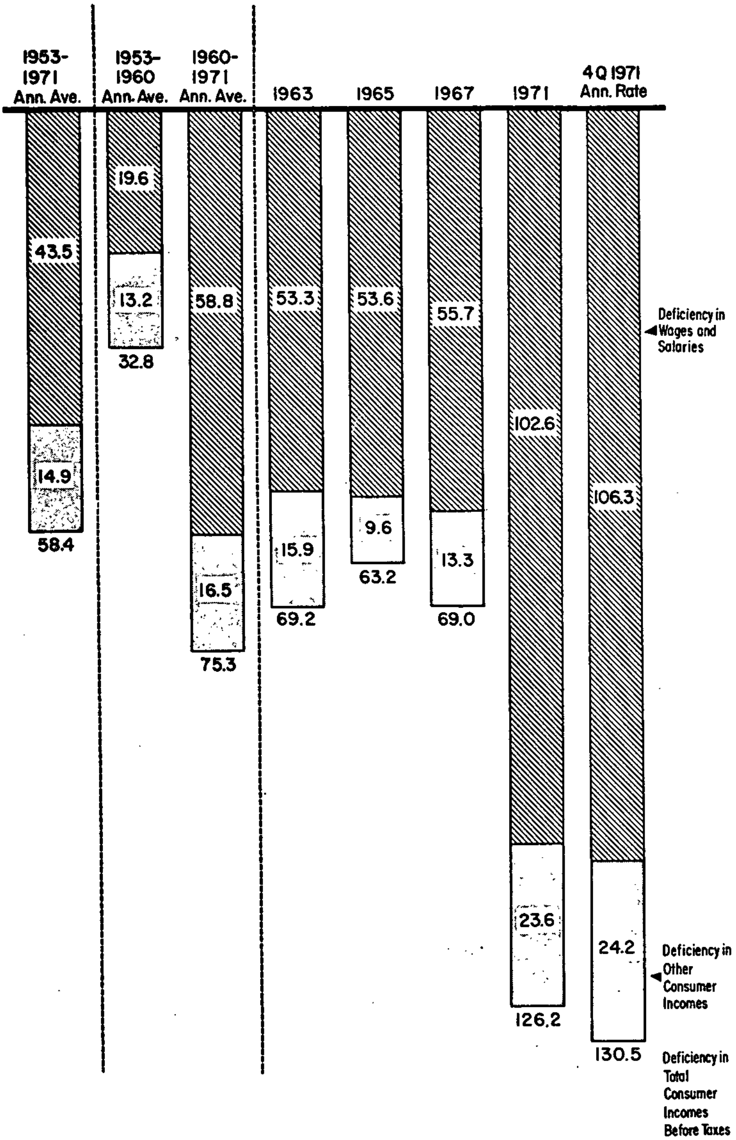
1/ Figures do not add to 100, owing to rounding.

Data: Bureau of the Census.

Chart 17

DEFICIENCIES IN WAGES AND SALARIES ARE LARGE SHARE OF DEFICIENCIES IN TOTAL CONSUMER INCOMES BEFORE TAXES

Billions of 1970 Dollars



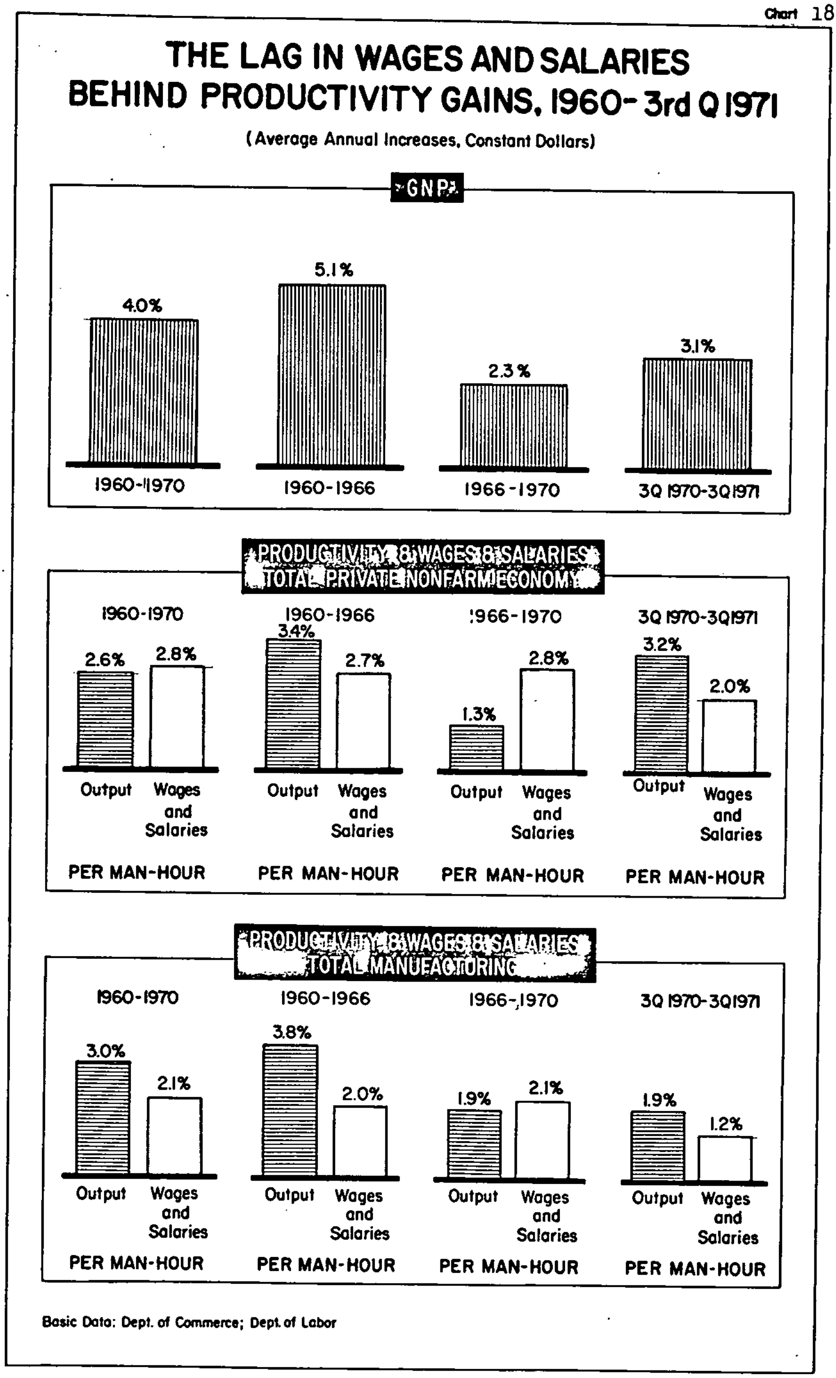
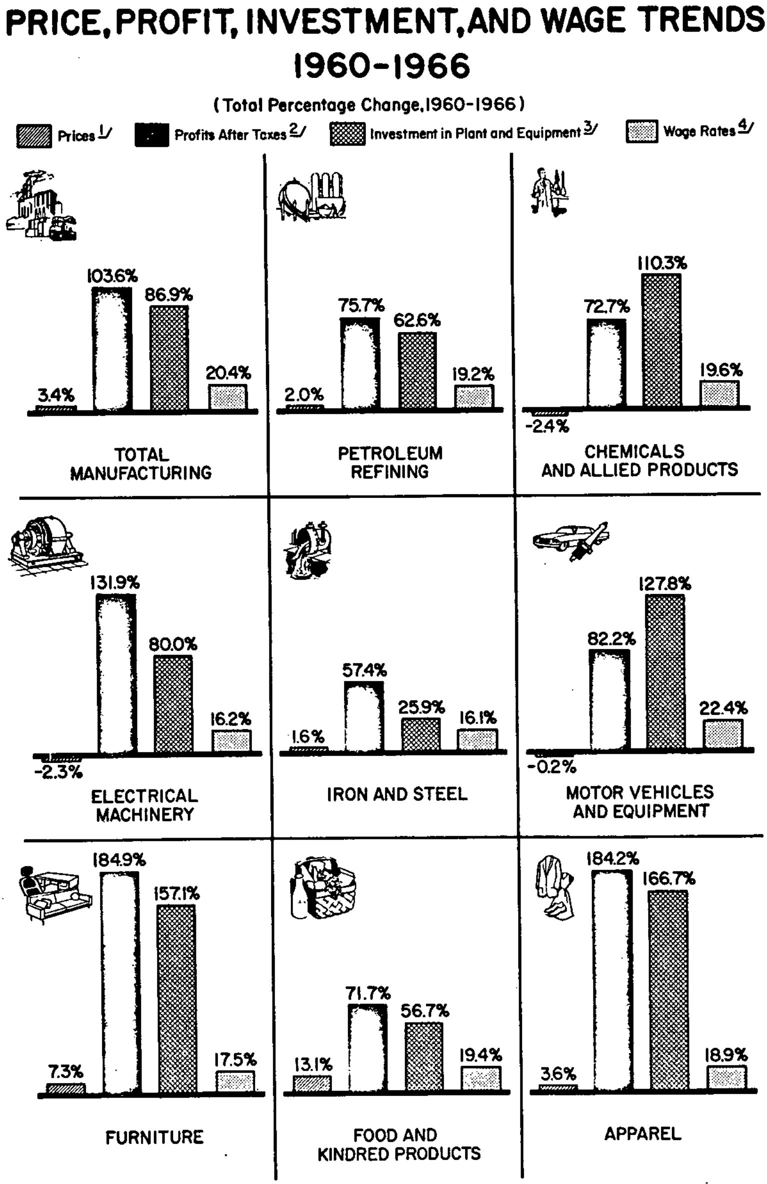


Chart 18
THE LAG IN WAGES AND SALARIES BEHIND PRODUCTIVITY GAINS, 1960-3rd Q 1971
(Average Annual Increases, Constant Dollars)
GNP
4.0%
5.1%
2.3%
3.1%
1960-1970
1960-1966
1966-1970
3Q 1970-3Q1971
PRODUCTIVITY & WAGES & SALARIES TOTAL PRIVATE NONFARM ECONOMY
1960-1970
2.6%
2.8%
1960-1966
3.4%
2.7%
1966-1970
1.3%
2.8%
3Q 1970-3Q1971
3.2%
2.0%
Output
Wages and Salaries
PER MAN-HOUR
PRODUCTIVITY & WAGES & SALARIES TOTAL MANUFACTURING
1960-1970
3.0%
2.1%
1960-1966
3.8%
2.0%
1966-1970
1.9%
2.1%
3Q 1970-3Q1971
1.9%
1.2%
Output
Wages and Salaries
PER MAN-HOUR
Basic Data: Dept. of Commerce; Dept. of Labor

Chart 19



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

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

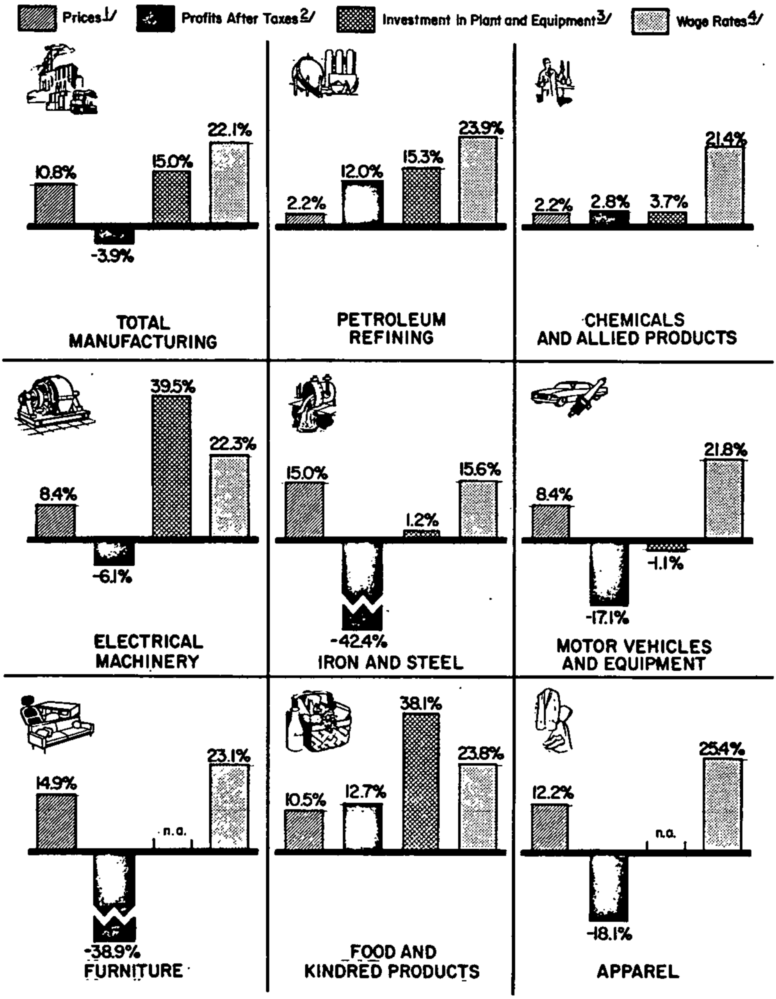
3/ Data: U.S. Dept. of Commerce.

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

Chart 20

PRICE, PROFIT, INVESTMENT, AND WAGE TRENDS 1966-1st HALF 1970

(Total Percentage Change, 1966 - 1st Half 1970)

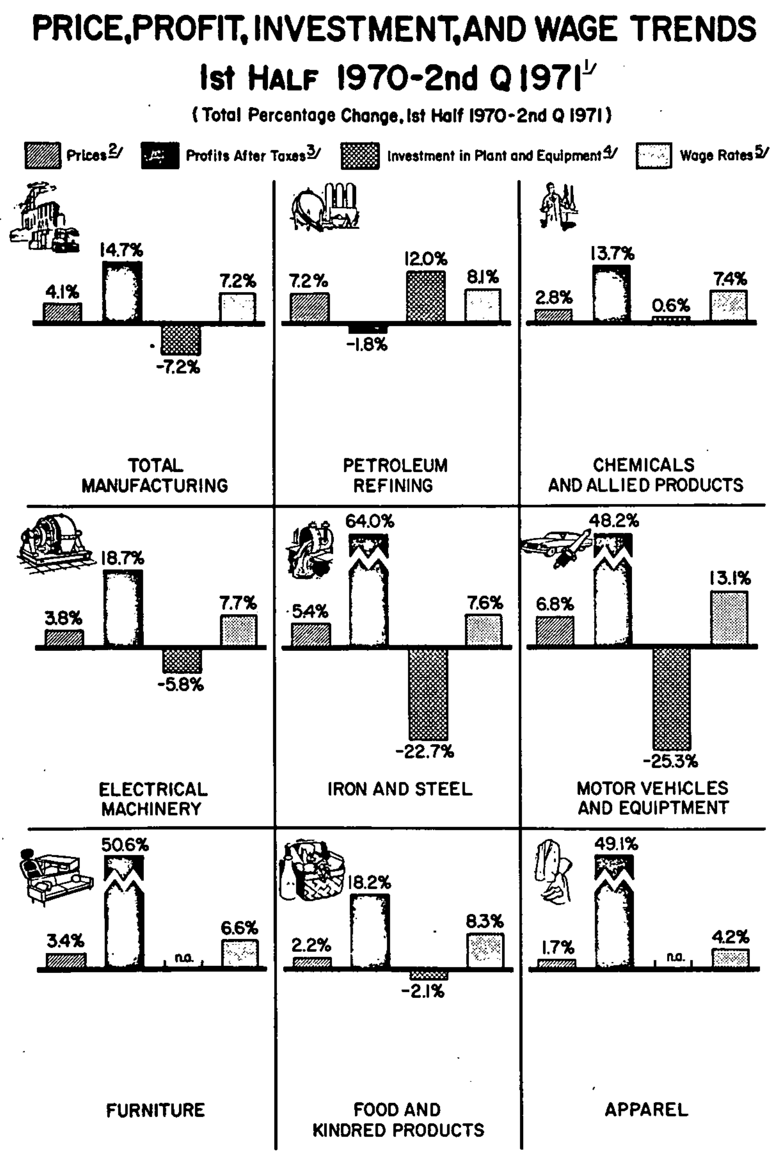


1/ Data: U.S. Dept. of Labor, wholesale commodity price indexes.

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

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

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



1/ Latest quarter before New Economic Policy. Subsequent figures subject to sweeping revision and therefore not used.

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

3/ Data: Federal Trade Commission-Securities and Exchange Commission.

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

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

Chart 22

GOALS FOR A FEDERAL BUDGET, 1973 AND 1980, GEARED TO ECONOMIC GROWTH & PRIORITY NEEDS

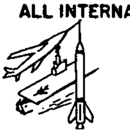
1973, fiscal year; goals for 1973 and 1980, calendar years

All figures in fiscal 1973 dollars [1]

ALL FEDERAL OUTLAYS

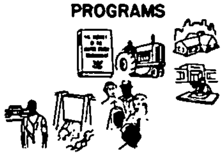
Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	246.26	1168.10	20.67
1973	279.50	1317.42	21.60
1980	384.01	1622.17	20.95

NATIONAL DEFENSE, SPACE TECHNOLOGY, & ALL INTERNATIONAL



Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	85.35	404.83	7.16
1973	105.72	498.31	8.17
1980	151.59	640.36	8.27

ALL DOMESTIC PROGRAMS



Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	160.91	763.27	13.51
1973	173.78	819.11	13.43
1980	232.42	981.81	12.68

RETIREMENT AND SOCIAL INSURANCE

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	57.03	270.50	4.79
1973	58.23	274.47	4.50
1980	91.65	387.16	5.00

HOUSING AND COMMUNITY DEVELOPMENT

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	4.84	22.98	0.41
1973	11.65	54.91	0.90
1980	11.00	46.47	0.60

AGRICULTURE; AND NATURAL RESOURCES

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	9.34	44.31	0.79
1973	12.94	61.00	1.00
1980	19.24	81.27	1.05

EDUCATION

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	6.98	33.09	0.59
1973	7.76	36.58	0.60
1980	13.93	58.84	0.76

HEALTH SERVICES AND RESEARCH

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	18.12	85.94	1.52
1973	19.28	90.88	1.49
1980	17.41	73.55	0.95

MANPOWER PROGRAMS AND WELFARE SERVICES

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1973 [2]	16.94	80.34	1.42
1973	25.62	120.76	1.98
1980	29.69	125.42	1.62

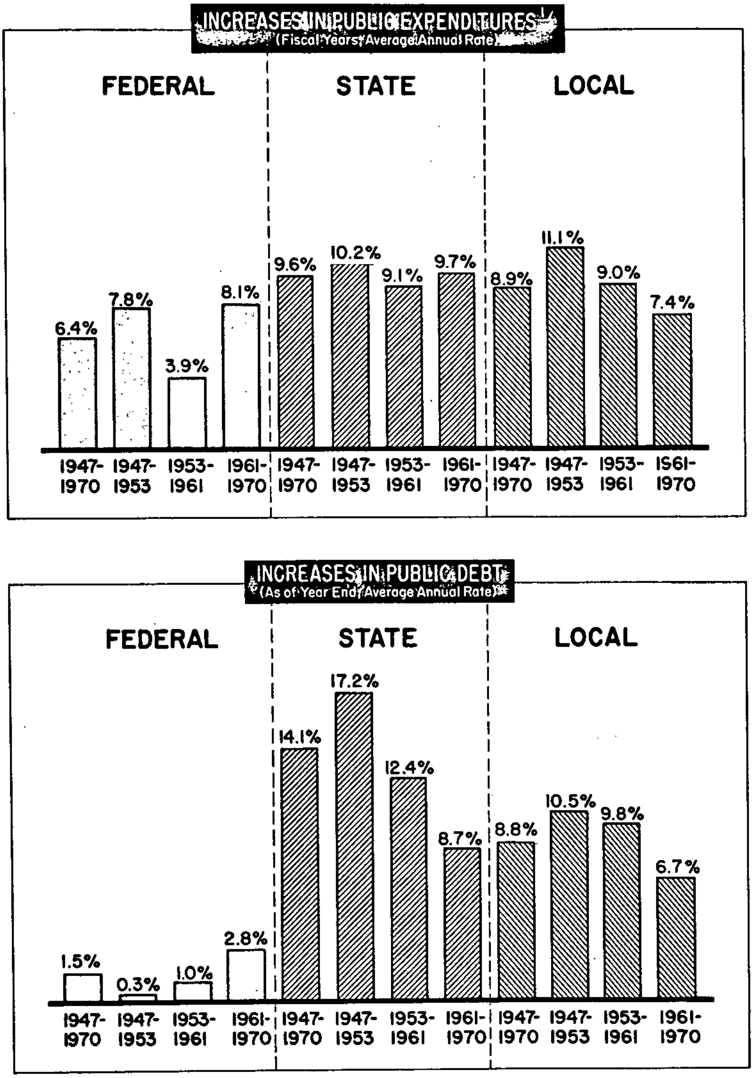
[1] Estimated price level during fiscal year 1973.

[2] Administration's Proposed Budget as of January 24, 1972.

Projections by CEP

Chart 23

RESOURCES OF STATE AND LOCAL GOVERNMENTS MORE STRAINED THAN THOSE OF FEDERAL GOVT. RELATIVE TRENDS, 1947-1970

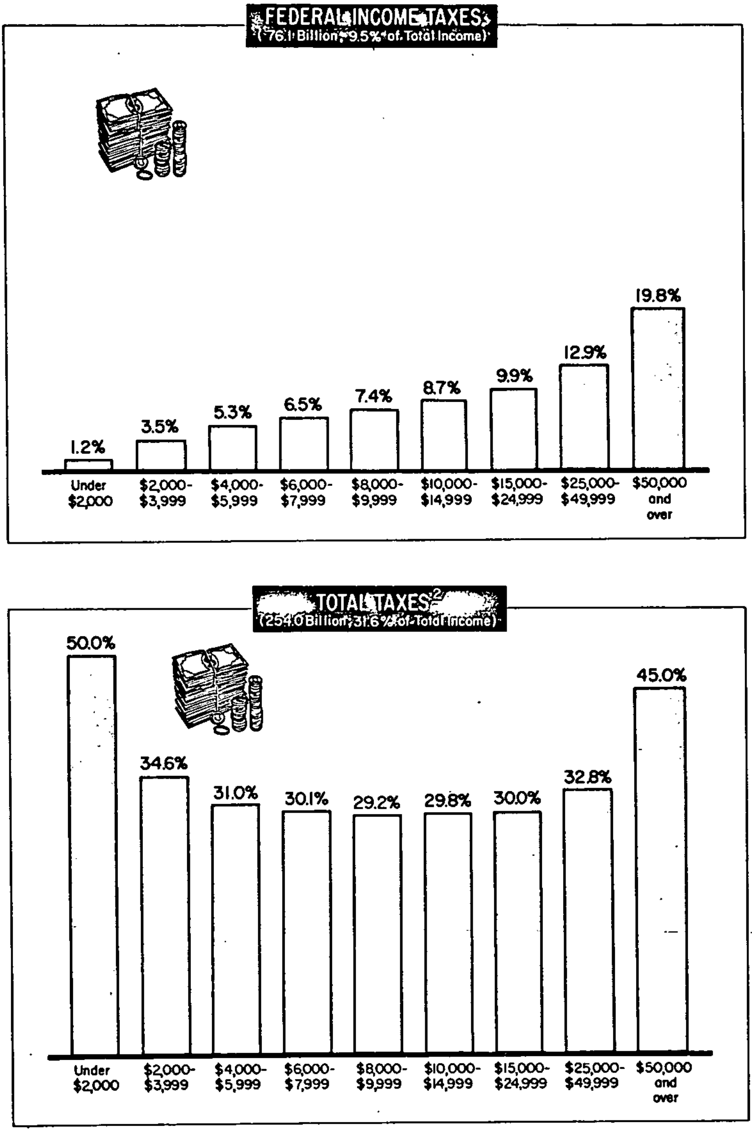


1/ Expenditures classified by source of financing, i.e., intergovernmental transactions treated in terms of originating level of government, rather than recipient government.

Basic Data: Department of Commerce

Chart 24

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

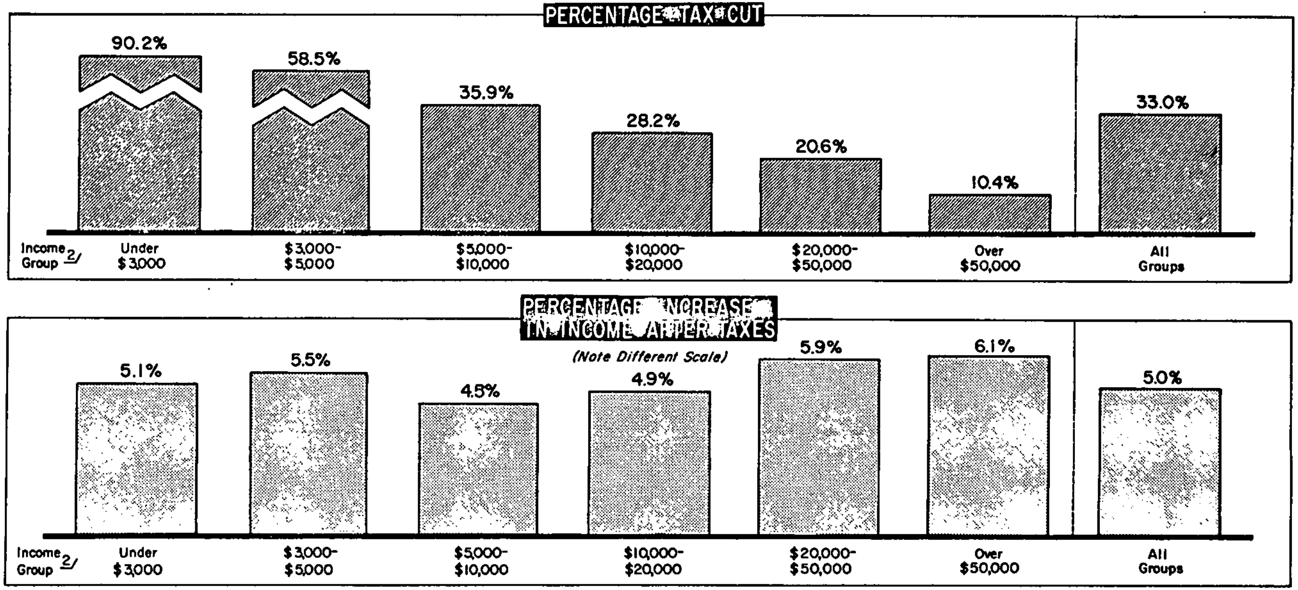


1/ Income relates to total income of all persons in the adjusted money income classes shown. Total income is adjusted money income, plus imputed income, less direct taxes, plus retained corporate earnings, plus taxes minus transfer payments, plus realized capital gains.

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

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

PERCENTAGE TAX CUT AND PERCENTAGE INCREASE IN INCOME AFTER TAX, VARIOUS INCOME GROUPS, 1963-1973[1]



1/ Effects due to changes in personal tax under Revenue Act of 1964, Tax Reform Act of 1969, and Revenue Act of 1971 (H.R. 10947, as reported by the House-Senate Conference Committee, excluding the effect on personal taxes of removing the first year convention under the Asset Depreciation Range system).

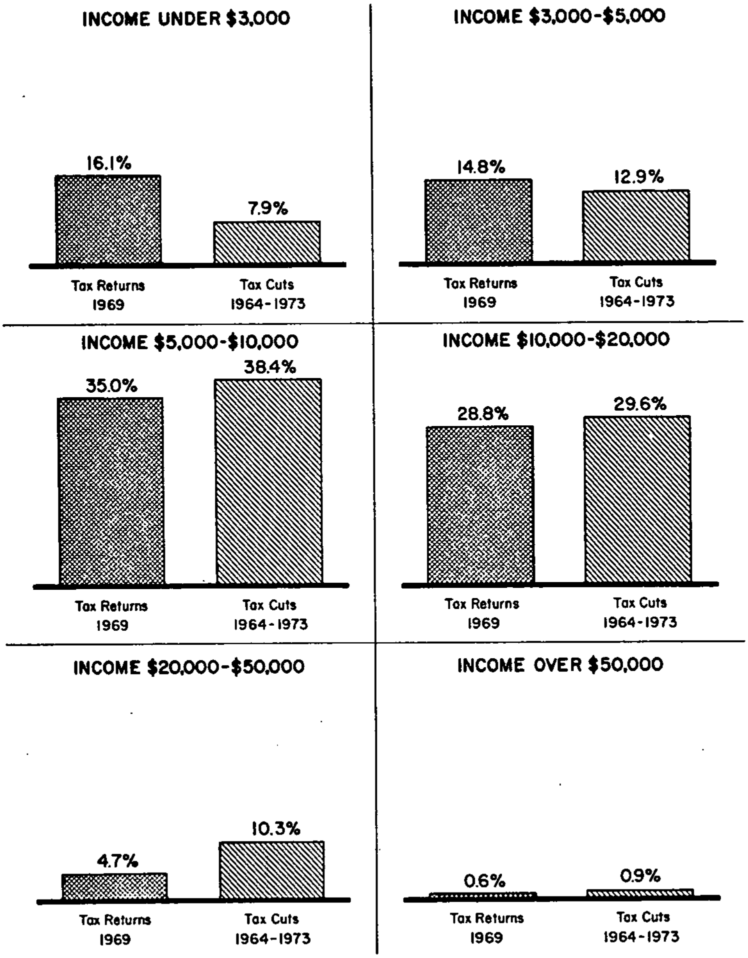
2/ Adjusted gross income class.

Basic Data: House Ways and Means Committee and Senate Finance Committee Reports, and Congressional Record

Chart 25

Chart 26

PERCENTAGE DISTRIBUTION OF TAX RETURNS, 1969 AND OF TAX CUTS, 1964-1973[1] AMONG VARIOUS INCOME GROUPS[2]



1/ Weighted average of percentage distributions of tax cuts in Revenue Act of 1964, Tax Reform Act of 1969, and Revenue Act of 1971 (H.R. 10947, as reported by the House-Senate Conference Committee). Weights are relative size of three tax cuts, each expressed as a percentage of total personal income: 1.92 percent for 1964, 0.99 percent for 1969, and 0.21 percent estimated for 1973.

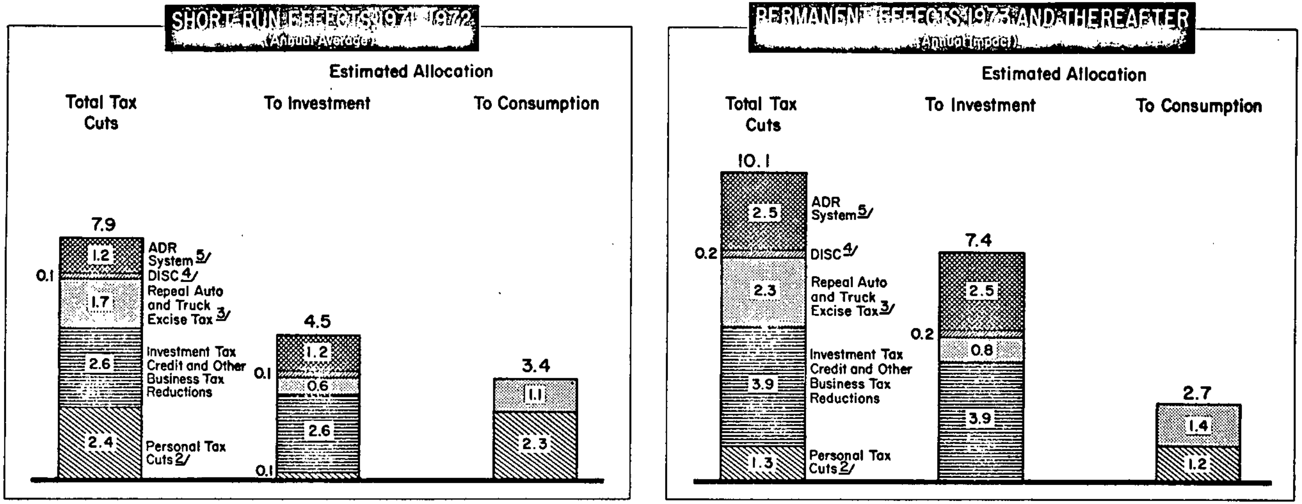
Tax cuts in each bill are net permanent effect, ignoring any phase-ins and (in the 1971 Act) accelerations of previously scheduled tax reductions.

2/ Adjusted gross income classes.

Basic Data: House Ways and Means Committee and Senate Finance Committee Reports, and Congressional Record

ALLOCATION OF 1971 TAX CUTS[1] BETWEEN INVESTMENT AND CONSUMPTION

(Billions of Dollars)



1/ H.R. 10947, as reported by the House-Senate Conference Committee, and Asset Depreciation Range (ADR) System promulgated by the Treasury Department.

2/ Allocation to investment based on portion of cuts for those with income over $15,000, which they would save; remainder allocated to consumption.

3/ Allocation between investment and consumption based on business or nonbusiness use of vehicles.

4/ Tax deferral by Domestic International Sales Corporations (DISCs).

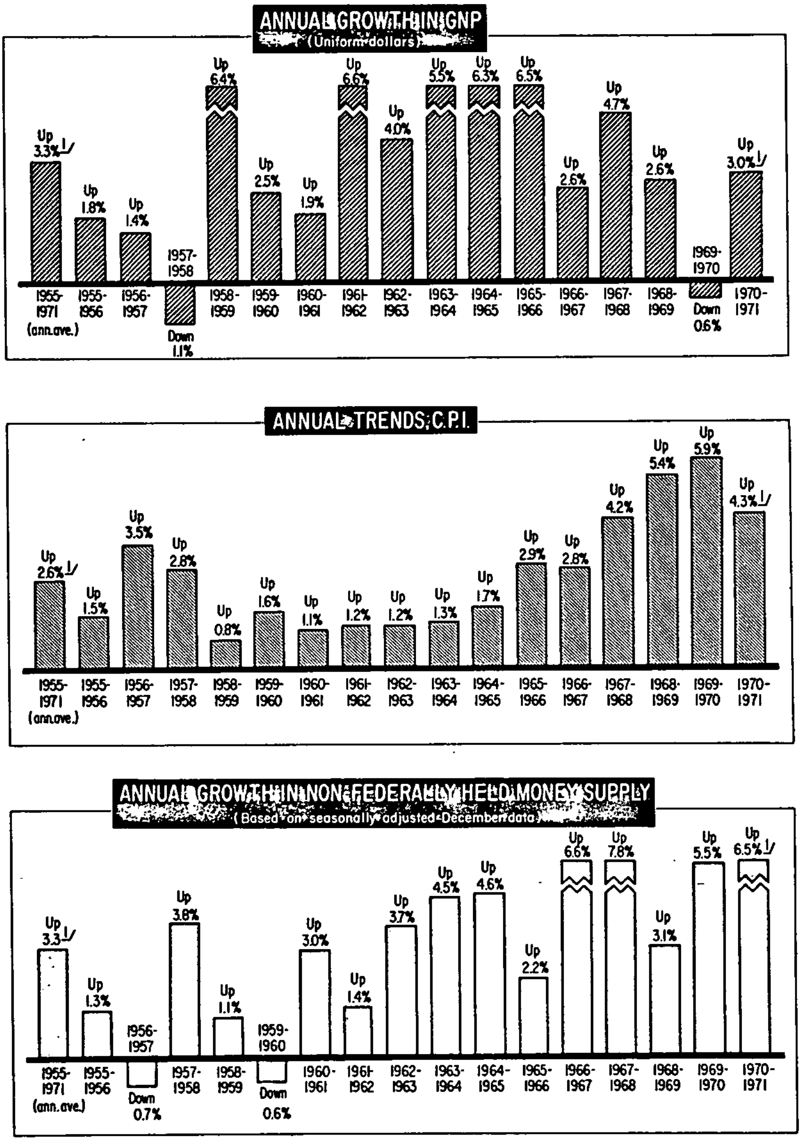
5/ Treasury regulations as modified by H.R. 10947 as reported by the conference committee.

Note: Components may not add exactly to totals, owing to rounding.

Chart 27

Chart 28

COMPARATIVE TRENDS IN GNP, PRICES, AND NON-FEDERALLY HELD MONEY SUPPLY, 1955-1971



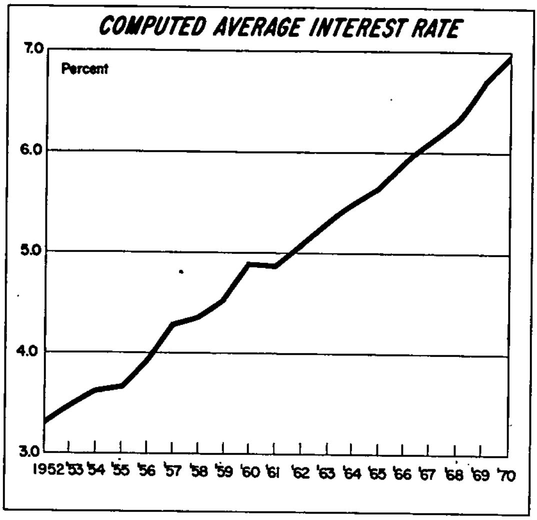
1/ 1971 estimated in part.

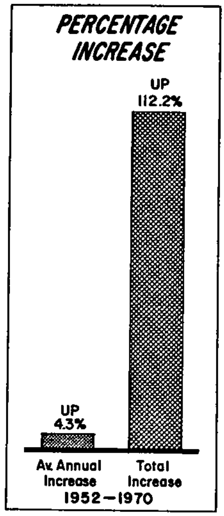
Data: Dept. of Commerce; Dept. of Labor; Federal Reserve System

Chart 29

AVERAGE INTEREST RATES ON TOTAL PUBLIC AND PRIVATE DEBT, 1952 - 1970

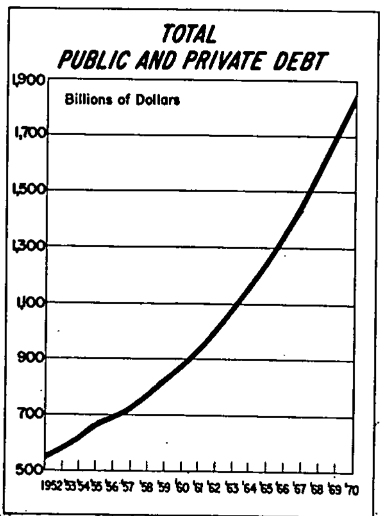
Calendar Years

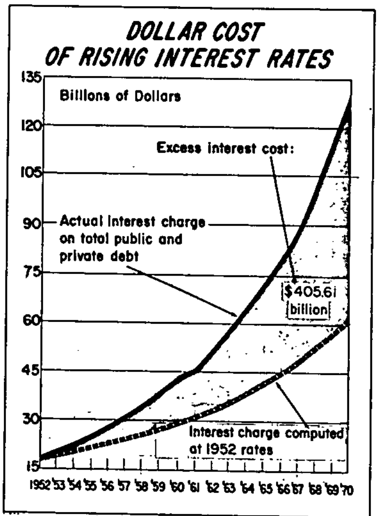




TOTAL PUBLIC AND PRIVATE COST OF RISING INTEREST RATES, 1953-1970

Calendar Years





Data: U.S. Treasury and Department of Commerce, Office of Business Economics

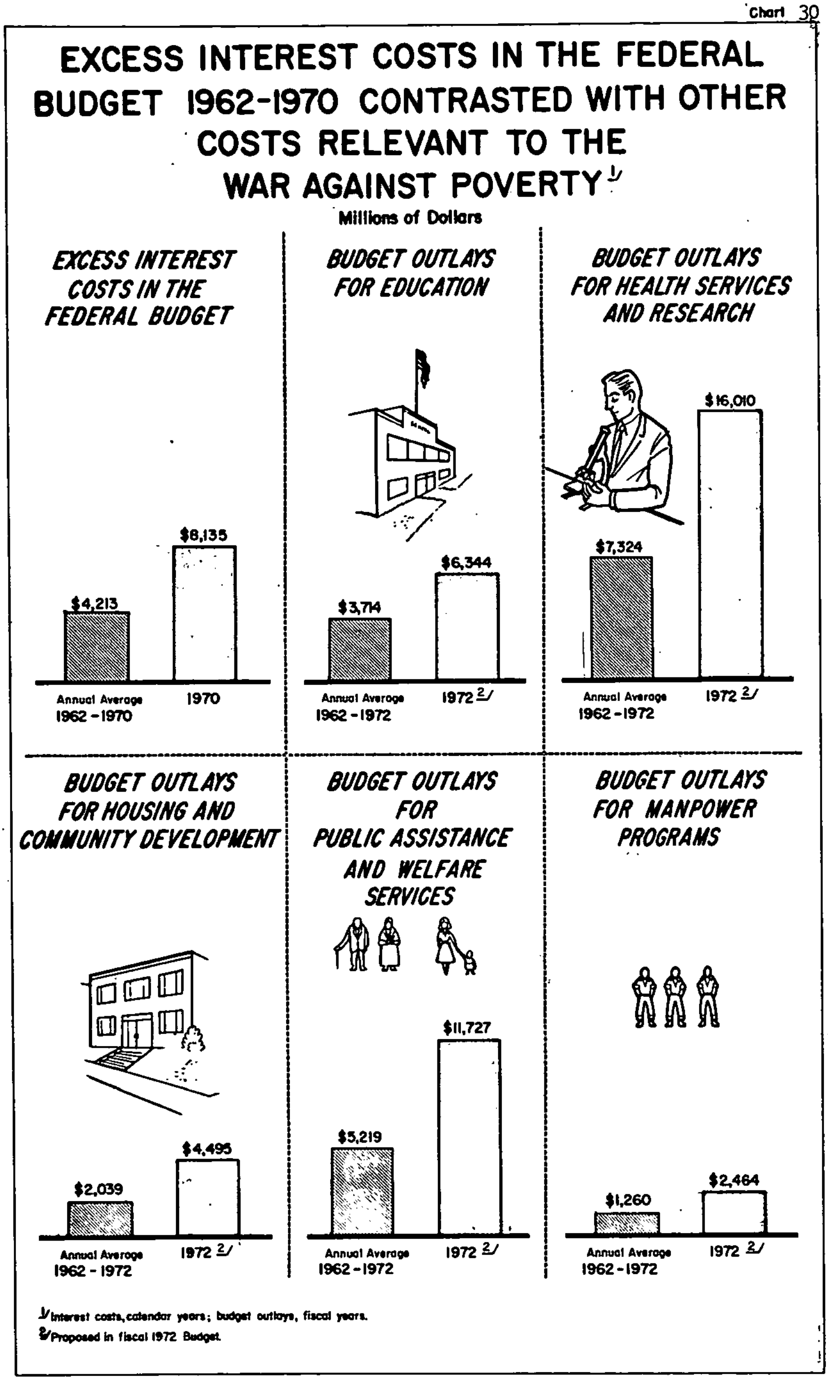
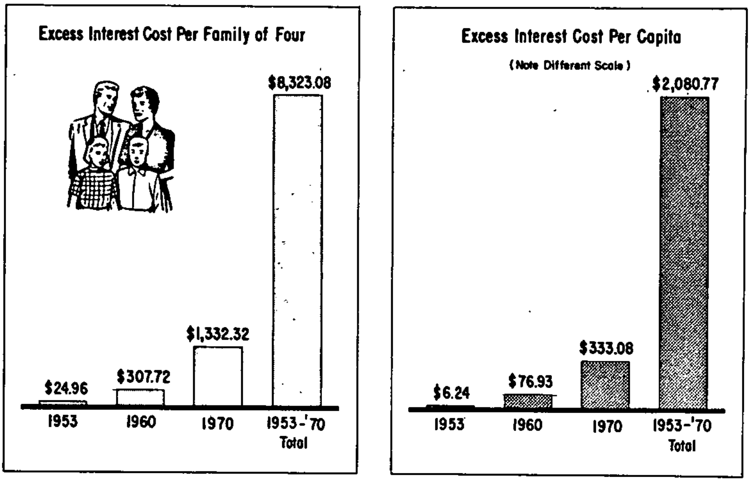


Chart 30
EXCESS INTEREST COSTS IN THE FEDERAL BUDGET 1962-1970 CONTRASTED WITH OTHER COSTS RELEVANT TO THE WAR AGAINST POVERTY 1/
Millions of Dollars
EXCESS INTEREST COSTS IN THE FEDERAL BUDGET
$4,213
$8,135
Annual Average 1962 - 1970
1970
BUDGET OUTLAYS FOR EDUCATION
$3,714
$6,344
Annual Average 1962 - 1972
1972 2/
BUDGET OUTLAYS FOR HEALTH SERVICES AND RESEARCH
$7,324
$16,010
Annual Average 1962 - 1972
1972 2/
BUDGET OUTLAYS FOR HOUSING AND COMMUNITY DEVELOPMENT
$2,039
$4,495
Annual Average 1962 - 1972
1972 2/
BUDGET OUTLAYS FOR PUBLIC ASSISTANCE AND WELFARE SERVICES
$5,219
$11,727
Annual Average 1962 - 1972
1972 2/
BUDGET OUTLAYS FOR MANPOWER PROGRAMS
$1,260
$2,464
Annual Average 1962 - 1972
1972 2/
1/ Interest costs, calendar years; budget outlays, fiscal years.
2/ Proposed in fiscal 1972 Budget.

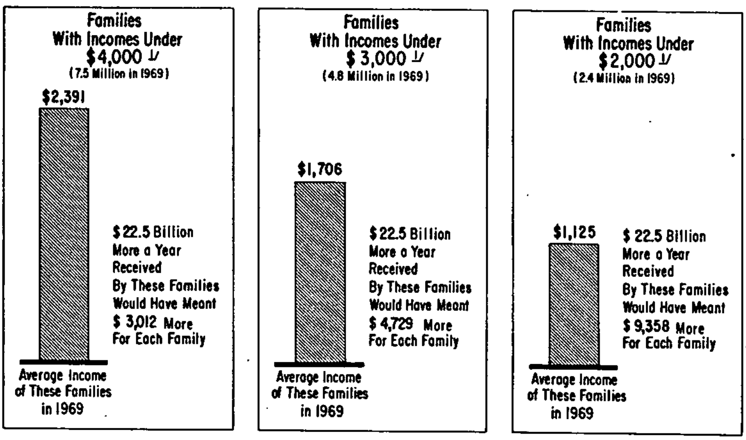
Chart 31

THE BURDEN OF $405.6 BILLION IN EXCESS INTEREST COSTS, 1953-1970 UPON THE AMERICAN PEOPLE

Calendar Years



HOW $22.5 BILLION A YEAR, 1953-1970 -EQUAL TO ANNUAL EXCESS INTEREST- MIGHT HAVE RELIEVED POVERTY



1/ Includes families with no income and income loss.

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

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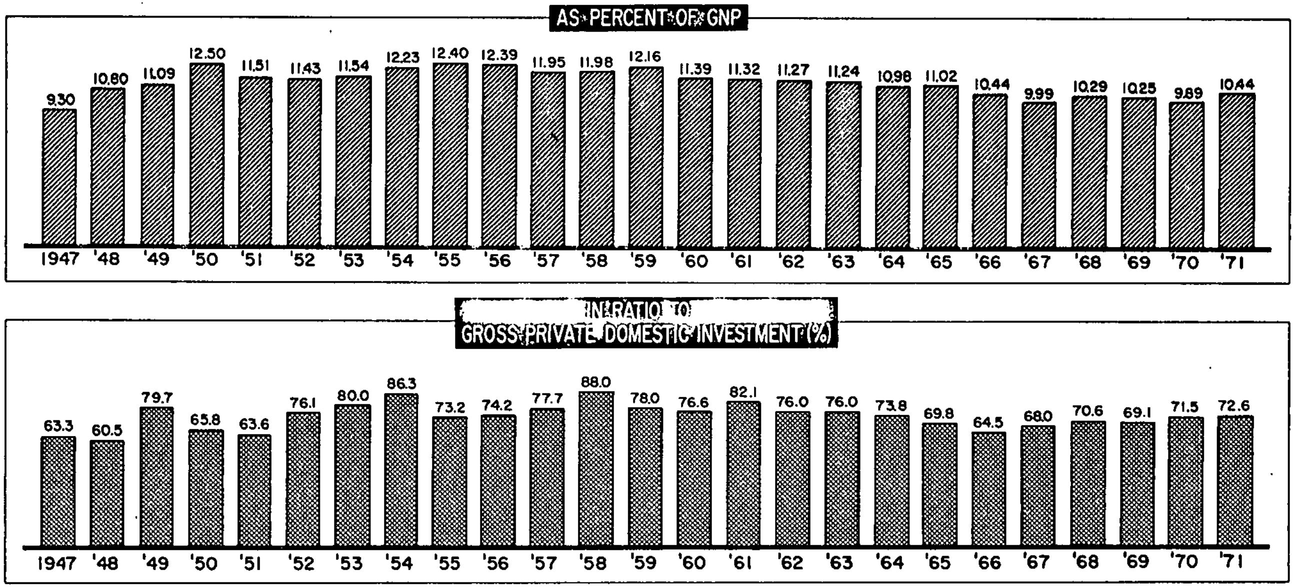
ROLE OF STRUCTURES[1/] IN THE NATIONAL ECONOMY, 1947-1971

(Construction as Percentage of Major Economic Aggregates)



1/ Residential & nonresidential, private & public.

Source: Dept. of Commerce, Office of Business Economics, Survey of Current Business

Chart 32

Chart 33

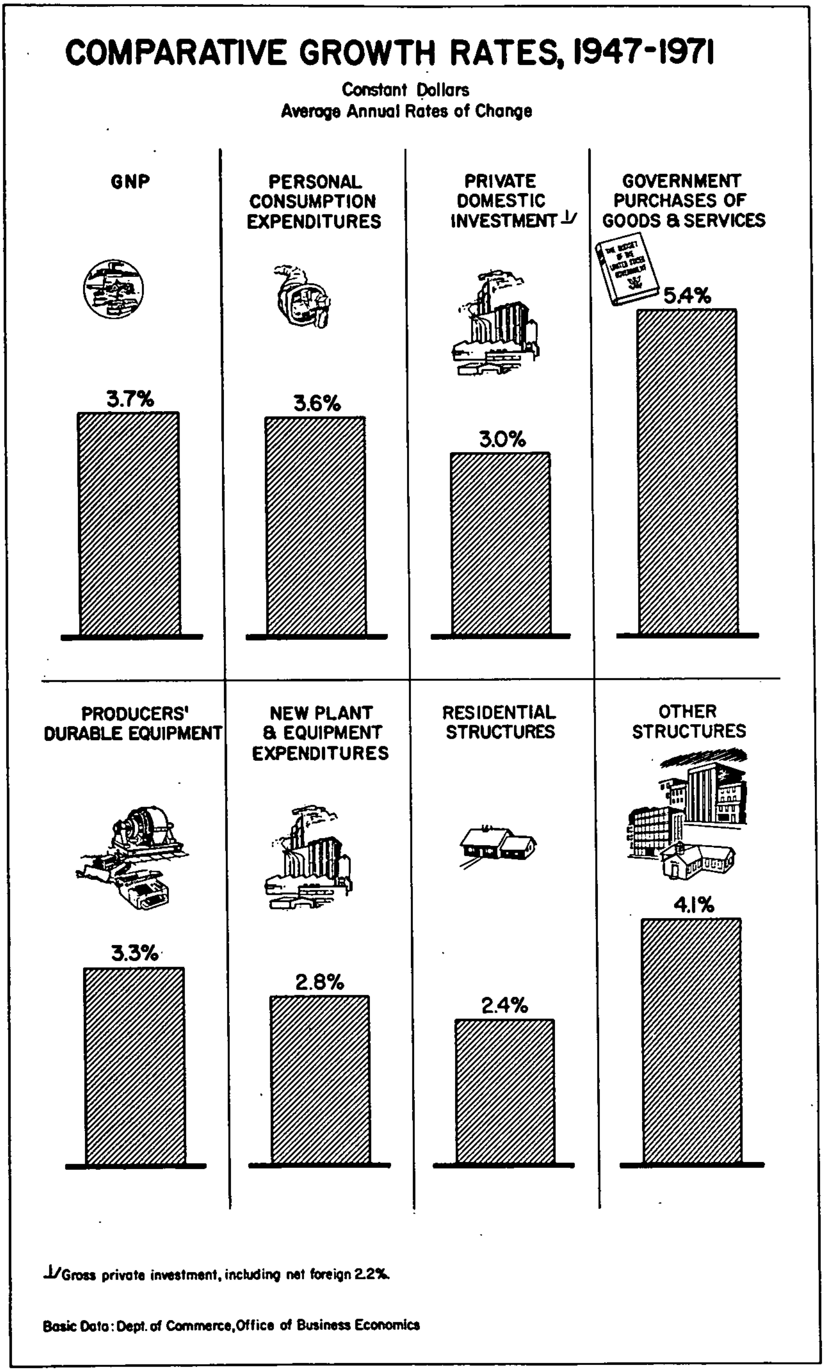
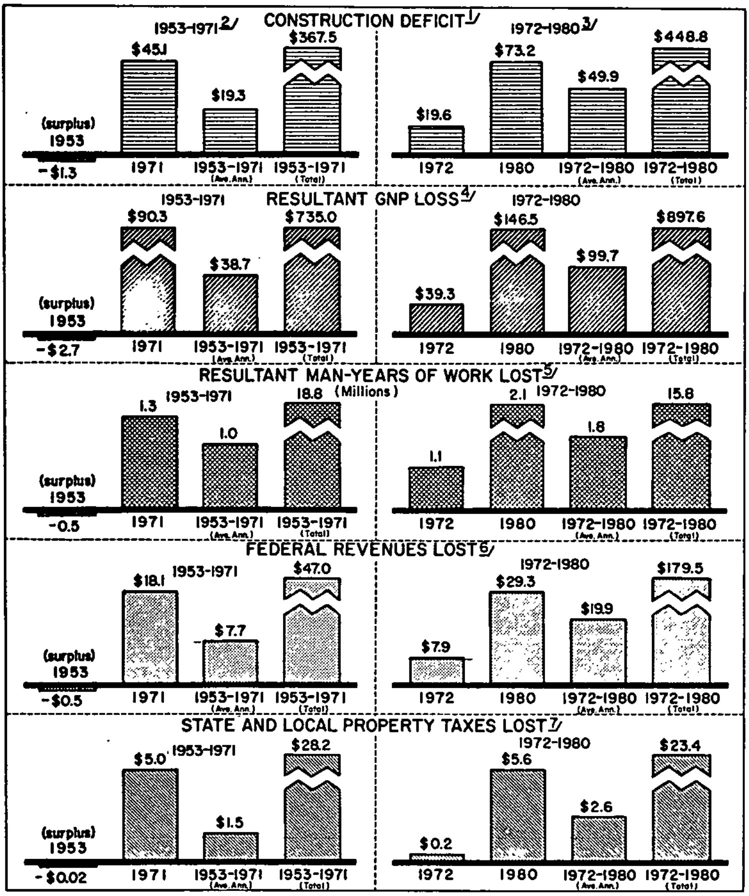

COMPARATIVE GROWTH RATES, 1947-1971
Constant Dollars
Average Annual Rates of Change
GNP
3.7%
PERSONAL CONSUMPTION EXPENDITURES
3.6%
PRIVATE DOMESTIC INVESTMENT 1/
3.0%
GOVERNMENT PURCHASES OF GOODS & SERVICES
5.4%
PRODUCERS' DURABLE EQUIPMENT
3.3%
NEW PLANT & EQUIPMENT EXPENDITURES
2.8%
RESIDENTIAL STRUCTURES
2.4%
OTHER STRUCTURES
4.1%
1/ Gross private investment, including net foreign 2.2%.
Basic Data: Dept. of Commerce, Office of Business Economics

Chart 34

IMPACTS OF DEFICITS IN CONTRACT CONSTRUCTION 1953-1971, AND PROJECTED 1972-1980

(All Dollar Figures in Billions of 1970 Dollars)

(Note Different Scale in Each Box)



1/ For 1953-1971 inclusive, deficits measure actual performance against estimated needed performance in terms of model for total economy. For 1972-1980 inclusive, deficits measure projection of 1960-1971 performance against projection of needed performance.

2/ Actual average annual growth 2.1%; needed, 4.3%, or same as needed for total economy.

3/ Projection of 1960-1971 performance, 2.1%; needed, 5.8%, or greater than needed growth rate of 5.6% for total economy.

4/ Based on multiplier of 2.0.

5/ Based on G.N.P. loss, after allowing for that part of the G.N.P. loss due to repressed productivity growth among those employed even in slowly growing economy.

6/ Equals 20% of GNP loss.

7/ Assumes property tax loss is 2% of private construction deficit, cumulated.

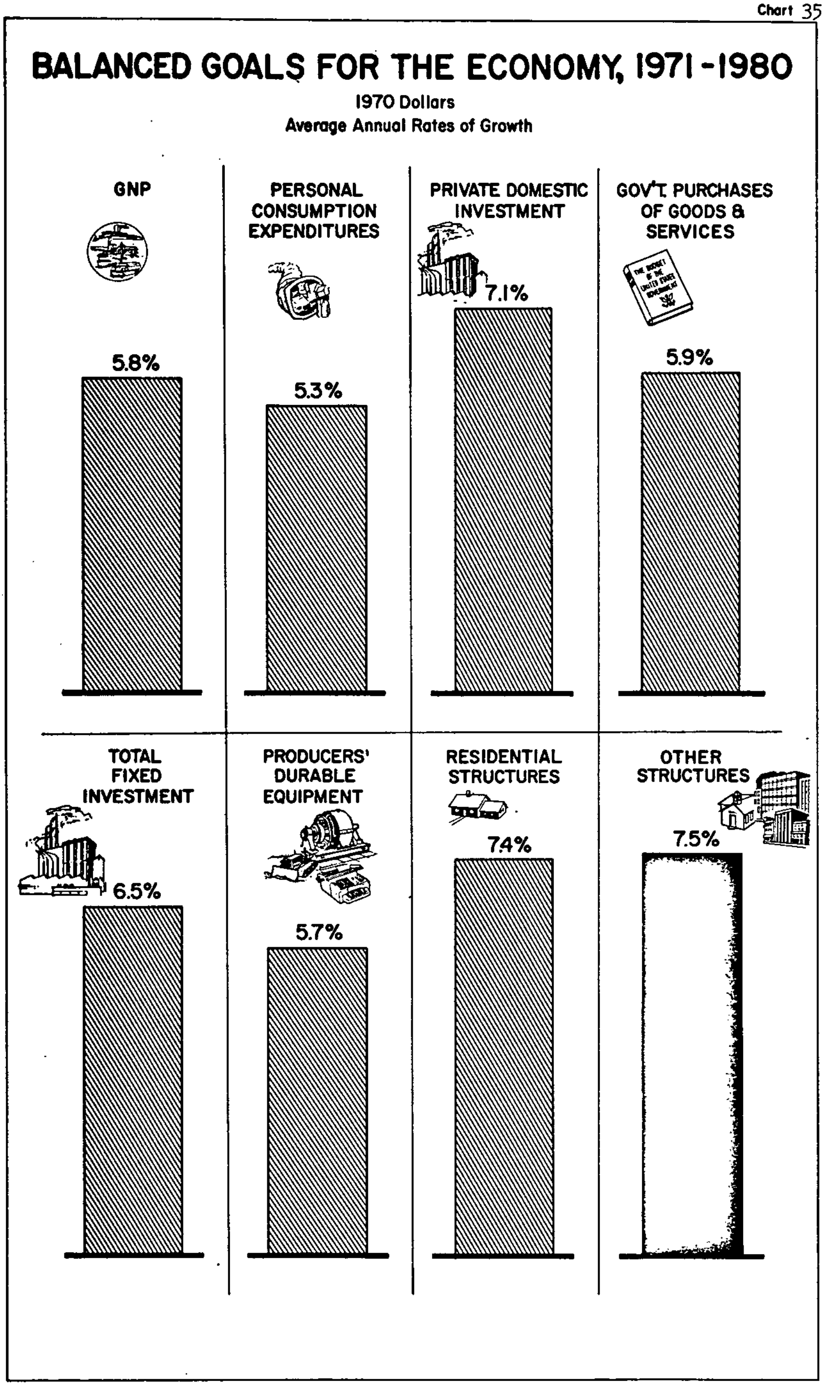


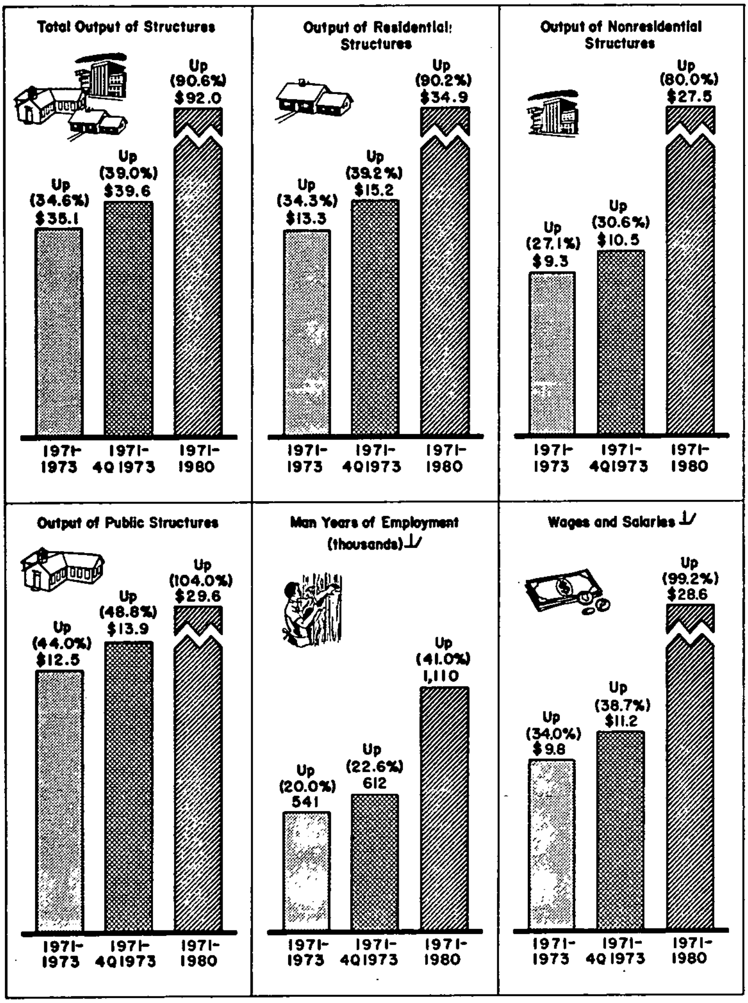
Chart 35
BALANCED GOALS FOR THE ECONOMY, 1971-1980
1970 Dollars
Average Annual Rates of Growth
GNP
5.8%
PERSONAL CONSUMPTION EXPENDITURES
5.3%
PRIVATE DOMESTIC INVESTMENT
7.1%
GOV'T. PURCHASES OF GOODS & SERVICES
5.9%
TOTAL FIXED INVESTMENT
6.5%
PRODUCERS' DURABLE EQUIPMENT
5.7%
RESIDENTIAL STRUCTURES
7.4%
OTHER STRUCTURES
7.5%

Chart 36

GOALS FOR CONTRACT CONSTRUCTION, 1973, 4Q 1973, AND 1980, PROJECTED FROM 1971 BASE CONSISTENT WITH FULL RESOURCE USE BY 4Q '73

(Total Percentage Changes in Parentheses)

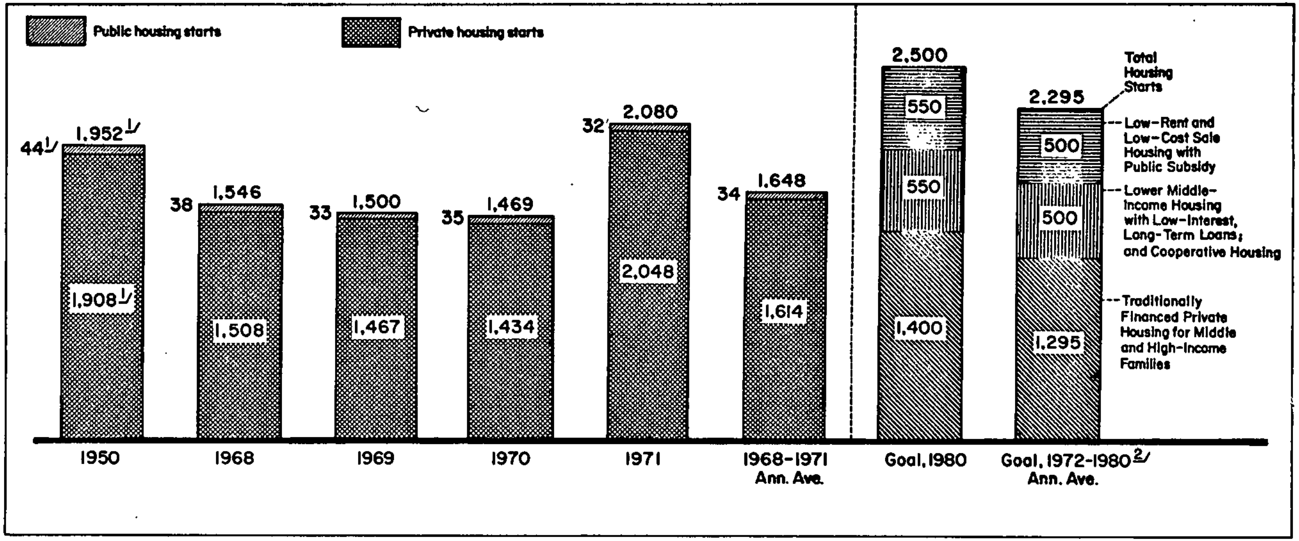
Dollar Items in Billions of 1970 Dollars



1/ Figures are for construction workers only, not including supervisory personnel, and relate to total number of workers, without regard to degree of employment over the years.

HOUSING STARTS, 1950-1971, AND GOALS FOR 1972-1980

(Thousands of Units)



1/ Non-farm only; farm not available.

2/ Based on needed annual average of 2.2 million during 1970-1980 inclusive.

Source: Dept. of Commerce, Bureau of the Census

Chart 37

Chart 38

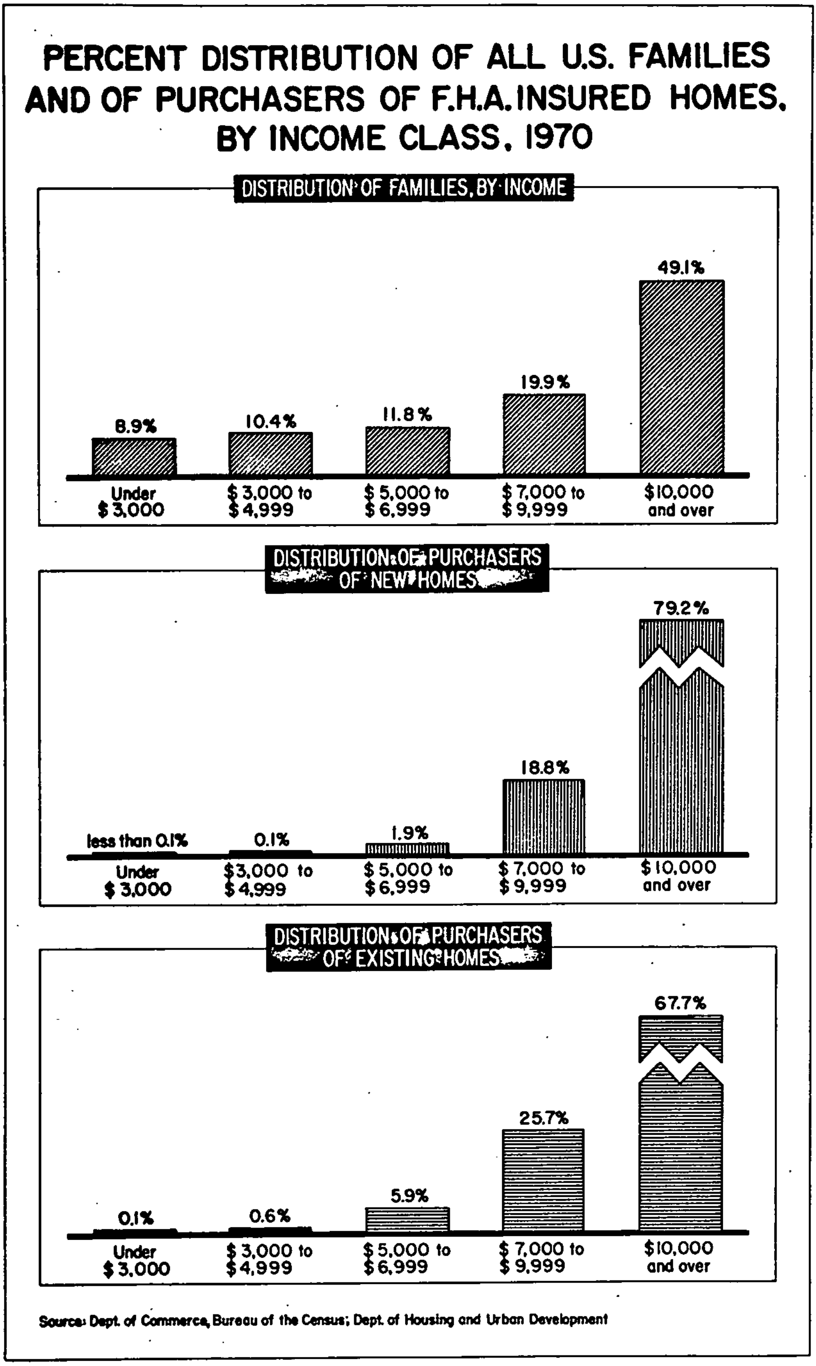

PERCENT DISTRIBUTION OF ALL U.S. FAMILIES AND OF PURCHASERS OF F.H.A. INSURED HOMES, BY INCOME CLASS, 1970
DISTRIBUTION OF FAMILIES, BY INCOME
8.9%
10.4%
11.8%
19.9%
49.1%
Under $3,000
$3,000 to $4,999
$5,000 to $6,999
$7,000 to $9,999
$10,000 and over
DISTRIBUTION OF PURCHASERS OF NEW HOMES
less than 0.1%
0.1%
1.9%
18.8%
79.2%
Under $3,000
$3,000 to $4,999
$5,000 to $6,999
$7,000 to $9,999
$10,000 and over
DISTRIBUTION OF PURCHASERS OF EXISTING HOMES
0.1%
0.6%
5.9%
25.7%
67.7%
Under $3,000
$3,000 to $4,999
$5,000 to $6,999
$7,000 to $9,999
$10,000 and over
Source: Dept. of Commerce, Bureau of the Census; Dept. of Housing and Urban Development

Chart 39

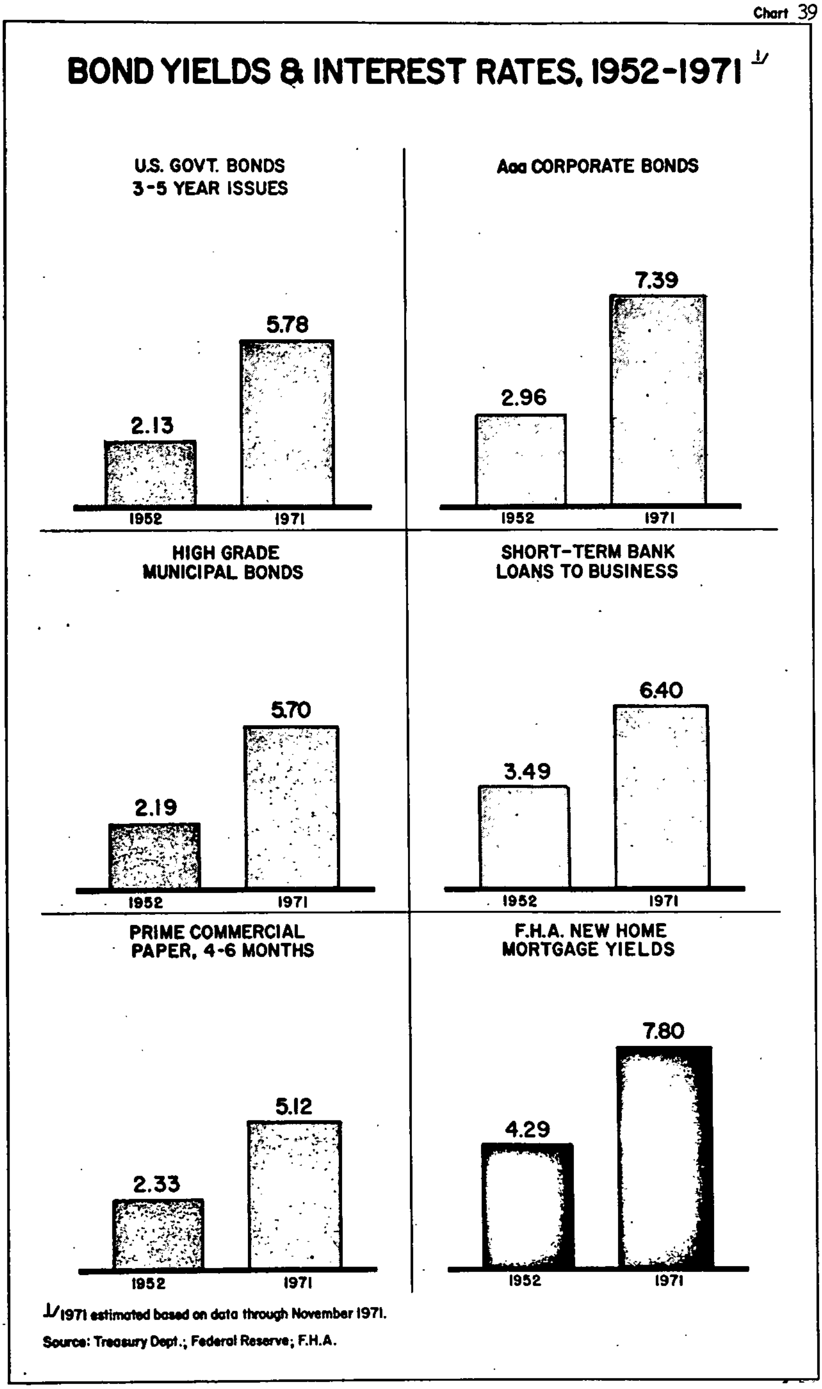
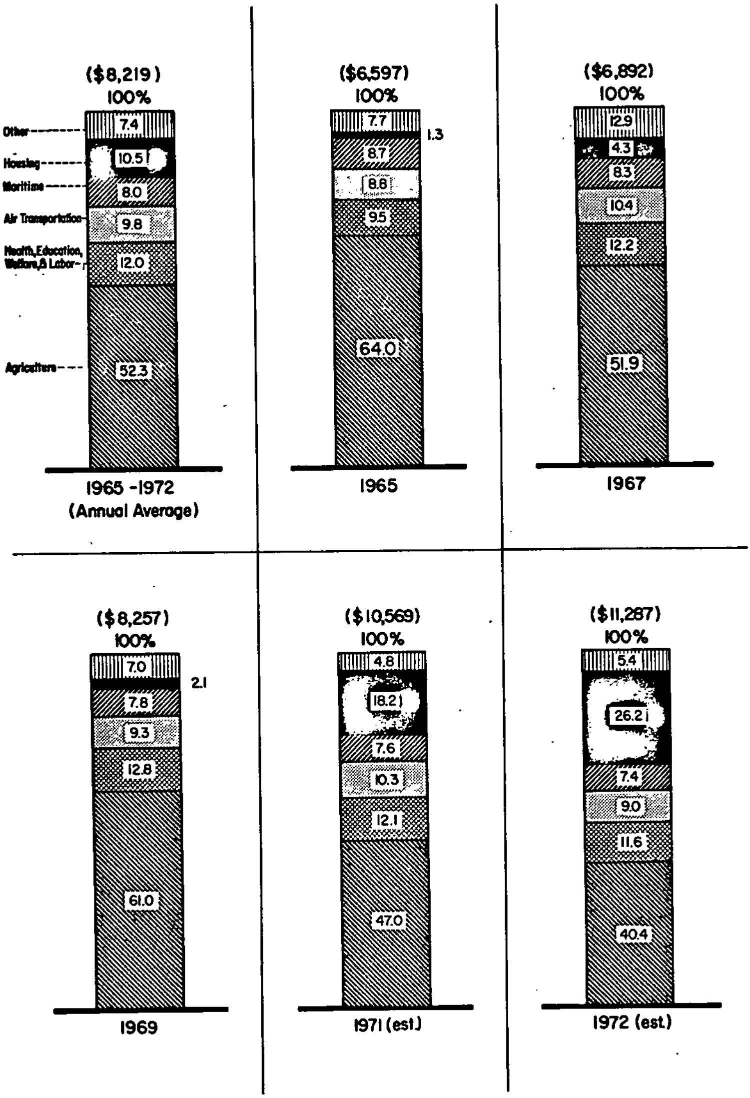

BOND YIELDS & INTEREST RATES, 1952-1971 1/
U.S. GOVT. BONDS
3-5 YEAR ISSUES
2.13
5.78
1952
1971
Aaa CORPORATE BONDS
2.96
7.39
1952
1971
HIGH GRADE
MUNICIPAL BONDS
2.19
5.70
1952
1971
SHORT-TERM BANK
LOANS TO BUSINESS
3.49
6.40
1952
1971
PRIME COMMERCIAL
PAPER, 4-6 MONTHS
2.33
5.12
1952
1971
F.H.A. NEW HOME
MORTGAGE YIELDS
4.29
7.80
1952
1971
1/ 1971 estimated based on data through November 1971.
Source: Treasury Dept.; Federal Reserve; F.H.A.

Chart 40

% DISTRIBUTION OF NET FEDERAL EXPENDITURES FOR SUBSIDY PROGRAMS, F.Y. 1965-1972

(Millions of Current Dollars in Parentheses)

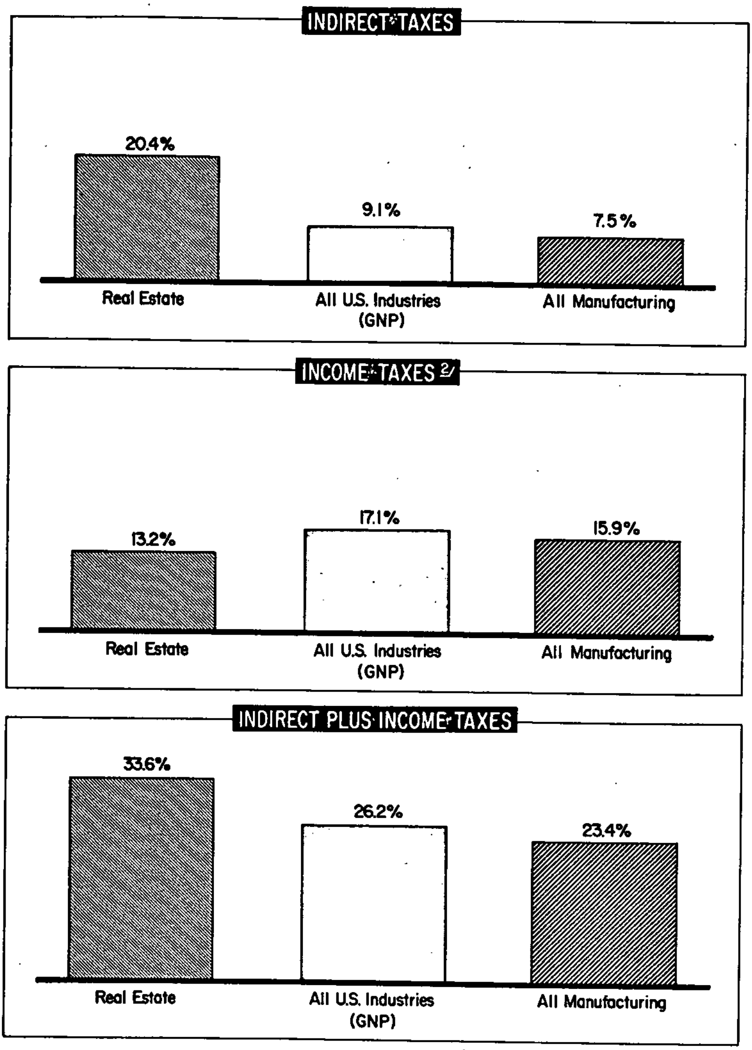


Source: Dept. of Commerce. 1972 based on President's fiscal 1972 Budget.

Chart 41

THE TAX BURDEN ON REAL ESTATE, 1970

Taxes as a Percentage of Gross Product [1]
Real Estate and Other Industries



1/ Gross product is the volume of economic activity occurring in an industry; for all industries, it is the G.N.P. However, the imputed production associated with owner-occupied housing has been eliminated from G.N.P. and its real estate component, to focus only on output actually sold in the marketplace.

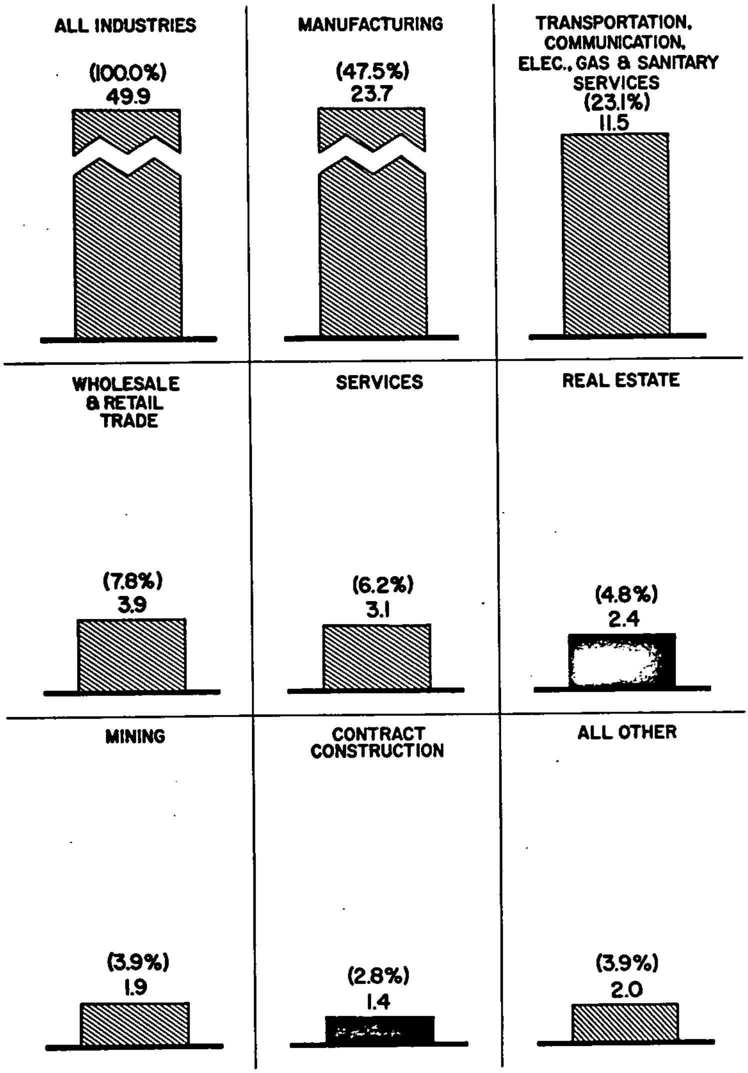
2/ Income taxes are estimated as 16% of employee compensation, 20 percent of net interest, and 40 percent of profit-type income (all other income, consisting of corporate profits, proprietors' incomes, and rental income), except that profit-type incomes in real estate are assumed taxed at the rate of only 25 percent.

Basic Data: Department of Commerce, Office of Business Economics

Chart 42

VALUE OF DEPRECIATION AND DEPLETION, 1968[1] IN VARIOUS SECTORS OF U.S. ECONOMY

In Billions of Dollars
(% of Total in Parentheses)

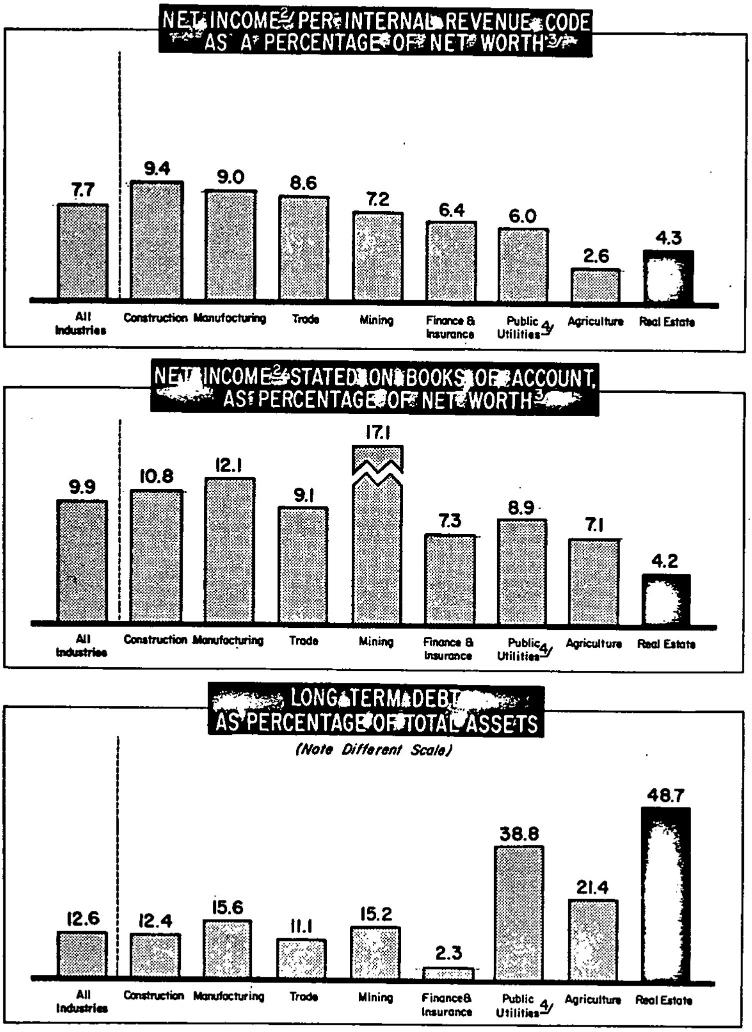


[1] As expressed in corporate income tax returns. 1968 latest available year.

Source: Treasury Dept.

Chart 43

RATES OF RETURN & OTHER FINANCIAL RATIOS ALL CORPORATIONS IN VARIOUS INDUSTRIES, 1967[1]



1/ Latest year available.
2/ Net income after Federal income tax.
3/ Stockholder equity.
4/ Including transportation.

Source: Treasury Dept., Internal Revenue Service, Statistics of Income, 1967 Corporation Income Tax Returns

CONSERVATION FOUNDATION

By Sydney Howe, *President*

As the demands of the economy challenge ever more sharply the capacity of our environment to absorb wastes and to provide resources, we consider it of increasing importance that discussion of the state of the economy include consideration of environmental matters. With this in mind, we recommend that, in the future, the Council's report be expanded to encompass: (*a*) major effects of environmental policies on employment and the structure of the economy; and (*b*) major effects of economic growth on the environment and the supply of nonrenewable resources.

To be more specific, we believe that the following questions deserve attention in future annual reports:

(1) What is or may be the effect on the economy of pricing and taxing schemes designed to abate pollution or conserve natural resources (such as sulphur oxide emission charges, or higher, rather than lower, electricity rates for large-volume consumers)?

(2) What effects can National and State air pollution control programs be expected to have on employment and economic growth?

(3) What have been the environmental effects of the administration's economic policies, particularly the removal of the auto excise tax and the 10-percent surcharge on imports?

(4) What are the long-term income redistribution effects of environmental protection measures?

(5) What are the long-range implications of present patterns of economic growth for the Nation's and the world's environmental and natural resources? Are there alternative patterns of growth that would more effectively provide employment, maintain price stability, and conserve resources?

Just as the Council on Environmental Quality incorporates economic concerns into its annual report, so, we believe, the Council of Economic Advisers should include environmental matters in its annual reporting. The health of the economy and the health of the Nation's environment depend upon careful recognition of their interrelationships. The Council's annual report could become an important instrument for fostering understanding of the economic aspects of these relationships.

CONSUMER FEDERATION OF AMERICA

Wage-Price Controls

The administration's wage-price program to stabilize the economy is a failure, resulting in stringent wage increase restrictions while prices and profits increase virtually without restraint.

Under voluntary compliance, corporate employers—backed by the Pay Board—have resisted reasonable increases in employee income. At the same time, corporations—backed by the Price Commission—have pressured for and received innumerable price and profit increases inflating the cost of living. By imposing wage controls on low-income families and allowing price increases, the Pay Board has imprisoned consumers in growing economic impoverishment.

Inflation of consumer prices resumed in December 1971, approaching 5 percent per year, with few indications for real relief. Unemployment remains above 6 percent while wages of unorganized workers and many of the organized are effectively held at or below the Pay Board's 5-percent guideline despite significantly increased productivity. Responsibility for failure of the economic stabilization program is directly attributable to administration policies and the execution of phase II.

(1) The program fails to recognize that the central problem is self-determined pricing by that 50 or more highly concentrated industries which dominate the economy. Pricing by those industries has largely been unresponsive to the commands of overcapacity and weak consumer demand.

(2) The program ignores Government-supported devices for maintaining artificially high and noncompetitive prices such as: retail price fixing of whole milk at the State level and politically fostered increases in price supports of manufacturing milk and other agricultural commodities; State "fair trade" laws and antiloss leader laws: suppression of price competition legend drugs;. production allowances and import quotas for oil.

(3) The program wrongfully exempts from control prices charged by large corporate farms owned by agribusiness conglomerates financially able to withstand the vagaries of crop yields and powerful enough to negotiate high prices on crops produced with underpaid migrant labor.

(4) Consumers are systematically excluded from the Price Commission's decisionmaking processes.

(5) Base-price postings, reflecting uncertain relationship to actual ceiling prices, prevent consumer influence on retailers to hold down prices.

(6) No effort has been made to organize and instruct consumers for a role in the enforcement mechanism.

(7) In the one product line—prescription drugs—for which the posting of base prices would have promoted meaningful price com-

petition, the Price Commission reversed its policy, permitting druggists to escape the obligation to post retail prices. Even those druggists with $200,000 or higher volume are allowed to present consumers with an incomprehensible wholesale catalog.

(8) The Price Commission has ignored, and gives no indication of any interest in, price increases achieved covertly through reductions in quality or withdrawal from the market of low-priced lines. Resultant degrading of product quality contributes to further inflation, weakens the marketability of U.S.-made products in world trade, and further jeopardizes international trade.

(9) By permitting firms to take a normal markup on manufacturers' approved price increases, the Price Commission facilitates pyramiding of original increases as wholesalers and retailers add markups. The result is price inflation by the Commission's own hand.

(10) By conducting closed-door decisions, the Price Commission hurts its own credibility.

(11) The appearance of personnel shifts and public information policies in the Bureau of Labor Statistics, and unresponsiveness to consumer complaints of price rises by the Internal Revenue Service have undermined public confidence in the Price Commission, the Consumer Price Index, the Wholesale Price Index, employment rates, and in enforcement of price controls.

CFA vigorously renews recommendations made at the President's request, September 21, 1971:

(1) On an equal basis with business, labor and Government, consumers be guaranteed the right to participate in machinery established for development and implementation of Government policy.

(2) Inequitable control of wages must be halted.

(3) To restore consumer confidence and stimulate spending, ceilings be established on corporate profits and dividends, with surpluses passed on to low and middle income consumers, that segment of society which will and must spend.

(4) Effective curbs be placed on corporate profits to eliminate need for wage restraints in those industries that enjoy increased productivity.

(5) A meaningful economic program be established which encompasses: (*a*) Federal action to roll back high interest rates; (*b*) reduction of the cost of basic energy sources; (*c*) vigorous enforcement of antitrust laws; and (*d*) use of Federal and State regulatory machinery to stem the increase of prices in "regulated" industries. It must be recognized that governmental action or inaction has provided much, if not most, of the stimulus for higher prices in the marketplace. Federal fiscal policy has resulted in the highest interest rates in this century. Federal energy policy has given the consumer the highest electric, natural gas, oil, and coal prices in history.

Ineffective enforcement of antitrust laws has allowed monopoly and oligopoly industry to administer prices, largely unaffected by normal market factors. Weak, ineffective Federal and State regulation has allowed inflationary increases in retail utility and transportation rates. In all these areas, the consumer pays higher direct retail costs for housing, goods, and services and higher indirect costs which are passed along to cover higher manufacturing and distribution expenses caused by the same inflationary forces.

(6) To be effective and equitable, meaningful and fair enforcement of price ceilings is essential, and machinery must be established to guard against outright violations, substitution of lesser quality materials without corresponding price reduction, withdrawal of lower priced commodities, and other methods of circumvention of the intent of economic restraints. Any program predicated on voluntary adherence is totally unsatisfactory, since the consumer is unable to insure honesty and complince in the marketplace without affirmative and open disclosure requirements. To this end, the Government must also establish and expeditiously publish meaningful statistical data assigned to assure compliance and highlight violations. Any statistical base must recognize and compensate for the unfortunate fact that the cost-of-living index has been at an all-time high.

(7) Tax policies associated with an economic program must provide for equitable treatment of consumers. Significant tax reductions spread to all consumers, especially those in lower income brackets, would increase consumer spending and create jobs. Unfair, billion-dollar tax advantages to business, whether through investment tax credits or accelerated depreciation schemes such as the asset depreciation range regulations, merely increase corporate profits, deny increased purchasing power to the consumers most likely to spend increased income, and will not succeed in decreasing unemployment in light of present underutilization of plant capacity. Any benefit bestowed on business must be accompanied by an affirmative action program guaranteeing the creation of new job opportunities, particularly for the hard-core unemployed.

COOPERATIVE LEAGUE OF THE USA

By Stanley Dreyer, *President*

On behalf of the Cooperative League of the USA, I thank you and the entire Joint Economic Committee of the Congress for your kind invitation to comment on today's economic issues including the 1972 Economic Report of the President. Since every member of a cooperative is an equal owner in his business, each of these individuals has a direct economic stake in our Nation's policies. The Cooperative League is unique in representing the broad range of customer-owned businesses including insurance, farm marketing and purchasing, rural electrics, credit unions, student, group health, housing and other consumer goods and services. In the Cooperative League's last biennial congress (1970) our members charges us:

> To make known to the Government, its agencies and other groups, the Cooperative League's position on issues affecting not only cooperatives but the general welfare of all citizens * * *.

In fulfilling this duty I will draw heavily on policy statements of our congress and board of directors. To keep my comments in focus I will discuss some of the most crucial of our economic policies.

First, I would like to comment on the present administration's 1972 Economic Report delivered to Congress January 27. In it the President sounded optimistic about the curbing of inflation and unemployment; however, as with many members of this committee, we cannot wholly agree with the President's assessment. When some States still have 10 percent unemployment, we should all realize that the job of solving this problem has only begun. The report itself contains too few innovative approaches which will be required if unemployment is to be drastically reduced. Instead of offering new ways to tackle unemployment and inflation the President seems satisfied to list old efforts and ask all Americans to continue to be as patient with his programs as they have been these last 3 years. It is our belief that this committee will do more than listen to such political platitudes and will involve itself in enunciating policies that will shift the trend of the economy upward.

While inflation and unemployment are two of the Nation's currently most pressing economic concerns, the Cooperative League Board and Congress believe that two critical causes of these problems are first, the unavailability of reasonable financing for large segments of our society and second, the growing economic imbalance of urban and rural areas.

The Cooperative League Board advocates "an expanded work, education and training program on a national basis with adequate Federal funding to supplement existing inadequate efforts in these areas of national concern" to combat the general problem of unemployment.

The Cooperative League believes that a high interest, tight-money policy—now somewhat relaxed—in no way benefits the general wel-

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fare, but has the effect of stifling economic activity and growth. Cooperatives and small businesses are specially handicapped by such a policy, to the detriment of the people they serve.

Ready access to reasonably priced capital is essential for existing cooperatives and for new cooperatives that should be developed as important parts of the solutions to such pressing problems as inadequate housing, substandard or overpriced health services, inflated costs or poor quality of food and other essentials, lack of fairly priced credit for low income groups and declining incentive in urban and rural America. (Policy Statement, 1970 CLUSA Congress)

A tight-money, high interest policy will only widen the gap between small businesses and large monopolies or conglomerates. Small businesses which cannot obtain reasonable credit will be further handicapped in their competition with giant businesses. History has shown the great length that monopolies will go to to avoid lowering prices. The present monetary policies only aid the growing monopolies and oligopolies to further dominate their market which will not lead to the reduction of prices—only increased competition can do this. Competition can only survive when interest rates for the vast majority of businesses are within reason and not accessible only to a select few.

In addition to the need for available credit at a fair interest rate other financial aid and development assistance is needed to insure economic development in both urban and rural areas—particularly to benefit those of limited income. The problems of rural outmigration to urban areas and their subsequent overcrowding have been well documented. In the past we have spent a great deal of funds on the cities since this is where the problems are most visible. It is time that we address ourselves to the problems of rural America from where many of these city dwellers come. If we want to prevent the further compounding of these urban problems, we must offer rural residents a better life where they are. Only when employment and allied opportunities are equal in both the rural and urban areas will this excessive migration to the cities halt.

The Cooperative League Board stated that:

Rural development including adequate farm income and an adequate transportation network, health and sanitary facilities, housing and jobs, must be backed with adequate funds and legislative concern. Such opportunities must include the expansion of marketing and supply cooperatives and the direct dealing between agricultural marketing cooperatives and consumer groups, to aid farm income and lower prices for city people.

To accomplish this goal of rural development our Board endorses the Consolidated Farm and Rural Development Act (S. 2223). We believe its provisions will provide rural America with the financing needed and stimulate further economic progress. The Board also supports urban development and stated "with certain cooperative-related amendments, we strongly endorse the Patman-Sparkman proposal for a national development bank (H.R. 3550 and S. 580)."

Illustrative of the legislation before Congress that our board feels would help the economy is the credit union bank bill:

We plan to support, as requested, H.R. 6939 to provide for a credit union bank with some initial Government capital to improve and stimulate the ability of credit unions to provide low-cost consumer loans, discount notes of credit unions and sell debt securities in the open market. (Policy Statement, CLUSA Board 1972)

There are many specific economic programs that need to be reoriented at this time. The area of housing is a good example. It is regrettable that so many funds have been spent in this area in recent years with so little in return. The Cooperative League fully supports programs to increase homeownership for low- and moderate-income people. Yet our feelings are that the major beneficiaries have been the private developers, builders, realtors and the like. While it is clear that providing incentives for the building industry to get it to attack the housing shortage is a legitimate concern of the Congress, solicitude for this one aspect of the total situation must not be allowed to transcend the primary purpose of housing legislation, which is to give better housing to those who need it most.

In summary, it is the Cooperative League's hope that this committee will show the directions most likely to ease the problem of obtaining credit, and bring into balance once more our urban and rural development.

CREDIT UNION NATIONAL ASSOCIATION, INC.

By HERB WEGNER, *Managing Director*

This statement is submitted on behalf of the Credit Union National Association, Inc., which represents both federally chartered and State-chartered credit unions in all 50 States, the District of Columbia, and Puerto Rico. These groups include in their aggregate membership more than 20 percent of the families in the United States. The number of individual accounts total more than 24 million. The Credit Union National Association appreciates this opportunity to comment on the Economic Report of the President to Congress of January, 1972.

Like other savings institutions in 1971, credit unions by the end of the year had received much more in savings than their members required in the form of new loans. In less than 36 months they had built up a liquidity pool of nearly $4 billion to service members' needs. For the last 36 months we have been in a recession. In a recession our members, like most families in the United States, have generated a large amount of savings and have shown an unwillingness to increase their installment debt. Yet credit unions are not the prime savings institutions of families in the United States, nor are they likely to become so in the future. Still, credit unions—more than 23,000 of them—have become a significant factor in the economy.

Credit unions are unique among savings institutions for three reasons:

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

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

(3) Credit unions have been shaped by their member-owners to serve their specified needs. Each member must purchase at least one share, usually $5, as part partnership in the credit union. Above this sum, members may add to their savings in any amount. The credit union then lends to all its members from these funds, giving first consideration to the character and need of the borrower. The motto of the credit union movement is, "Not for Profit, Not for Charity, but for Service."

Issues raised in the economic report seem to suggest that governments have found themselves trying to achieve simultaneously a number of desirable but incompatible goals. The result has usually been the failure to achieve any of the goals. Occasionally a government has been bold enough to openly abandon some cherished ambitions in order to obtain a single objective, but this has happened only under the pressure of an emergency. Even though the Administration has instituted a series of price and wage controls, they have not totally solved the fundamental problems facing the economy. It is difficult in any economy to secure price stability, a rapid rate of growth, and full employment all at the same time.

Government policy as outlined in the economic report seems to suggest that the administration would like to reduce both unemployment and the rate of inflation. Perhaps the administraion will have to decide how much it can concede on the latter in order to insure that price increase are not so great as to damage the prospects for increases in employment.

The highest acceptable rate of unemployment may be about 4 percent and the maximum annual rate of inflation approximately 3 percent, but policies have yet to be devised that will guarantee that neither is exceeded. A choice between desirable aims will also have to be made internationally if the world's monetary system, whose main purpose is to facilitate the exchange of goods and services, is to work unimpeded by periodic crises. Freer trade between nations can strengthen our domestic economy. Some international agreements are indicated to facilitate trade and commerce. It is unlikely we can attain a stronger international trade position with complete price stability, a rapid rate of growth and full employment, all at the same time.

An unanswered question is how many of these objectives are we willing to modify, or even surrender. Whatever else may have to change, the relative freedom of trade that has been achieved over the past quarter of a century should be retained. Perhaps it will be necessary to reduce more nontariff barriers to trade. The United States has been at a disadvantage in dealing with some trading nations, largely because of pressure groups asking for provisions to keep out foreign goods that compete with our own products.

Analysis and Commentary

Economic policymaking has been put to a series of difficult tests in the past several years. The most immediate and direct objective of government economic policy is the encouragement of a vigorous expansion in the economy in 1972, and along with it a significant reduction in the unemployment rate. At the same time there should be a significant reduction in the rate of inflation. The administration has set the goal of about 3¼ percent increase this year in the gross national product deflater.

The basic objectives are to force a strong rate of business expansion and a significant reduction in unemployment, but to do so consistent with meaningful progress toward bringing down the rate of inflation. Finally, an objective of the administration is the reduction in the deficit in balance of payments to manageable proportions.

The important thing is that progress be clear and that economic policy action by the United States contribute to a favorable environment for restructuring the international monetary system for the longer pull. The main instruments being employed to achieve our economic objectives are the Federal deficit and monetary ease. The strategy of the administration is to use the budget deficit aggressively in the first half of the current calendar year to provide a fiscal thrust in the economy. The budgetary planning in economic terms has the potential of providing an important stimulus to economic activity. In monetary policy the Federal Reserve System has been carrying the policy of ease. Since the fall of 1971, there has been a major effort to push down short-term interest rates and thereby bring long-term rates down. Monetary policymakers have aggressively used their influence on the discount rate, the Federal Reserve fund rate, and the rate at which the Federal Reserve loans are granted to government security dealers, to bring down short-term rates. Policy has been to restore abundant liquidity to our economy and to bring down short and long-term interest rates.

While it is difficult to quarrel with the application of highly stimulative fiscal and monetary policies under current domestic economic conditions, there is still a great deal of slack in our economy, with the unemployment rate running about 6 percent and industrial capacity utilization at about 75 percent.

It would seem to make sense to run a large deficit and to pursue an aggressively easy credit policy. It can be argued that improvement in the productivity in an expanding economy, along with phase II controls, will provide the actual reduction in the rate of inflation. This, however, is a simple view of a very complex economy.

Public confidence in these economic policies has not yet been attained. There is a certain amount of skepticism at home and abroad that the United States will, in fact, succeed and curb inflationary pressures. Since the beginning of this year there has been a fear that a new surge of inflation is in the not-too-distant future. Public confidence was not enhanced by the sudden and surprising announcement of a $38.8 billion government deficit—a figure much higher than was contemplated before the budget message. It is also based on the assumption that the Federal Reserve will continue an aggressively easy credit policy designed to promote vigorous business recovery.

There is a dilemma: The very fiscal and monetary policies being pursued to encourage a strong expansion and economy may do serious damage to public confidence. If our public policy contributes to continuing tensions in the international monetary market, this will be reflected in our own equity markets and ultimately in the willingness of consumers and business firms to step up their spending. Moreover, if monetary policy continues to move aggressively towards credit ease, the outcome may simply be a further strengthening of the expectation of inflation. If public policies continue to create uncertainty with respect to inflation we may go through an extended period of rather weak consumer and capital spending, with only a sluggish recovery of the economy.

It may be worthwhile to consider the ends of the policies that we desire. This may be a tradeoff between the goal increasing employment and the acceptance of some rate of unemployment. If a tradeoff is necessary, perhaps we may be willing to accept more inflation if we have less unemployment. From the point of view of public confidence, it might be quite constructive for the administration to hold back on additional Federal expenditures in the first half of this year, even though it is an election year. This might give greater confidence to the private expansion of the economy. Based on the experience of financial institutions, including our own, perhaps we have enough liquidity within the economy so there is no great need at this point to move more aggressively toward more monetary ease. All over-the-counter savings institutions seem to have more than adequate liquidity to handle their needs for this year. Perhaps the objective of monetary policy should be to prevent a further decline in short-term rates, perhaps allowing for a rise in governmental short-term rates. A further lowering of short-term rates would lead to a renewed weakening of the dollar in the foreign exchange markets. This certainly would hurt the present position of the United States. Perhaps, in order to get the economy going, our policy should be to pull back from large Federal deficits as best we can, while avoiding increasing the degree of credit ease and even beginning modestly to reduce the availability of credit. This could create confidence within the economy.

The credit union movement stands ready to aid the administration in providing consumer credit to the families that belong to credit unions. Although we presently have a large deal of liquidity, we recall the history of the past decade and realize that we may need liquidity facilities if the programs of the administration are successful. A prosperous United States will draw down the liquidity pools of the credit unions and allow us to aid the economy to achieving fuller employment.

In order to survive liquidity pressures of the 1970's, credit unions will need a central facility to provide liquidity for the type of consumer paper handled by them. This facility should take into account the close relationship between credit unions and their unique characteristics as financial institutions. It would enable them to perform the historic function with greater ease in a changing economic environment. The central liquidity facility would provide an answer to the unique operating procedures of the member institutions. This liquidity facility is desirable, regardless of what precise fiscal and monetary policies the administration chooses to pursue.

In addition, there is a need for additional and different types of savings instruments in the credit union movement. The basic savings instrument has been the share of ownership, but there are signs that other instruments are needed to attract greater savings flow into credit unions in the future.

The Credit Union National Association appreciates your invitation to comment on the economic issues which concern the Nation and our organization. We have tried to present the problems as we seem them in terms of the economic report of the President. We hope that these remarks will be the beginning of a continuing discussion of institutional changes vitally needed for credit unions.

Summary

From the Economic Report of the President it appears that the goals of the Federal Government are to:

(1) Reduce unemployment.
(2) Reduce the rate of inflation.

(3) Strengthen the current potential of the Nation.

(4) Strengthen the balance-of-payments position.

The policies being followed by the administration to accomplish these ends are:

(1) Monetary ease by the Federal Reserve System.

(2) An increased budgetary deficit.

(3) Price controls.

(4) Agreements on international trade concerning trade barriers.

While the goals are admirable, it is doubtful whether they can be achieved simultaneously. It is the opinion of the Credit Union National Association, Inc., that the primary problem appears to be a "wait-and-see" attitude on the part of the consumer as well as the investor. There appears to be a lack of confidence affected mainly by the disillusionment of the Vietnam war, other international uncertainties and apparent inability of the Government to manage the economy in such a way that reduces problems from either inflation or unemployment. Our recommendations of necessity are general. These are:

(1) That if the choice has to be made between inflation and unemployment, we should put the emphasis on less unemployment even if if means a little more inflation.

(2) We must put our economic house in order by reducing Government deficits and developing confidence in the economy both domestically and internationally.

(3) Money for growth and expansion is available and what is needed is the confidence to move forward.

RICHARD J. DALEY, MAYOR, CHICAGO, ILL.

Mr. Chairman and distinguished members of the Joint Economic Committee of the Congress of the United States. I want to thank you on behalf of the people of the city of Chicago for this opportunity to present our views on the economic problems which currently confront us. It is the job of economists and technicians to understand and predict relationships between major economic variables, and there is no issue which affects the people of Chicago more than unemployment and inflationary pressures. To those affected personally, increases in unemployment rates and rises in prices are not matters of statistics, but too frequently of personal despair for families. In addition to the helplessness which many individuals caught by economic changes feel, the consequences of rising unemployment do not fall randomly on our population. In certain communities and in certain areas, increasing unemployment is a blight which makes impossible any dreams for better neighborhoods and a better life for the children of these communities.

The ability of a city to fulfill its social and environmental goals—to provide adequate housing to enrich the general quality of life depends on the strength of its economy.

Yet the city's economic climate is inevitably affected by forces beyond its control. National economic policies—national labor agreements—national legislation—all directly influence the local economy. National trends have been basically responsible for producing rising unemployment which, for example, has resulted in a Chicago metropolitan area unemployment rate of 4.3 percent in August. And there are 28 community areas in Chicago with unemployment rates in excess of 6 percent.

The Emergency Employment Act provides about 1,300 jobs for the unemployed in Chicago when a minimum of 110,000 persons need work. Welcome as the additional jobs are, there can be no question of the inadequacy of the relief.

EEA is a promising step in the direction of addressing the critical manpower needs of cities but it fails to confront adequately the dual nature of the urban labor market.

In Chicago—as in all cities—we have people who are trapped in poverty and unemployment and underemployment even when times are good for the rest of the country.

These people are not truly reflected in the unemployment statistics, much less in the urban opportunity structure. For example, when we tried to estimate unemployment for the Emergency Employment Act we used ADCU—unemployed fathers who are welfare recipients but eligible to work—as a measure of unemployment not insured by unemployment compensation (which forms a major building block in the production of unemployment statistics). In some poor neighborhoods the difference between unemployment rates using unemployment compensation claims as a building block and rates weighting in ADCU clients was as much as 10 to 15 percent.

These people form an army of unemployed in our cities and manpower and economic policy makers must face up to the need for drastic remedies if our cities are to be saved.

In a recent issue of The Public Interest, Dr. Norton Long suggests that cities face a crossroads: they can become "reservations" for the poor or they can be regenerated. Inadequate measures such as welfare and many manpower training programs which in essence are merely maintenance programs for the "reservations," do nothing to halt the devastating process which has left so many of our people in poverty.

At a time when cities most desperately need programs aimed at regeneration, not mere maintenance; while thousands of urban citizens are desperate for work, the expansion of job creation in the public sector appears to be a promising match between the need for public services on the one hand and the need for meaningful jobs on the other. The public service needs include areas such as environmental quality, health care, housing, neighborhood improvement, recreation, child care education and other programs that contribute directly to the betterment of the community. A survey conducted by the National Civil Service League showed that the city of Chicago could use more than 30,000 additional workers in expanding services that would contribute directly to the community.

While transitional public service employment offers relief to those who are temporarily unemployed, it is obviously not a panacea for the manpower problems of the city. Unless transitional programs are tied to a manpower system which emphasizes job creation as well as skill training on a permanent basis, they offer little hope to those trapped in unemployment and poverty.

As complex as these problems in Chicago are, we are better off than other cities. Chicago's diversification with a wide range of manufacturing and service industries makes it a relatively fortunate city. While our unemployment has been rising, it has been increasing more slowly than in many cities. There are factors in the local labor market which are directly influenced by local policies.

No factors are as critical to the vitality of cities as economic and manpower development. They are the essential key to meeting the entire complex of urban problems and lifting the quality of life in the city. The problems of housing, education, welfare—for example—rely on economic and manpower development for their solution.

There are many "experts" who suggest that big cities can no longer function. They say cities are too masive, too complex, too overcrowded, and too old.

We do not agree that cities are too masive, to complex, too old and too overcrowded to serve people and industry. The population density of Chicago, for example, is no greater today than it was 40 years ago.

We cannot share the pessimism about the future of cities. The city can support the economic bases which make possible its complete set of services. Industry has moved from many cities by the reasons for the move have to do more with changing technology and transportation systems than with the capability of the city to support industry.

After World War II, nearly every city in the industrial north and most of the older cities began to lose a substantial portion of its industry. Some said the reason for this loss was increasing taxes and an older environment. But a whole host of studies have made clear that the principle reason for this shift had to do with the way industry was able to both ship and receive its materials. Until shortly after the war, there was no industry which was not in the main heavily dependent on the Nation's rail system to reach regional or national markets. Later, trucking became the most important mode of shipping. The Federal Government encouraged this basic change in technology through vigorous programs of highway construction providing 90 percent of the costs in the "interstate program."

This enabled industry to leave the cities—and by using cheaper land—build modern plants which required a smaller labor force. This set of policies had serious implications for all major cities. Principally, it meant that income and jobs would be drained from the city.

This new set of circumstances interrupted the traditional role of the city. Throughout nearly all of America's history the waves of poor immigrants came to the city. They came because there was work and opportunity for them and their families.

Chicago, in Sandberg's words, was a city of "Broad Shoulders," teeming with people and jobs. When Chicago was "Hog Butcher" to the world, the stockyards meant 45,000 jobs for 45,000 families. Chicago was railroads and steel and printing, and Chicago was jobs. And to America's immigrant, cities were jobs—and jobs were opportunities for a better life.

The cities must continue to provide jobs—and they can.

Between 1960 and 1970, Chicago has slowed down the loss of manufacturing jobs. We have not been able to do this without help. The Economic Development Administration, has helped us a great deal.

We have had two designated economic redevelopment areas in Chicago—in our old stockyards area and on the West Side. Though Economic Development Administration's budget has been small, the program of public works, business loans, technical assistance, and manpower training have helped to provide basic keys to real economic change in these areas. It is absolutely vital that the Federal Government expand these efforts if we are to be assured of a resource base which can permit us to solve the human problems of cities.

The decentralization of administration which has been contemplated by the Department of Labor offers cities the hope of having more tools to make manpower programs more adequately address local employment problems.

At the Federal level, policies which have been directed toward raising private income have been based to a large extent on a premise which we must now acknowledge was only partially true. Stated simply, this policy assumed that unemployment results mainly from insufficient skills or an inadequately trained labor force when there are healthy economic conditions. A look at the conditions of the 1960's suggests however that we must do more than provide training programs.

Since 1960–61, when we experienced our last major recession, we have witnessed a spate of nationally generated manpower programs offering different cures for different ills. There are programs to retrain those displaced by technology or for other reasons. There are programs to motivate the unmotivated, programs to provide a wide variety of supportive services, including day care, transportation, health care and "aid to first pay," programs to provide income maintenance, and programs to provide incentives to industries to hire and train those who are disadvantaged because of lack of education and skills. Now we are witnessing programs to provide actual employment in the public sector because private industry has cut back its work force.

Because of the wide variety of approaches and the multiplicity of programs, we established the mayor's office of manpower a year ago to coordinate planning and program development, to monitor and evaluate program implementation and to learn as much as we can about which techniques are successful and what program mix makes the most sense.

One of the first things which was readily apparent was that training programs alone cannot penetrate the concentration of unemployment and poverty in the inner city. The training programs of the 1960's were aimed at helping the poor and minority groups. But even during good economic times, these programs did not solve this concentrated unemployment.

According to an urban employment survey conducted by the U.S. census in a select group of inner city areas, unemployment in 1968 in these areas was at a rate exceeding 10 percent. The obvious conclusion is that the training efforts alone had not had much impact on these pockets of unemployment. We believe that training and other manpower programs must be used as only one of a variety of tools to generate new economic and social growth within the inner city.

To successfully reduce unemployment, we must stimulate expansion of the job base available to inner city residents.

To bring jobs back to the inner city it is necessary to understand that the shift of the manufacturing base has not occurred between regions but has been mainly a shift from the city to the suburbs. Some experts have suggested that speedy, economic public transportation will permit inner city people to reach these suburban jobs. But without an effective public transportation system within the suburbs, the problem remains of how to get the worker to the job site. There is no metropolitan area in the Nation which has an adequate public system of suburban transportation.

Neither have most suburban areas been willing to provide for low-income housing so that poorer people can live near the job: the inescapable conclusion is that the mix of Federal programs which have stimulated industrial decentralization is directly related to high rates of inner city unemployment. It is obvious we must bring jobs back to the central city while working for an atmosphere which provides housing opportunities for all income levels throughout metropolitan areas.

One of the difficulties we have experienced is that Federal programs have been fragmented. The Labor Department focuses its attention on upgrading skills. Unfortunately the trainee often is not located geographically in an area where there is a demand for these skills.

We need to provide jobs where the trainee can take advantage of them.

Since 1963, Chicago has benefited by EDA and its predecessor, ARA assistance. First came the mid-Chicago economic development plan. Subsequently two economic development areas were designated. These were our historic stockyards and the Midwest impact area. The result of all of this was the development of two inner city industrial parks and the planning of a third. Between 1963 and 1969, the city added 23,000 manufacturing jobs in the mid-Chicago area where it had previously lost 70,000 jobs. The point of all of this is that something can be done if we have the resources to do it.

In the last decade, Chicago experienced a total citywide gain of 63,000 industrial jobs. This is an indication of the confidence the industrial community has in the city.

Beginning in 1969 and 1970, as the unemployment rate nationally began to climb steadily, these hard won gains in jobs for the people of Chicago began to deteriorate as a fiscal and monetary policy designed to "take the steam out of inflation" took hold. The unemployment rate in the city of Chicago not including the metropolitan area rose from a figure near 4 percent in 1968 to a rate of 6.8 percent by July of 1971, leaving Chicago with more than 110,000 unemployed labor force members. We cannot altogether evaluate yet whether the administration's "new economic policy" really promises to have effect on inflation, but even if it does, the price for this policy seems to be laid most directly at the doorstep of the poor and the middle-income worker. Certainly we can see that the economic policies implemented prior to phase two did not reduce the rate of inflation but produced only growing numbers of the unemployed.

The Congress, in our view, has not been neglectful of its responsibilities to suggest programmatic means to deal with some of the major problems of this recession. The accelerated public works bill in particular, which won the approval of the Congress, but was found inacceptable to the administration, would have created directly and immediately jobs for unemployed persons and done so without creating local inflationary pressures because of the real slacks in the construction industry. Second, and equally important, it would have provided opportunities to undertake projects which would have had major effects in improving the quality of life in impacted urban areas and concomitantly provide an infrastructure to stimulate permanent private sector job growth giving a long run stimulus to urban economic development. The legislation which the Congress has been considering to give export investment credits to firms which undertake to sell its products abroad could be very beneficial to Chicago's unemployed also, but such legislation, if it is not purely to benefit private sector interests, ought to be tied to stimulation of the export industry in areas impacted by persistent and substantial unemployment. Such a focus would be both anti-inflationary and provide jobs where they are needed the most. As we have said earlier, a principle of Federal policy that we must take issue with is that structural unemployment is based principally on inadequate skills of the unemployed. Areas with persistent unemployment suffer from inadequate job growth—even when national conditions substantially improve. We must insist, too, that the Economic Development Administration move with vigor and increased resources provided by the Congress to the urban scene where pockets of unemployment are as large as most full sized big cities.

Cities must be able to renew their historic function to provide routes out of poverty toward middle class life if our Nation is really to pursue the goals of meeting our major human and social challenges. Neither do we expect that the Federal Government and Congress will do this alone. We, in the cities, expect to do our part, can do our part, and will do our part.

Based on our experience, we are undertaking a new approach in Chicago. We are forming a joint council of manpower and economic advisors which parallels the President's Council of Economic Advisers with one important exception. This group will be responsible for relating to policies both with respect to stimulation of the private sector and deal with the training of adequate manpower.

This council will include university and bank economists, other department heads, and representatives of labor and business. It will have many responsibilities.

First, it will develop a system of reporting local economic indicators essential to the development of integrated economic strategy. It will point up strengths and weaknesses in the economy and recommend policies related to these. It will evaluate the economic implications of transportation, housing and public works policy and relate the effects of these on the rate of unemployment and potentials for economic growth.

The Council will submit an annual report of these conditions and make recommendations. Equally important, it will develop proposals for Federal programs consistent with the full employment act of 1946. Hopefully, it will provide important contributions for all of us concerned with central city development and a new way of relating to the social concerns which all of us have.

We have learned that successful economic development requires a full partnership of community, government, and private resources. On the private side individual companies must be made welcome by the community. In the inner city, especially, residents must be assured that economic growth is part of a total community program in which they participate and benefit. The resources, technical expertise, and benefit. The resources, technical expertise and public sector investments of government are crucial to this total development package.

In summary, we feel the following steps should be taken:

(1) Public service employment should be made a permanent measure and increased in scope.

(2) Congress should resubmit the Public Works Acceleration Act.

(3) Tax credit to stimulate export industry should be tied to requirements that private firms benefitting be located and recruit manpower in areas of persistent and substantial unemployment.

(4) Congress must mandate EDA to permanently relate to unemployment problems of inner city areas and increase EDA's resources to undertake these programs.

No longer can industry disregard the community in which it is located. Neither can the residents or local government be indifferent or hostile to private economic interests which are providing jobs and income. If urban policies are to regenerate the inner city economy, they must in fact, reflect the title of the report of our successful operation in the West Side development area—"Partnership for Action."

FEDERAL STATISTICS USERS' CONFERENCE

By JOHN H. AIKEN, *Executive Director*

The Federal Statistics Users' Conference appreciates the committee's invitation to comment on the economic issues which concern the Nation and on the recommendations made in the administration's economic reports. Because of our specialized area of interest, our views and comments are directed to the economic data which provide much of the information upon which the President's Economic Report and the report of his Council of Economic Advisers is based.

FSUC is an association comprising 174 organizations generally classified as business firms, labor unions, nonprofit research organizations, State and local governments, and trade associations. These members have a common interest in encouraging the development of adequate, timely and reliable information from Federal statistical programs.

ALLOCATION OF RESOURCES FOR STATISTICS

At the outset, we must reemphasize our continuing concern about the need for improvements in economic statistics and the failure in the past to allocate sufficient resources for the development of economic statistics in keeping with the real growth of the economy.

What concerns us even more is that so little attention is given to the voices of the few organizations that have played a leading role in urging and defending the development of adequate and proper economic statistics. We commend the Joint Economic Committee and the Council of Economic Advisers, which, over the years, have repeatedly emphasized that our economic statistics can be, and must be, further improved.

It must be recognized that there is a constant need for an examination of the economic data that make up our statistical base and for identifying areas where improvements are needed. Following this is the need to allocate sufficient resources to meet the growing needs for economic data and to improve their quality.

On the question of funding of statistical programs, we wish to point out that one of the purposes of the Federal Statistics Users' Conference is to encourage the development of sound and adequate Federal statistical programs of optimum usefulness at minimum cost. As we have often pointed out, we recognize that, from time to time, there may be a need for initiating completely new statistical series, but our primary concern has always been with the need for improving and expanding our ongoing, current statistical series to take maximum advantage of the investment the Nation already has in these data. The Federal statistical system is indeed a national investment that is ofen not recognized. This investment provides a valuable return that is difficult, if not impossible, to measure in dollar terms. It would be helpful if those in Congress that are concerned with appropriations could view our statistical output in terms of an investment with a definite payout. But experience shows that the Congress is more then inclined to assign a low priority to statistical programs when it comes to the appropriation of funds.

In the past several years, the annual budget for statistical programs proposed by the administration appears to have represented a minimum that it considered both requisite and essential in years of fiscal stringency. Curtailments of the budgets by the Congress at various times has resulted in obtaining less than the minimum required. As a consequence of these two actions, we believe that the statistical system has not kept pace with the growth in the economy and the needs for data. As was pointed out by the Council of Economic Advisers in its 1971 report, "if we take account of the Federal resources that have been devoted to the development of economic statistics since 1963 we find that the level of support has remained the same while the real economy has increased by almost one-third."

This year the shortcomings of the past have been recognized in "Special analysis F" of the President's budget, where it says "Many of the deficiencies in Government statistics can be traced to outmoded and underfunded statistical programs overburdened by pressing new demands."

The President's budget for fiscal 1973 proposes an increase of 18.2 percent for all statistical programs, and a 16.7-percent increase for economic statistics. Although we are not in a position to pass judgment on the merits of all the programs making up the total statistical budget, we appreciate the increasing attention being given the statistical system in the heirarchy of priorities in the Federal budget. We are pleased to note that key programs we have supported previously, or consider critical now, are included.

And finally, on the question of funding, we wish to repeat the statement of our position made to this committee last year: FSUC is well aware of the necessity for the prevailing budget constraints and the need for economy at all times. Our organization does not advocate massive, wide-scale increases in budgets for statistical programs. We do believe, however, that some more adequate criteria or rationale should be developed to ensure that a reasonable and orderly expansion of our statistical programs through adequate funding can be effected to meet our current and emerging needs.

Economic Data Needs

We are pleased to note that two of the four top priority programs in the 1973 budget are for improvements in economic statistics. They are: (1) to extend and improve the basic data required for the system of national accounts (defined broadly to include national income and product, input-output, balance of payments, flow of funds, and national sector balance sheets); and (2) to improve the accuracy and timeliness of current economic indicators.

On the question of timeliness.—Our statement to this committee last year placed great emphasis upon the need for more timely and accurate economic data. Previous reports of the Council of Economic Advisers and the Joint Economic Committee have emphasized this need. Progress is being made in this area, but more needs to be done.

At this point, we think it appropriate to direct attention to a progress report on the efforts of the Government to improve the timeliness of economic reports. In an article in the December, 1971 issue of The American Statistician, Julius Shiskin, chief statistician in the Office of Management and Budget, made the following statement:

Efforts to improve the timeliness of economic indicators received a major impetus from President Nixon's directive, issued only 3 weeks after his taking office, requiring the issuance of monthly and quarterly statistics "without unnecessary delay." The Director of OMB, who has responsibility for carrying out the President's directive, issued guidelines to attain this objective and, through the staff of the Statistical Policy Division, has monitored this program. Consequently, one third of the releases of the principal economic indicators are issued by the major statistical agencies more promptly than before the President's directive. In the case of other Federal statistical reports, the proportion is even larger—70 percent. The seemingly more modest speedup for the principal economic indicators is accounted for in part by the fact that over the years a greater effort has been made to release the principal economic indicators promptly, and therefore in recent years it has been more difficult to reduce the difficult to reduce the release time.

As a result of the speeding up of releases, 58 percent of the principal economic indicators now are released in 20 working days or less compared with 53 percent in the last quarter in 1968. A contributing factor is that about 80 percent are now published within two days of compilation compared with 60 percent 2 years ago.

Advance target dates for the release of about 120 principal indicators have now been published for almost 2 years. Occasionally, agencies have been able to release data a day or so early and, because of unavoidable compilation problems, have missed some dates; however, over the last year the target dates have been met in about 75 percent of the cases, 12 percent of the series were released before the target date, and 13 percent were late. Steps recently taken are expected to increase further the percentage meeting the target dates.

Improvements in economic data.—Economic events of the past year underscored some of the deficiencies in our economic statistical base. For example, "Special analysis F" makes the following statement with which we concur: "* * * after the wage-price freeze was announced on August 15, a major deficiency in the consumer price monthly information; more than half is collected quarterly or semiannually. The fact that there is no current index specifically measuring changes in wage rates also became evident. Early retail trade estimates are often subject to considerable revision. Since retail sales data are used to estimate about 30 percent of GNP, these revisions seriously affect the early GNP figures. Late and deficient inventory data also hamper the compilation of the GNP data. Weak data on construction, especially for State and local governments, add to these difficulties. The absence of data on costs, insurance, and freight limit flexibility in presenting data on foreign trade. It is clear that the statistical system is not adequate for Government informational needs for economic policy decisions."

As further evidence of the great concern being expressed over the adequacy of our current statistics, we wish to call attention to the statement of George P. Shultz, Director of the Office of Management and Budget before the Joint Economic Committee when he appeared in February of this year. The last part of his statement was devoted specifically to the problems of Federal statistics. We think it is particularly significant that Mr. Shultz has placed such emphasis on the importance of better statistics as a part of his general discussion of the overall budget. Part of Mr. Shultz's statement deserves repeating. He said:

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A major weakness in Federal statistics is that many statistical surveys, which are an important source of data, were designed when standards were far lower than today. In the light of present needs, we are reconsidering the design of the surveys for wages, consumer prices, unemployment, and other series. Redesign of these surveys requires substantial increases in sample sizes and the development of new techniques for processing and quality control.

A serious problem in policy formation is error in estimates of basic economic variables. (The statement included a table in order to provide some insight into the nature of this problem with respect to the measurement of GNP during 1971.) The January 1972 revision of the national income statistics is particularly revealing. Under that revision, GNP for the third quarter was revised down by $7.4 billion, and the real rate of growth from the first to the third quarter was reduced from 3.9 to 3.1 percent. The error in the original estimates limited our ability to tell what was happening to the economy at a time when we were making projections as a basis for policy decisions.

In the area of labor statistics, nine major programs are proposed; three are proposed for prices and price indexes; 12 in the area of production and distribution statistics; three for construction and housing statistics; and 10 relating to national income and business financial accounts.

The budget requests represent a considered attempt to see that resources for statistics are allocated in accordance with the Government's most urgent needs for information in the light of the prevailing budget constraints. We hope the Congress will make a conscientious examination of the needs to be served by the recommended improvements, and will be convinced of the necessity for adequate funding.

Conclusion

It is our belief that users of Government statistics have a responsibility for taking constructive steps leading toward improvements in economic data. The Federal Statistics Users' Conference utilizes various means for examining our economic data base with a view to pointing out deficiencies and gaps leading toward improvements. One of the steps regularly taken is in the holding of special conferences each year devoted to a single subject area which bring together both producers and users to examine data sources and needs. Last year, we held a highly successful conference on "Nationwide Financial Data—Their Makeup and Use in Forecasting." In May of this year we will hold a special 2-day conference on "Manufacturing Statistics—Their Makeup and Use for Analysis and Planning Purposes." We believe these special conferences make a valuable contribution to achieving a better understanding of available economic data.

In conclusion, we wish to thank the chairman and the committee for inviting our comments and views. We wish to pledge our continued support and cooperation to the work of your committee.

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

By GROVER W. ENSLEY, *Executive Vice President*

There is an urgent need for prompt, courageous action to restructure our national financial system in the public interest and to maximize and stabilize the flow of savings and credit. The blueprint for such a policy is clearly outlined in the report of the President's Commission on Financial Structure and Regulation. In their annual report, the President's Council of Economic Advisers notes that:

> Two years ago in this report we recommended the establishment of a commission to study the structure of financial institutions in the United States. A distinguished group of citizens has now completed and published this study, which will be reviewed by this administration and others to determine what action should be taken on its recommendations.[1]

The January 1972 Report of the President and the Council of Economic Advisers understandably were unable to comment more fully on the Commission's recommendations, which were presented to the President only on December 22, 1971. Top administration officials have subsequently indicated that the Commission's report is being taken quite seriously by the administration, and that its recommendations are under active review. Because of the importance of these recommendations, this statement will focus primarily upon the implications of the Commission's report for thrift institutions, housing and mortgage markets.

THE SHORT-RUN OUTLOOK

Before proceeding to do so, however, a few comments on the short-run economic and financial outlook are in order. The Council's mid-range forecast of an approximate $100 billion increase in GNP in 1972, representing about 6 percent real growth and slightly more than 3 percent inflation, appears considerably more realistic and attainable than the forecast presented in its 1971 annual report. Such an economic performance would still leave unemployment too high. But it would mark a considerable improvement over 1971, when the $73 billion rise in GNP represented less than 3 percent real growth and more than 4½ percent inflation.

In the prospective 1972 economic and financial climate outlined by the Council, the short-run position of thrift institutions, housing and mortgage markets will remain strong. Indeed, continued strength in the housing sector will play an important role in attaining the anticipated acceleration in economic activity this year. Saving flows at mutual savings banks and savings and loan associations have remained at exceptionally high levels in early 1972 following an unprecedented year of growth in 1971, when deposit gains at these institutions jumped by 144 percent to almost $38 billion. While saving flows may well mod-

[1] The Annual Report of the Council of Economic Advisers, January 1972, p. 112.

erate as the year goes on, it seems evident that thrift institutions will have ample funds to finance a major share of the more than 2 million new housing starts widely anticipated for 1972. In the savings bank industry, for example, total net deposit growth in 1972 will probably be in excess of $8 billion, compared with the record $9.7 billion achieved in 1971. Combined with a rising volume of mortgage repayments and earnings retentions, this would imply a total volume of investable funds of around $14 billion, second only to the all-time high of about $15.5 billion in 1971.

But it must be recognized that these short-run prospects for continued strong growth of savings institutions in 1972 reflect the lower level of competitive open-market interest rates and reduced inflationary pressures. While currently dampened by controls, the fever of inflationary expectations could flare anew, and interest rates turn up again, in response to concern over the possible impact of massive Federal budget deficits in the remainder of fiscal 1972 and in fiscal 1973, superimposed on a strengthening economy.

In these circumstances, monetary policy could soon again become a major anti-inflation force, bringing a renewed round of rising open-market interest rates and disintermediation. The continued ability of savings banks and other mortgage-oriented thrift institutions to maintain savings growth and channel funds into housing and urban revitalization, therefore, clearly depends upon the ultimate success of current efforts to control inflation and achieve sustainable non-inflationary economic growth. The difficulty of this monumental task underscores as nothing else the urgent need to implement the long-run recommendations of the President's Commission on Financial Structure and Regulation for a strengthened and more flexible system of savings institutions.

THE COMMISSION'S REPORT

Indeed, the recommendations of the President's Commission on Financial Structure and Regulation provide the blueprint for restructured financial institutions in the last three decades of the 20th century. As summarized in the Commission's report, the objective is:

> * * * to move as far as possible toward freedom of financial markets and equip all institutions with the powers necessary to compete in such markets. Once these powers and services have been authorized, and a suitable time allowed for implementation, each institution will be free to determine its own course. The public will be better served by such competition. Markets will work efficiently in the allocation of funds and total savings will expand to meet private and public needs.[2]

Such an objective is fully consistent with long-sought goals of the mutual savings bank industry. For well over a decade now, the savings bank industry has sought to broaden the structure of its assets and liabilities in order to serve better the financial needs of America's families and individuals over their entire economic life cycle. It has not sought, and it does not now seek, the homogenization of the financial world. Savings banks have sought, and continue to seek, only those broadened powers which are consistent with their century and a half mission of consumer financial service. They seek, indeed, the preservation of this distinctiveness as personal and family financial centers.

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[2] The report of the President's Commission on Financial Structure and Regulation, Dec. 22, 1971, p. 9.

Savings banks have pursued these goals—convinced that they are in the broad public interest—at the State level and through a Federal charter alternative. Savings banks stand alone among deposit-type institutions in being denied access to a dual charter system.

It is therefore gratifying that, after 18 months of intensive study, the eminent Presidential Commission has basically concurred in long-sought savings bank industry objectives. It has recognized the equity and need for a dual charter option for mutual savings banks to bring them into the 20th century with commercial banks, savings and loan associations, and credit unions, which have long enjoyed such an option. It has recognized the distinctive consumer and family orientation of savings banking, by recommending both personal loans and checking accounts for "individuals and nonbusiness entities only."

In its recommendations to broaden the scope and flexibility of savings bank services and powers, the Commission on Financial Structure and Regulation has confirmed the conclusions of several preceding studies. Over the past decade, objective observers in academic life, in Government and in private industry have independently recommended the need for a broad restructuring of the thrift industry in the public interest.[3]

When distinguished scholars, financial practitioners and Government officials come to essentially the same conclusions over a period of 10 years of study, it is time to stop studying the issue of broadened and more flexible savings bank powers and to start implementing the recommendations. Enactment of the package of recommendations made by the Commission, inclding a Federal charter alternative for savings banks, is needed in the public interest and would provide for broadened thrift institution powers within the context of structural reform of the financial system as a whole.

The environment for change.—The Commission formulated its recommendations against the background of sustained inflationary pressures, exceptionally high interest rates, and severe financial disintermediation. Some observers have suggested that these are unusual circumstances, and that if the Commission had done its work in a "more normal" environment, it might have reached different conclusions. Indeed, these observers have concluded that the need for a restructured thrift industry is hardly evident in the recent and continuing strong performance of the Nation's savings institutions in an environment of declining interest rates and abating inflational pressures.

Such a conclusion is shortsighted and unrealistic. It ignores the ıact that the several preceding studies cited above were conducted over a long period of economic and financial variation, yet nonetheless recommended the need for broadened and more flexible savings bank powers. It fails to recognize, moreover, that it is precisely because of the cyclical volatility of specialized savings institutions that structural change is needed. Restricted balance-sheet flexibility in a rapidly changing financial environment has caused wide swings in savings

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[3] Noteworthy are the reports of the Commission on Money and Credit in 1961 and President Kennedy's Committee on Financial Institutions in 1963, Prof. Leo Grebler's study on "The Future of Thrift Institutions" in 1969, the Wharton School "Study of the Savings and Loan Industry" for the Federal Home Loan Bank Board in 1969, and most recently Prof. George Benston's study on "Savings Banking and the Public Interest" in 1971.

bank deposit flows as individuals have shifted funds between savings accounts and marketable securities. These waves of disintermediation have resulted in alternately excessive and inadequate residential mortgage flows, and have led to a complex network of Federal mortgage and housing aids.

The President's Commission on Financial Structure and Regulation has recognized these facts. It has recognized that the Nation's financial structure was molded in other times and under other conditions and must now be restructured to adjust to a new and changing environment. Indeed, the Commission has concluded that:

> Without changes in their operations, there is serious question about the ability of deposit thrift institutions to survive.[4]

While the need for change is thus apparent, the Commission does not seek to force changes upon each financial institution. The emphasis of its report, rather, is upon voluntary action and freedom of management choice with regard to degree of functional specialization, type of charter, and form of organization. In the Commission's words:

> For those who wish to specialize in loans and services relating to real estate and personal finance, both the regulatory framework and the permissive powers recommended by the Commission make this a feasible choice. Indeed, the Commission's recomendations make this choice possible in an environent of high and variable interest rates, *whereas existing regulations force the choice in a way that threatens the existence of institutions specializing in long-term real estate financng.* (Emphasis supplied.)[5]

The savings bank industry applauds this approach of maximizing management choice of powers and services within broadly defined goals and limitations. There should be ample room in an efficient, competitive financial system for both specialized and broader purpose institutions—State and Federal, mutual and stock. If the Commission's recommendations are implemented, the ultimate composition of such a system will be determined, as it should be, in the marketplace rather than by restrictive regulatory and statutory fiat.

Structural change and housing markets.—Granting that a more flexible and broadened balance-sheet structure is essential for thrift institutions to compete effectively with commercial banks and open-market instruments throughout the business cycle, there is still the question of the impact of despecialization on housing markets. Some housing industry spokesmen have expressed concern that a broadening of thrift institution powers—particularly into the personal loan and individual checking account areas—will result in reduced availability of residential mortgage credit. Such concern is unwarranted. Quite the reverse is likely, in fact, as suggested by the following considerations:

(1) *Provision of a complete package of personal financial services will increase the flow of savings into thrift institutions and hence the flow of mortgage credit.* Increased asset flexibility will strengthen the thrift institutions' earning power and ability to generate an increased volume of funds for channeling into mortgage credit and other outlets. In particular, the provision of personal loan and checking account services will meet the dominant financial needs of young families and individuals who are typically not in a position to save much

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[4] Report of the President's Commission, loc. cit., p. 37.
[5] Ibid.

until later in life. When increased saving does become possible, they are likely to continue to patronize the institution which has in earlier years met their personal financial needs. This conclusion is based not only on logic but on actual experience. Commercial banks are able to attract large household deposit flows even at lower interest rates than offered by thrift institutions because they provide other essential personal financial services. Where authorized, savings banks which are actively in the market for personal loans have experienced stronger and more stable deposit growth and higher earnings than those which are not. And these banks have devoted as large a share of their assets to residential mortgage loans as have savings banks lacking the powers to make personal loans. Obviously there is no virtue in enforced home mortgage specialization, if the institutions so restricted are unable to attract sufficient funds to lend.

(2) *Savings institutions cannot be forever insulated against competition as an offset to their regulated specialization.* It has become broadly recognized that protective devices such as deposit interest rate differentials, different income tax treatment and Federal housing subsidies cannot remain effective indefinitely. Indeed, it was made dramatically clear in 1969–70 that higher deposit interest rate ceilings for savings institutions over commercial banks provide no protection at all against competitive open-market instruments. Disintermediation was severe and liquidity was sharply reduced. The Commission on Financial Structure and Regulation has stated the problem well, in observing that:

> The power of the rate ceilings to isolate deposit markets from the rest of the short-term money market has eroded with continued reliance on this regulation. In time, they will probably have little effectiveness. Thus, the major deterrent to losses of income and liquidity and the possible failure of thrift institutions during past periods of rising interest rates will not provide the same protection in the future.[6]

In addition, differences in tax treatment between commercial banks and thrift institutions were substantially narrowed by the Tax Reform Act of 1969. Thus, as the effectiveness of Federal regulatory and statutory protections is steadily diminished, the competitive ability of savings institutions will be steadily eroded without structural change, and so also will be their ability to provide housing credit. The inevitable result will be an even larger role for the Federal Government as a primary source of mortgage finance.

(3) *The issue, therefore, is not whether broadened powers are necessary but what types of powers are advisable.* Some observers have advocated that the expansion of thrift institution powers be limited to the real estate area. Additional equity, land development, real estate management, construction lending, mortgage servicing, and other real estate powers beyond housing finance have been proposed. The wisdom of this approach is at best questionable. There is no assurance that currently specialized thrift institutions, expanding into broadened real estate areas, will remain actively involved in housing finance. Certainly, the life insurance industry has not. Nor is there the promise of increased consumer patronage and enlarged deposit flows from such an approach, because expanded real estate powers are more business than consumer oriented. Moreover, expansion into broad real estate

[6] Ibid.

areas would encroach directly on the building, real estate and mortgage banking industries. In short, there is nothing to commend the development of "financial real estate institutions" over "full-service personal financial centers."

(4) *Housing credit has not always been, and will not always be, in short supply.* It is shortsighted to structure a financial system for the future on the assumption that a particular type of credit will always fall short of demands. This is the basis of a system of specialized housing finance institutions. And yet, as recently as the early 1960's, housing markets were characterized by an excess of credit relative to demand. The major concern in this period was the quality of credit, not the quantity of credit. It is an unhappy fact that specialized housing credit institutions, with limited alternative outlets for funds, will aggressively seek mortgage loans of decreasing quality when deposit inflows are larger than can be employed under normal credit standards. The result is to encourage building and real estate activity beyond current demands, with consequently distressing results. The difficulties which occurred in the savings and loan industry in the early 1960's are well documented. Such difficulties could again develop. Indeed, there is increasing evidence that the availability of housing credit may soon temporarily exceed market demands. It is in such periods that flexible financial powers are perhaps most essential, permitting savings institutions to build resources and liquidity and thus better serve the housing industry in subsequent periods of rising credit demands.

(5) *Finally, if thrift institutions are denied broadened powers within their current consumer orientation, the utlimate alternative could be conversion into stock commercial banks.* Such a step would clearly not be in the interests of the Nation's housing credit needs. The result would be the homogenization of our financial system, rather than the perpetuation of the distinction between consumer and business oriented institutions. This distinction needs to be preserved. And it will be only if thrift institutions are given the necessary flexibility to provide the complete financial package required by consumers over their economic life cycle.

In sum, the President's Commission on Financial Structure and Regulation has performed a major public service. It has provided a blueprint for financial change that will serve the thrift and housing industries well into the foreseeable future. It has placed maximum reliance on management choice, in the tradition of our free market system. It has pointed out the untenability of preserving the status quo. It has shown how to preserve the distinctiveness of the thrift industry within the financial system. It has, in short, shown the way for constructive financial change.

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

By WILSON S. JOHNSON, *President*

We are indeed happy to have your invitiation of February 4 to comment to your committee on the state and prospects of the Nation's small business sector as seen through the eyes and felt through the experience of the federation.

As we anticipated when commenting to you 1 year ago, while there has been some improvement in the position of small firms, this improvement has not been completely satisfactory. The total legislative thrust at present indicates further difficulties ahead.

Analysis of responses to our continuing economic survey provides the basis for our conclusions. In this survey we measure that proportion of respondents reporting "higher—or faster—than last year." The 1971 response suggests that sales volume has been rising through the year, that growth in receivables has halted (perhaps due to an improvement in collections), and that there has been developing greater vigor in additional job formation. Investment in inventories, which drifted upward through October, has remained stable since. The growth in the costs of both labor and goods appears to have peaked during the year. Average interest rates appeared to be somewhat on the downside. Pressures for posting higher prices abated, whether from consumer resistance or competition is not known. Reaction to the freeze and phase II was startling, in that the proportion of respondents reporting "prices-fees higher than last year" dropped precipitously following announcement of the new program.

Most significantly, however, only one of every four independents reporting increases in prices and/or fees was able to report that the increases covered rising costs fully. Clearly, small business is still facing a nasty financial squeeze.

For this reason we applaud the initiative taken by the administration in recommending renewal of the investment credit, and the congressional response with its initiative of extending the credit to purchases of used equipment. We applaud also the initiative taken by the administration through the Cost of Living Council, and the Price Commission, in recognizing the peculiar needs of small business—through the tier classification, the exemption afforded small retail merchants, and so forth, although our position remains as it has been : that the controls program could work well if limited to large businesses and large labor unions. And we applaud the stepped up advocacy role being played by the Small Business Administration. Even though not fully adequate to the need, these are steps in the right direction.

But much remains to be done, of which first and foremost is the need for Government to exercise some form of fiscal restraint. The constant expansion of existing social and consumer programs, the development of new programs in these areas, acts like a thief in the night so far as small business finances are concerned.

For instance, only last summer we conducted a special survey of a representative panel of our members on proposals for compulsory national health insurance and higher minimum wages. Responses to this survey were analyzed by the professional staff of the Small Business Administration. It is interesting to review two of the agency's conclusions.

On compulsory health insurance, the agency concluded in part:

> The survey by the National Federation of Independent Business proves that employers of small businesses if obligated by legislative action to supply health insurance to their employees will be burdened with additional costs that will weaken their competitive position. While this legilsation will increase costs in most businesses, it will have the greatest impact on the very small firms—those with one to three employees.

After observing that the impact of any increased minimum wage will be the greatest on the smallest of firms, the agency comments in part:

> Business owners surveyed were asked if they believed other wages would rise if the minimum wage were increased and, if so, by what percent. Fifty-three percent of the respondent firms stated that other wages would increase, while 35 percent stated they would not. Nearly 80 percent of the firms expecting other wages to rise reported that other wages would rise between 4 and 20 percent. These firms were about equally divided in their opinion that wages would rise between 4 to 10 percent and 11 to 20 percent.

These are only two of the laws and proposals which threaten to erode further the financial soundness of small business. Consider the costs associated with the ecology drive, the safety drive, expanded social security benefits. Each of these has a price expressed in terms of taxes—and these taxes, so far as small business is concerned, can only come out of earnings. This is a fact, regretfully, which too many in government—Federal, State, and local—simply do not recognize. And this lack of recognition is something which must be corrected at once—for small business does provide employment for perhaps 60 percent of all jobholders in the private, nonagricultural sector.

SMALL BUSINESS RESPONDS

It may not be true of big business, and it may not be true of big labor, but small business most certainly is responding to the economic controls program—and obviously at considerable cost to itself. For while the proportion of respondents reporting labor and goods costs remaining, respectively, in the mid-eighties and mid-nineties, the proportion reporting prices-fees higher has fallen 20 points—from the mid-eighties in January of 1971 to the mid-sixties 12 months later—and at that only 25 percent of these firms report that their price increases have compensated fully for their cost increases.

Below are the federation's latest economic indicators:

Survey respondents—Proportion reporting "compared with last year"	General averages				3-month moving averages		
	1969	1970	1971	1972 to date	January 1971	December 1971	January 1972
Employment higher	53.8	52.4	52.5	53.1	51.1	52.9	53.2
Sales volume higher	69.1	62.2	64.1	68.4	60.4	67.1	68.0
Inventories higher (dollars)	(1)	72.6	79.8	78.6	76.7	80.0	79.2
Receivables higher	65.3	64.9	69.8	67.0	69.3	68.1	67.6
Collections faster	37.7	33.1	34.5	37.2	32.7	35.8	36.5
Cost goods higher	97.1	97.5	95.4	96.0	95.3	96.3	96.2
Labor costs higher	88.0	88.3	87.8	85.9	88.8	85.9	86.0
Prices-fees higher	84.4	84.9	82.7	59.9	85.1	73.1	66.3
Increase comp. fully	(1)	(1)	(1)	25.7	(1)	(1)	(1)
Average interest charge (banks) (percent) [2]	7.7	8.5	8.0	7.8	8.4	7.8	7.8

[1] Data not comparable or available.
[2] Borrowings within "past 6 months."

SECTION I

[Proportions of respondents indicating, each subject, "Higher" (or "Faster") than "Last Year"—expressed as a percentage of 100—Months of 1970-1971-1972—(These percentages constructed as follows: To all "Higher" (or "Faster") responses to each question are added one-half of the "Same" responses; into this sum is divided the total of all "Higher" (or "Faster") "Same" and "Lower" (or "Slower") responses in each question.)]

Survey respondents, proportion reporting, compared with last year	January	February	March	April	May	June	July	August	September	October	November	December
1970												
Employment (higher)	54.1	53.4	52.5	52.7	52.2	51.7	52.2	52.6	52.3	52.0	52.1	51.3
Sales volume (higher)	68.5	68.0	63.5	63.6	62.1	59.4	60.6	60.4	60.6	59.4	59.9	58.5
Inventories (higher)	70.0	71.0	72.3	73.1	73.3	71.7	72.9	73.6	73.4	72.4	74.5	73.2
Receivables (higher)	66.3	65.5	65.1	63.8	63.8	64.2	64.0	64.4	65.4	65.3	65.1	65.4
Collections (faster)	36.3	35.2	33.7	33.2	34.1	32.3	32.4	32.4	32.0	32.3	32.8	31.0
Cost of goods (higher)	97.3	97.3	97.2	97.2	97.4	97.4	97.6	97.6	97.5	97.7	98.0	98.2
Cost of labor (higher)	89.0	89.1	88.1	88.1	88.2	87.1	88.5	89.0	87.0	87.6	89.2	89.1
Prices-fees (higher)	83.1	84.9	84.6	83.8	84.4	83.8	84.8	84.9	84.5	84.4	86.6	89.1
1971												
Employment (higher)	51.1	50.8	50.6	50.9	51.7	51.6	52.9	53.2	57.9	53.0	52.3	53.6
Sales volume (higher)	61.0	61.6	61.5	60.4	61.7	61.5	66.7	67.0	66.6	67.2	66.1	67.3
Inventories (higher)	79.6	77.3	72.4	80.0	80.0	80.0	82.9	80.3	81.9	81.2	81.7	80.3
Receivables (higher)	71.3	71.3	71.5	70.8	71.4	70.8	68.6	67.2	69.5	69.6	68.5	69.0
Collections (faster)	34.2	32.8	32.1	33.5	34.9	34.9	35.1	36.7	34.6	34.2	35.3	35.3
Cost of goods (higher)	95.8	92.4	92.9	93.9	93.9	93.1	97.7	97.4	97.5	96.9	96.6	96.5
Cost of labor (higher)	90.4	86.9	87.4	88.4	88.5	87.3	89.4	89.7	87.1	86.7	86.1	86.1
Prices-fees (higher)	82.9	83.3	84.2	84.1	84.3	84.6	84.7	79.8	84.0	81.9	79.7	79.2
1972												
Employment (higher)	52.9	53.2										
Sales volume (higher)	67.9	68.8										
Inventories (higher)	78.1	79.4										
Receivables (higher)	66.8	67.1										
Collections (faster)	36.9	37.4										
Cost of goods (higher)	95.7	96.3										
Cost of labor (higher)	85.6	86.2										
Prices-fees (higher)	60.4	59.4										
Increase comp. fully	26.5	24.8										

SECTION II.—3-MONTH MOVING AVERAGES OF PROPORTIONS IN SECTION I

Survey respondents proportion reporting, compared with last year	January	February	March	April	May	June	July	August	September	October	November	December
1970												
Employment (higher)	53.7	53.3	52.8	52.3	52.2	52.0	52.3	52.4	52.3	52.2	51.8	51.5
Sales Volume (higher)	68.1	67.3	65.6	63.7	61.7	60.7	60.1	60.5	60.1	60.0	59.3	59.5
Inventories[1] (higher)		71.1	72.1	72.9	72.7	72.6	72.7	73.3	73.1	73.4	73.4	75.8
Receivables (higher)	65.7	65.6	64.8	64.2	63.9	64.0	64.3	64.9	65.0	65.3	65.3	67.3
Collections (higher)	35.9	35.1	34.0	33.7	33.2	32.9	32.4	32.3	32.2	32.4	32.3	32.7
Cost of goods (higher)	97.4	97.3	97.2	97.3	97.3	97.5	97.5	97.6	97.6	97.7	98.0	97.3
Cost of labor (higher)	88.8	88.7	88.4	88.1	87.8	87.9	88.2	88.2	87.8	87.9	88.6	89.6
Prices-fees (higher)	84.4	84.2	84.4	84.3	84.0	84.3	84.5	84.7	84.6	85.2	86.7	86.2
1971												
Employment (higher)	51.1	50.8	50.8	51.1	51.4	52.1	52.6	53.0	54.7	54.4	53.0	52.9
Sales Volume (higher)	60.4	61.4	61.2	61.2	61.2	63.3	65.1	66.8	66.9	66.7	66.9	67.1
Inventories[1] (higher)	76.7	78.4	76.6	77.5	80.0	81.0	81.1	81.0	81.3	81.6	81.1	80.0
Receivables (higher)	69.3	71.4	71.2	71.2	71.0	70.3	68.9	68.4	68.8	69.2	69.0	68.1
Collections (higher)	32.7	33.0	32.8	33.5	34.4	35.0	35.6	35.5	35.5	34.7	34.9	35.8
Cost of goods (higher)	95.3	93.7	93.1	93.2	93.6	94.9	96.1	97.5	97.3	97.0	96.7	96.3
Cost of labor (higher)	88.8	88.2	87.6	88.1	88.1	88.4	88.1	88.7	87.8	86.6	86.3	85.9
Prices-fees (higher)	85.1	83.5	83.9	84.2	84.3	84.5	83.0	83.2	81.9	81.9	80.3	73.1
1972												
Employment (higher)	53.2											
Sales Volume (higher)	68.0											
Inventories[1] (higher)	79.2											
Receivables (higher)	67.6											
Collections (higher)	36.5											
Cost of goods (higher)	96.2											
Cost of labor (higher)	86.0											
Prices-fees (higher)	66.3											
Increase comp. fully												

[1] Basis changed from dollar value to units, January 1969, and back to dollar value January 1970.

NATIONAL FEDERATION OF INDEPENDENT UNIONS

By ROGER M. RETTIG, *National President*

Speaking in behalf of the more than 2,000 independent unions in the United States, we are most concerned about the ever-increasing unemployment in this country. In a potential work force of 88,301,000 people, 5,071,000 are unemployed.

Congress and the administration seems greatly concerned about foreign affairs such as China, Russia, Vietnam, and the Near East, and rightly so, but we feel there has been too little concern and too much complacency about this very serious domestic situation—unemployment. We have had the unemployment with us so long that it seems to be accepted as a necessary evil. The fact that 6 percent of our people are unemployed should be one of the primary concerns of Congress. Many reasons are stated as to why this condition exists, but little or no solutions are brought forth. The National Federation of Independent Unions feels that the greatest contributor to the rise of unemployment in this country is due to the increase in imports caused by unfair foreign competition.

We have witnessed the disruptive effects that imports have produced causing major shifts by some industries in search of cheap labor markets abroad, resulting in the closing of plants and increasing the number of unemployed and leading us from a $5 to $7 billion trade surplus 10 years ago to a $2 billion deficit in 1971. In some of the industries employing members of our affiliate unions, we have experienced loss of jobs up to a point of 70 percent, and in some cases, total extinction.

Some of the industries employing members of our unions that have been greatly affected are steel, shoe manufacturing, meat packing, electronics, TV and radio, refrigeration and air conditioning, heavy electrical equipment, electric motors, electric tools, porcelain, tool and die craft, automobile parts, and watch manufacturing.

Let's take a look at the last industry mentioned. In the watch manufacturing; 25 years ago there were 33 companies in the United States making jewel-lever watches. Today, there is one. One company, Bulova, manufactures the only American-made watch and this will be discontinued at the end of 1972. Here is an industry in which for years, son followed father to learn the trade of making precision timing equipment; a skill used not only in making watches, but in precision timing equipment used for defense purposes. This situation does not exist today. There is no reason for a young person to learn the highly skilled trade of making precision timing equipment when the industry itself. in this country, is dead. It seems that every member of Congress would be concerned about the effect of this situation on our defense program.

Another industry that is, for all practical purposes, extinct in the United States, is the radio industry. Statistics show that 96 percent of the radios sold in the United States are imported, and following the same pattern is the TV receiver industry. In this industry, in the first

6 months of 1971, 50 percent of all black and white TV sets, a total of 3,741,000 were imported. Compare this with only 2.4 percent imported in 1962. Imports of black and white sets increased their percentage share of the U.S. market 20 times in the period from 1962 to 1972. One of our affiliate unions, the Independent Radionic Workers of America, a few years ago represented more than 12,000 people in five Zenith plants in Chicago, Ill. Three of these five plants have been closed. The present employment for the remaining two plants amounts to only 3,400. Foreign imports and American owned offshore operations are totally responsible for this decrease in employment.

The Electrical Workers Independent Union has 65 percent of its members on layoff partially due to the fact that U.S. Government power agencies purchase 79 percent of their electrical transformers from England, France, Switzerland, Italy, and Japan.

The shoe industry has really been hurt, and hurt bad. In December 1971 alone—20 million pairs of shoes were imported into this country. For the total year of 1971 260,190,000 pairs of shoes came in from overseas. This shows a 10.4-percent increase over 1970.

How can we allow this situation to continue? I don't have to tell you what this is doing to the American worker's jobs. Italy alone shipped 76,930,000 pairs of shoes into this country in 1971, with free-on-board value of $280,700,000.

Imports in steel have been increasing at a rapid rate. This is an industry that has been promised relief for a long time. The State Department is negotiating with foreign steel producers supposedly to establish a meaningful voluntary limitation on the amount of steel shipped into the United States. The 1968 "voluntary restraint arrangement" died an unmourned death on December 31, 1970.

While these high-level talks are going on, the American steel industry and hundreds of thousands of steelworkers are anxiously awaiting the outcome of these negotiations.

They waited through 1969 when the tonnage was being ignored.

They waited in 1970 when the promise to maintain product mix was ignored.

They waited through 1971, when everything was ignored and our Nation suffered a $2 billion trade deficit.

And, they are still waiting, with no assurance that they will not be led to the sacrificial altar. In excess of 14 million tons was shipped in last year. This accounts for 18 percent of the steel consumption in this country last year. This amount was largely responsible for domestic production falling to its lowest level in 8 years, and the employment in the steel industry falling to the lowest level in a generation.

I have been an officer of the national federation for the past 21 years. I first started coming to Washington in 1951. Since 1956, I have been predicting the ill effects that foreign imports would have on American industry and American workers if some controls and regulations were not established.

Several years ago, I took a group of delegates to a Senator's office during a NFIU legislative conference. We spoke about the increase in imports and the effect on our people. The meeting broke up on this remark from the Senator: "Rettig, if we are going to maintain friendly relations with these foreign countries, some of our industries must go by the wayside."

Since that time many of our industries and our people's jobs have done just that. The standard answer of many Congressmen and Senators a few years ago was, "We must have foreign trade, and the balance of trade is well in our favor." This answer cannot be used in the face of a $2 billion trade deficit.

As Senator Hartke so ably stated on February 16 in the Congressional Record when he was speaking of American companies operating on Mexican soil and Mexican workmen being paid from 22 cents to 55 cents per hour; making products for the exclusive purpose of exporting to the United States, and I quote his words from the record:

> *** * * the result is an ill thought through foreign aid measure in which the American workingman with years of seniority pays with his job and often future. And this catastrophe is being repeated and will continue to be repeated until we face the harsh realities of exported jobs and the failure of national trade policy. I believe that a remedy for these ills is to be found in the Foreign Trade and Investment Act of 1972.**

The National Federation of Independent Unions at its legislative conference on March 7, 1972, unanimously adopted a resolution supporting the Foreign Trade and Investment Act of 1972, S. 2592 and the Burke bill, H.R. 10914.

One of the tragedies of this unemployment situation is not only the loss of jobs, but the loss of the normal increase in jobs and production that would have transpired had foreign imports been limited and restrictive measures taken to control off-shore operations. We must have a guarantee of a steady flow of job opportunities if we are to sustain any degree of economy in this country.

I attended the conference commemorating the 10th anniversary of the enactment of the Manpower Development and Training Act of 1962, on March 16 and 17, 1972, in Washington. I listened to speeches from members of Manpower telling about training the minority groups, the veterans, the youth, and so forth, for jobs. What jobs? We are training a lot of people for jobs that don't exist.

Veterans are returning from overseas to find that the jobs they once held have been shipped overseas. Those veterans who had jobs before going into the military, naturally being young men, held little seniority on the job and upon returning found that their seniority was not sufficient to put them back on their job in plants where 25 to 65 percent of the employees were laid off:

We find it difficult to follow the thinking of some Members of Congress, such as Representative Richard Hanna of California when he made this statement on the floor on February 1, 1972, and I quote:

> I have made the point several times, as have other Members of the House, that a restriction of our foreign trade would damage—not help—our domestic employment picture * * *

How can this statement possibly be true when the record shows that hundreds of thousands of jobs have been lost due to improperly restricted imports? Thank God we have men like Dent, Pucinski, Burke, McIntyre, Hartke, and others who are able to comprehend the seriousness of this situation and are sponsors and cosponsors of proposed legislation beneficial to Amercian industry and the working people of this country.

In this growing country we need an economy that will provide jobs and homes for our rising population. We need Government policies that will encourage international trade on a fair basis, a policy that will not destroy our jobs and our economy.

We petition for such controls and restrictions on imports that will permit our established and economically important industries to pay decent wages and to operate on a sound financial basis to the betterment of all American labor and industry. In the face of our present economic crisis, I cannot conceive that Congress has any alternative but to take immediate action in this direction. Your interest and influence in bringing about the necessary relief will be greatly appreciated by the laboring men and women of this country.

Mr. Chairman and committee members, I have confined my remarks to unemployment as I feel this is the most important problem facing this country at this time; a problem affecting the economic conditions of this country more than any other.

I want to thank you and members of the Joint Economic Committee for inviting me to present the views of the National Federation of Independent Unions on this economic issue.

NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS

The major economic issues facing the Nation this year remain those which have plagued the economy for most of the past 3 years. Problems associated with (1) unemployment, (2) inadequate growth, (3) inflation, and (4) the international posture of the dollar and our trade deficits continue to be the principal concerns of the economy. In addition to the foregoing, which are capable of measurement by empirical observations, could be added the elusive psychological factor of confidence on the part of the general public and business. Uncertainty over the future course of the economy has not been abetted by the devaluation of the dollar, the imposition of price and wage controls, international currency realinements, and the huge back-to-back budget deficits.

If experience and observation have taught observers of the economic scene anything it would have to be that there exists no magic elixir of fiscal and monetary policies which will produce instant correction of fundamental imbalances resulting from the pursuit over a long number of years of policies and programs which finally produced the first U.S. trade deficit in a century and the first devaluation of the dollar in four decades.

The drastic policies adopted last August as part of the new economic program embracing a freeze on prices and wages, nonconvertibility of gold, an import surcharge, and reinstatement of the business investment tax credit properly mirror the depth and pervasiveness of the ills which required treatment and cure. While some of the programs have been subsequently modified, as was expected even at the time of their imposition, it is difficult to be satisfied that all is now under control and that the medicine currently being administered and the serums proposed will provide the answers to all our economic problems.

The foregoing observations are not tendered in a pessimistic vein. They are merely set forth in order that some semblance of patience may not only be observed but practiced with respect to the time period that may be involved in correcting the problems facing the economy. This is not to say that the problems should not be recognized and solutions for them widely sought and fully debated, but merely that all participants in the authorization, formulation, and execution and review of monetary and fiscal policies should be rational and realistic with respect to the time involved in rectifying the areas of economic concern which currently prevail. After all, the capture of 15 percent of the domestic auto market by foreign manufacturers, the dominance of foreign-produced radios in our retail markets, the competition supplied to domestic producers of textiles and steel by offshore concerns and the serious deterioration of the dollar, did not occur overnight, and the restoration of American competitiveness in these as well as other areas will take some time.

The National League reluctantly endorsed the drastic actions taken last August in the hope that such programs would materially assist in breaking the inflation psychosis which had gripped the Nation as well as restore some semblance of order and trade fostering continuity in international financial and trade marts. With respect to the domestic controls placed upon the domestic economy, we recognized that they should be operative over only a short period of time and that they should be complemented by other fiscal policies as well as monetary policies which would contribute to an orderly and inflation-free expansion.

We have a deep concern that the planned back-to-back huge Federal deficits of some $64 billion for fiscal 1972 and 1973 will rekindle inflation fears domestically as well as jeopardize the currency realinements worked out last December in the Smithsonian meetings. While interest rates on short-term market instruments have remained very low in the opening months of this year, longer maturity debt investments (including those of the Federal Government and its agencies as well as mortgages) have continued to command a historically high rate of interest.

To a substantial degree the resistance of long term interest rates to marked decreases in yields can be attributable to the fact that all borrowing sectors—Treasury, Federal agencies, State and municipal governments, and corporations—have continued in 1972 the practice instituted last year of borrowing long and funding as much of current debt as was possible. Recent Treasury announcements that the bulk of its current borrowings would be in the short term bill sector, a decision possibly connected with the relationship of domestic short term rates and those available abroad, do give added recognition to the fact that debt funding cannot be pursued at all times without market consequences on the level of interest rates.

While the preponderance of public debt offerings, both private and governmental for the past 15 months have been in the longer maturity sectors this supply of longer term issues has not been the only contributor to the relatively high interest rates associated with longer term borrowings. Investors generally, whether individual or institutional, whether amateur or profesional, apparently are still reluctant to invest their funds for from 10 to 20 years and longer without receiving some protection from capital and income erosion in the nature of an inflation premium. Such protection, of course, is expressed in new issues in the form of current interest coupons, and in older issues generally as discounts to par value depending upon the contracted rate of interest applicable when the debt was issued. In essence, debt investors want a "real rate of return"—something more than the rate of inflation. For longer term investments the nominal interest rate historically should produce a "real interest rate return" of from 3 to 4 percent above the current or projected rate of price inflation. Long term interest rates cannot be "wished" lower. They will decline if inflation is moderated and prudent fiscal and monetary policies are pursued.

The league earnestly hopes that the incomes policy adopted by the administration will prove successful in moderating the price inflation that the country has experienced since 1965. The short period of 6 months from last August is not sufficient to form a real judgment as to whether the measures adopted and subsequently revised will achieve the desired objectives. We believe that when conditions change, solutions necessary to successfully deal with such changing scenes may well require innovative approaches. At the same time we well recognize that policies, which in the past have led to price and value distortions, may well produce similar results again even though some of the underlying conditions have changed substantially. Therefore, we earnestly request that constant monitoring with respect to both fiscal and monetary policies be the order of the day so that viable policies and programs in both areas can be pursued without losing the benefits of the sacrifices made by the American public in the past 3 years.

Your chairman in his invitation to the league to comment on national economic issues specifically invited the league's comments with respect to areas of special concern to the National League. As all the members of the committee are well aware, the main concern of the National League of Insured Savings Associations is the promotion of thrift and home financing. Over the years this league has repeatedly requested of this committee and the Congress action on a series of legislative recommendations designed to make our member institutions more viable and responsive contributors to the volume of mortgage funds required to avoid the volatile swings in mortgage credit availability and housing production which characterized the last half of the decade of the 1960's.

As we stated to this committee last year and in 1970:

> The basic thrust of these recommendations has been twofold: (1) To permit savings and loan associations to have access to funds previously denied them and still available only to discretionary lenders which have shown a consistent bias against, or disorientation toward, housing credit; and (2) enable housing, as an industry, to compete for a fair share of market funds in all periods, especially periods of fiscal and monetary restraint.

Without restating all the specific prior recommendations with respect to augmenting savings and loan associations' ability to compete for funds which could contribute to stabilization of residential mortgage credit flows, we would ask the indulgence of this committee in again bringing to its attention the more important and timely of our prior recommendations which have been currently ratified by action of our legislative conference held the fore part of this month in Washington.

We want to be able to compete for pension funds both under the Keough Act and other programs so that we may have a better financial symmetry of our assets and liabilities. In other words we would like to be able to better match the term of our mortgage investments with the likely term of our savings accounts.

Secondly, and just as important, we have repeatedly asked for an expansion of our authority to invest in consumer loans in order to improve our liquidity and thus improve our ability to serve the mortgage market during periods of widely fluctuating market interest rates.

On one end of the spectrum we desire access to those funds which by their nature are compatible with long term mortgage investments, and on the other we have to have greater freedom to invest our assets in short term consumer loans which will provide liquidity and flexibility to our associations in periods of broadly changing market rates.

The league wishes to thank the committee for its concern with the volatility of mortgage credit by its referral to the Federal Reserve

Board for the latter's recommendations with respect to solutions for the unnecessarily wide fluctuations in mortgage credit availability during the past several years. We are gratified that the Board's recommendations, recently submitted to this committee, have recognized the need for rectifying the massive impacts visited upon both the thrift industry and housing producers as the result of market actions in recent years.

We are especially pleased that the Board's recommendations to this committee included specific endorsement of the necessity for increasing the ability of savings and loan associations to make consumer loans. The Federal Reserve Board specifically noted that "the asymmetry of the assets and liabilities of the nonbank financial intermediaries needs to be carefully noted. These intermediaries provide highly liquid assets for individuals to hold—assets that are close substitutes for short term market securities on which yields are highly variable. But these intermediaries specialize in mortgage lending, and thus pile up assets with a long average life." These observations validate similar observations made by a wide range of disinterested observers of the mortgage credit scene; namely, that the principal providers of mortgage credit must be allowed investment opportunities which will permit a greater portion of their assets to be self-liquidating over a much shorter period of time (as is the case with consumer loans) in order that the institutions can cope better with changing market conditions.

We would be less than frank with this committee if we did not forth-rightly state that the Congress would be more likely to make these adjustments during a period when mortgage credit was ample. Such is the case at the present time. Net savings flows into both savings institutions and banks have been either at record, or extremely high, levels in the first months of this year continuing the record savings gains of 1971. There is every indication that credit will be available to support from 2 million to 2,300,000 housing unit starts during this calendar year—an all time record. Moreover, new supplementary sources of housing credit have recently become available via the secondary market operations in the conventional loan field by both the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

As the council stated on page 34 of this year's report:

> * * * housing was the strongest sector of the economy in 1971. Private housing starts totaled more than 2 million uits, the largest number recorded for any year. Residential outlays rose almost 50 percent, or $14 billion, from the third quarter of 1970 to the third quarter of 1971. This was one-fifth the rise in total GNP.

In its outlook for residential construction for the current year with which we agree, the council on page 103 of its 1972 report further states:

> The total number of housing starts in 1972 is expected to be 2.2 million units. Within this total, single family units are expected to be much stronger than starts of multifamily units. This shift from multifamily to single family units will strengthen total residential outlays in 1972, which are expected to exceed 1971 by 15 percent or more.

Thus, the conditions are ideal for the Congress to enact legislation which over the long term will facilitate the provision of residential mortgage credit absent the feast or famine conditions which existed during the last half of the previous decade. It is the considered judgment of this league that this committee and the Congress can make its greatest contribution to the stabilization of housing credit in future years by the early enactment of broadening authority for savings and loan associations to compete for more long-term savings on the one hand, and simultaneously to adjust its asset composition to cope with the variations and fluctuations in market credit conditions which have depressed the housing market so massively in recent years.

UNITED MINE WORKERS OF AMERICA

By W. A. BOYLE, *President*

On behalf of America's active and retired coal miners and all the residents of the communities in which they live, I wish to express my appreciation for the opportunity to present testimony on the state of the U.S. economy in 1972.

In order to conserve the time of the committee and to preclude repetition of testimony already given, we will confine our statement to a brief discussion of several subjects of particular concern to the officers and members of the United Mine Workers of America.

NATIONAL ENERGY POLICY

The establishment of a national energy policy is a preeminent national priority. Energy policy should be aimed toward the continued development of America's indigenous energy resources. Such development should take place within a framework of effective pollution abatement programs. Energy policy should be considered against a background of:

(1) The growing scarcity of certain types of fuels, especially petroleum and natural gas.

(2) The increasing and alarming dependence of U.S. consumers upon foreign energy resources, particularly from the Mideast or North Africa.

(3) The growing debate between energy producers on one hand and environmentalists on the other.

There has been much discussion of the need for a national energy policy in recent years. Several committees of the Congress, groups within the executive branch, and many people in private industry are engaged in intensive energy studies. Hopefully, these studies will culminate in the development and implementation of a rational energy policy, a policy which will be shaped with the combined efforts of government, labor, and industry.

PRODUCTIVITY

America must pay increasingly close attention to the question of productivity. The outstanding record of the United States in the field of productivity has largely been because of a combination of two factors. First, was the natural work orientation of our labor force, a work orientation caused in part by pressing economic requirements. Second, America has always utilized the latest available technology, which made possible great strides in productivity because of the substitution of mechanical or electrical energy for manpower.

However, it is obvious that the United States has entered a new era in the social, political, and economic climate affecting productivity.

Economic restraints upon the work force are not as great as they were in earlier years. America's workers are not faced with the grim alternatives to work as were their fathers and grandfathers. Many foreign nations have technology equal to or superior to our own. The technological gap which has always been a benefit to the United States is no longer as wide as it once was.

Even though we recognize these changes we do not suggest that the United States need anticipate a slowdown of our historic productivity trend. To the contrary, if America accepts the premise that the decades of the 1970's and the 1980's are to be the "Age of Man," the potential productivity increases are limitless. However, American industry and government must provide proper motivation for the worker so that he comes to the workplace with the desire and the willingness to substantially improve his work performance.

The United Mine Workers of America and the Bituminous Coal Operators' Association have recognized the problem of productivity in this new age. In the national bituminous coal wage agreement of 1971 there is established a training program which will permit America's coal miners to advance to higher paying jobs on an orderly basis. At the same time, the collective bargaining agreement provides for a continual upgrading of the coal industry's work force in order to insure that both the employee and the industry can benefit from the expansion of the job horizon for the worker. We believe that this step is of immeasurable benefit to the membership of the UMWA, to the coal industry, and to the Nation.

Multinational Corporations

The existence of multinational corporations is of great concern to the officers and members of the United Mine Workers of America. Much of the ownership of the coal industry today rests in the hands of multinational corporations with vast interests in oil, uranium, copper, and other metals. Such corporations pose problems not only of an economic nature, but also with great social and political ramifications. The multinational operates without effective control, because its scope extends beyond international frontiers. Multinational corporations can, and do, shift operations from country to country in order to best serve their particular need. While such activities may be in the interest of the corporation, they are often at variance with the best interests of the citizens of the various countries involved.

For example, the United Mine Workers of America is gravely concerned that many of the major owners of coal mines are in a position to shift investment from coal mines in the United States to oil wells in the Middle East. We are concerned because the coal miner must not only cope with the normal forces of the marketplace, but he is also faced with job dislocation because of decisions which serve the expediency of the multinational corporations.

Unemployment

Unemployment continues at an intolerable level. Joblessness has even come to the white collar worker who has long been free from enforced idleness.

There have been several forecasts which suggest that the unemployment rate will drop in the next several months. Unfortunately, there are indications that these forecasts are in error and that unemployment, in fact, will continue to be a pressing national problem for the immediate future.

The present unemployment level is inconsistent with the Full Employment Act of 1946, and entirely out of keeping with America's cherished tradition of individual human dignity. It is impossible, within a statement of this scope, to outline all of the things that should be done to reduce unemployment, except to suggest that the reduction of unemployment is a primary national priority.

International Commerce

America's relative position in relation to the other economies of the world has deteriorated significantly in the last decade. During the period since 1960, America's share of the world's gross national product has declined steadily.

This decline and the increasing evidence that America can no longer with impunity ignore basic international realities, have brought about an atmosphere in which the entire foreign trade concept of the United States is being reexamined. America has traditionally followed a liberal international trade policy. Such liberality has in the past benefited America. However, in the face of increasingly restrictive barriers against American goods abroad, America has long since passed the point where its continued liberality can be tolerated further. It is clearly evident that our entire foreign trade position must be reexamined with a view to establishing a policy which is, first of all, in the best interests of the people of the United States.

The economic picture is not bright. Ahead are challenges to every segment of the American economy and to the economic security of the American people. The challenges are complex and will require all of America's resources to meet them. However, the fundamental position of the American economy remains strong and dynamic. If we are able to harness that basic strength, the challenges can be met.

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