595

Union Calendar No. 27

93d Congress, 1st Session - - - - - - House Report No. 93–90

THE 1973 JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1973 ECONOMIC REPORT OF THE PRESIDENT

TOGETHER WITH

STATEMENT OF COMMITTEE AGREEMENT, MINORITY, AND SUPPLEMENTARY VIEWS

MARCH 26, 1973.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE

★ 92–659 O WASHINGTON : 1973

For sale by the Superintendent of Documents
U.S. Government Printing Office, Washington, D.C. 20402
Price 80 cents domestic postpaid or 55 cents GPO Bookstore
Stock Number 5271–00338

JOINT ECONOMIC COMMITTEE

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

WRIGHT PATMAN, Texas, *Chairman*

WILLIAM PROXMIRE, Wisconsin, *Vice Chairman*

HOUSE OF REPRESENTATIVES

RICHARD BOLLING, Missouri
HENRY S. REUSS, Wisconsin
MARTHA W. GRIFFITHS, Michigan
WILLIAM S. MOORHEAD, Pennsylvania
HUGH L. CAREY, New York
WILLIAM B. WIDNALL, New Jersey
BARBER B. CONABLE, JR., New York
CLARENCE J. BROWN, Ohio
BEN B. BLACKBURN, Georgia

SENATE

JOHN SPARKMAN, Alabama
J. W. FULBRIGHT, Arkansas
ABRAHAM RIBICOFF, Connecticut
HUBERT H. HUMPHREY, Minnesota
LLOYD M. BENTSEN, JR., Texas
JACOB K. JAVITS, New York
CHARLES H. PERCY, Illinois
JAMES B. PEARSON, Kansas
RICHARD S. SCHWEIKER, Pennsylvania

JOHN R. STARK, *Executive Director*
LOUGHLIN F. MCHUGH, *Senior Economist*

ECONOMISTS

WILLIAM A. COX
JOHN R. KARLIK
LUCY A. FALCONE
RICHARD F. KAUFMAN
COURTENAY M. SLATER
JERRY J. JASINOWSKI
L. DOUGLAS LEE

MINORITY

LESLIE J. BANDER
GEORGE D. KRUMBHAAR, Jr. (Counsel)
WALTER B. LAESSIG (Counsel)

CONTENTS

Union Calendar No. 27

93D CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 93–90

REPORT ON THE JANUARY 1973 ECONOMIC REPORT OF THE PRESIDENT

MARCH 26, 1973.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

---

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

REPORT

TOGETHER WITH

STATEMENT OF COMMITTEE AGREEMENT, MINORITY, AND SUPPLEMENTARY VIEWS

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

This report is submitted in accordance with the requirement of the Employment Act of 1946 that the Joint Economic Committee file a report each year with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the economic report. This report is to serve as a guide to the several committees of Congress dealing with legislation relating to economic issues.

NOTE.—Senator Sparkman states: "I am in agreement with the general emphasis of this Report. However, because of my duties as Chairman of the Committee on Banking, Housing and Urban Affairs, it has been impossible for me to participate fully in the hearings and deliberations underlying this Report. I do not believe it would be appropriate for me to take a position on all of the recommendations contained therein."

JOINT VIEWS OF THE MAJORITY AND MINORITY MEMBERS OF THE JOINT ECONOMIC COMMITTEE ON INTERNATIONAL ECONOMIC POLICY [1]

The United States faces a serious conjunction of external economic problems. Our trade balance is in deficit by several billion dollars annually, we are spending more than $3 billion abroad each year as the net external cost of military commitments, and capital export controls hamper the ability of Americans to lend or invest overseas.[2] The international monetary adjustment mechanism has not functioned effectively to eliminate U.S. payments deficits. Barriers to trade have tended to proliferate. Proposals to withdraw U.S. troops from Europe arouse apprehensions among our allies but have failed to elicit a multilateral redistribution of defense costs satisfactory to us. The political resolve has not yet been demonstrated to (a) reform the international monetary system, (b) continue removing trade barriers, and (c) eliminate contributions to mutual defense as a factor creating either a deficit or a surplus in any nation's balance of payments.

The President has announced his intention to request from the Congress in the next few weeks statutory authority to negotiate with other countries the mutual reduction of all types of barriers to trade and the formulation of international criteria for protecting and aiding producers injured by severe import competition. This initiative on the part of the Executive is welcome. A display of U.S. leadership in resolving commercial issues outstanding among nations is overdue. The Congress will give the President's request prompt consideration.

Recently the Subcommittee on International Economics issued a report, entitled "A New Initiative to Liberalize International Trade," urging that industrial nations abolish all permanent statutory tariff barriers over the next decade or two, that nontariff impediments to trade be removed through multilateral negotiations, and that the United States take the lead in formulating a set of international criteria to determine when a country may legitimately restrict imports to protect domestic producers from injury, how long such restrictions should remain in effect, and the extent and type of adjustment assistance that should accompany import restrictions. Hopefully the trade bill the President sends to the Congress will be directed to the achievement of goals such as these.

Despite the announcement on February 12 of U.S. intentions to devalue the dollar another 10 percent, the second reduction in the nominal gold value of the dollar in 14 months, foreign exchange markets have remained turbulent and speculation against the dollar

---

[1] Representative Blackburn does not wish to be associated with the Joint Views on International Economic Policy and has filed Additional Views on this subject.

[2] Senator Proxmire states: "It is important that the net external cost of our military spending, measured at $3 billion a year, not be confused with the total cost to the U.S. Government of our overseas military activities, which reliable experts estimate to be in excess of $30 billion annually."

has continued. Only an indefinite period of floating, which would deprive speculators of the no-loss safeguard provided by official commitments to defend particular currency values, seems capable of establishing stable popular attitudes about the relative worth of the world's major currencies.

Last year the Subcommittee on International Exchange and Payments recommended that "the swap network among central banks should be used to finance only temporary payments outflows that can be expected to reverse themselves in a matter of months." This statement underlined a commitment obtained in hearings from Federal Reserve Board Chairman Burns, and seconded by Under Secretary of the Treasury Volcker, that swap borrowings from foreign monetary authorities "will not be made for the purpose of providing medium- or longer-term financing of the U.S. payments deficit. Nor will they be used as a substitute for needed adjustments in basic economic policies." Nevertheless, in the weeks immediately preceding the February 12 announcement of a second intended dollar devaluation, U.S. monetary authorities used over $300 million worth of German marks to support the exchange rate structure that was soon to be abandoned.

After extensive, careful preparations—but at the earliest possible date—the President should meet with the chief political leaders of Canada, Japan, and Western Europe to assure that effective resolution of the above series of problems will be forthcoming.[3] The economic outcome of such a conference should be the following:

(1) A decision to intensify the negotiations of the Committee of Twenty and to persist until a monetary reform replacing Bretton Woods is drafted that provides—

(*a*) for prompt adjustment of exchange rates to eliminate payments disequilibria and

(*b*) for making special drawing rights the chief international reserve asset,

(2) A reaffirmation of the most-favored-nation principle of extending tariff reductions and an understanding that trade negotiations will lead—

(*a*) to the elimination of permanent statutory tariffs on manufactured products during the next ten to twenty years,

(*b*) to the mutual reduction of nontariff barriers to trade, and

(*c*) to a reform of agricultural support mechanisms that stresses farm incomes rather than prices so as to expand trade and promote efficient international specialization,

(3) A firm agreement to compensate the United States fully, immediately, and in cash for our net overseas expenditures which contribute to the mutual defense of the free world.

---

[3] Senator Proxmire states: "I don't believe that Congressional Committees should specify that the President meet with other heads of State. Decisions as to how to carry out negotiations of this type should be a Presidential prerogative."

Report of the
Joint Economic Committee
on the
January 1973
Economic Report of the President

The President's Economic Report and subsequent Administration statements contain no indication that the Administration is coping effectively with inflation. The President continues to predict that the overall rate of inflation will be 2½ percent by year end, but knowledgeable observers increasingly feel this target cannot possibly be achieved in the absence of a major new initiative to strengthen the price-wage controls.

Nowhere in the President's Economic Report is there any program for achieving the 4 percent unemployment rate that would reflect a minimal step toward attainment of the goals of the Employment Act of 1946. There is no indication that the Administration even supports this goal. The drastic cuts which the Administration has recommended in employment and training programs will seriously hamper achievement of this employment target.

In other respects, also, the President's Budget is poorly designed to promote economic growth and public well-being. Despite the cease-fire in Vietnam, substantial increases in military expenditures are recommended at the expense of the social sector. With the exception of social security and other trust fund expenditures financed by contributions from workers and their employers, social and economic development programs will receive less than 25 percent of the Federal budget. Considering the desperate needs of our urban centers, the worsening state of our physical environment, the inadequacies of health care for the American people, and the impoverished condition of 25 million people in this wealthiest of nations, the share of our budget allocated to solving these problems is appallingly inadequate.

The Administration's economic outlook foresees a balanced full-employment budget in fiscal 1974. Because the economy will be at less than full employment, a shortfall in revenues is expected which will result in an actual deficit of $13 billion. If it were not for the surplus in the health and income security trust funds, the deficit would be a much larger $25 billion. This fact underscores the inordinate dependence on social security contributions, which fall most heavily on low and moderate income groups. It demonstrates a badly imbalanced revenue program, particularly in face of the many loopholes for the rich that riddle our tax laws.

The Administration's economic program offers no constructive agenda for the Congress or the American people. In addition to the defects mentioned above, it fails to recognize the need to increase supplies of low and middle income housing and to provide adequate supplies of mortgage financing at reasonable rates, or the need to accommodate the borrowing requirements of small business.

It offers no recommendations for reducing the great inequities in our tax system.

It offers no proposals for reforming the costly and inequitable welfare system, and it cuts back sharply on programs designed to alleviate poverty.

It fails to cope with structural rigidities such as import quotas, monopoly restraints, bad regulatory practices, and poorly managed government procurement. Indeed, it does nothing to initiate the economic reforms which would strengthen competition, make labor markets more efficient, and thereby make possible over time the achievement of genuinely full employment without inflation.

These and related questions of domestic economic policy are discussed in the following pages. Our views on international trade and finance are contained in the joint statement of the majority and minority members of the Committee.

The Economic Outlook

What will happen in 1973 will be determined largely by Federal economic policies. If these policies are properly and skillfully employed, the economy can be guided on a path of steady growth in real output and reduction in unemployment, the rate of inflation can be reduced, and a good start can be made on the correction of tax inequities and other badly needed economic reforms.

The Administration's policy recommendations obviously are shaped by its perception of the present situation and prospect. The Annual Report of the Council of Economic Advisers makes repeated reference to the achievement of a "balanced" economy in 1972 and to the expectation of continuing "balance" in 1973. The facts do not entirely support this conclusion that the economic expansion is and will continue to be well balanced.

Developments in 1972

In assessing the economic prospects for 1973, it is important to understand what transpired in 1972. Both money and real GNP expanded rapidly, as was to be expected in an economy which had been repressed for two years, with excessive unemployment and underutilization of other productive resources. Total real output in the economy rose by 6½ percent, in contrast to an annual average growth of only slightly over 1 percent from 1969 to 1971. Unemployment was reduced somewhat, but by year end there were still 4½ million unemployed, over 2 million working only part time due to lack of full-time job opportunities, and 750 thousand discouraged workers who had given up hope of finding a job. The manufacturing sector was still operating at less than 80 percent of its capacity. Price increases moderated temporarily in mid-1972, but by year end there were disturbing signs of increasing inflationary pressures. Price developments are reviewed more fully in Chapter II.

The contributions of the major components to the 1972 advance in GNP were uneven. Cyclically sensitive sectors expanded at well above the rate of increase in total output. Compared with a gain of 6½ percent in total real GNP from 1971 to 1972, real demand for durable consumer goods rose by 12 percent; fixed business investment by 10 percent; and residential structures by more than 20 percent. These developments persisted through most of 1972. As we entered 1973, the economy was in a fairly advanced stage of cyclical expansion, yet a large volume of labor and capital resources remained idle.

Prospect for 1973

With the economy in a cyclical upswing at the end of 1972, almost all public and private forecasts point to a continuing upsurge through most of 1973. This Committee sees no reason to depart from the consensus judgment. The momentum already present suggests a rise in money GNP of about 10 percent for 1973, with real output increasing somewhat less than the 6¾ percent predicted by the Administration and the GNP deflator rising at an unsatisfactory rate well in excess of the 3 percent predicted by the Administration. Even this rise in real GNP might not bring the unemployment rate by year end down to the 4½ percent predicted in the Council's Report. If the pattern of the last few months continues, employment will rise by about 2 million, but the number of civilians looking for work will grow by a similarly large amount, leaving unemployment little changed.

Looking at the composition of demand in 1973, cyclically unstable elements continue to dominate the scene, led by the still ebullient demands of business for plant and equipment, and fostered by the steep upward trend in prices. Assuming no strongly repressive economic policies, housing outlays will continue high for 1973 as a whole, although it can hardly be expected that new housing starts will remain at the record levels currently being realized. The demand for consumer durables, fueled by the need to equip the new housing presently under construction, should remain strong in 1973.

The other major category of private demand dominated by cyclical forces is business investment in inventories. Inventory investment rose sharply during 1972, and a further increase is expected for 1973 as a whole. Just what the pattern may be during the year, however, is much more uncertain. Inventories are currently about in line with the level of operations, and if output expands in line with the consensus forecast, further substantial increases in inventories can be expected and would not be a cause for concern. Inventory investment, however, is extremely sensitive to business expectations about inflation. Excessive inventory investment based on expectations of increasing inflation could become a destabilizing element during the next year.

Policy needs

As stated above, skilled management of the economy will be required in the next 12 months to keep the recovery going, to avoid serious imbalances among sectors of the economy, and to lower the rate of inflation. Fiscal, monetary, and price-incomes policies must be carefully directed and well coordinated. Current policies in each of these three areas give us cause for concern, and this concern was shared by the private experts who testified before this Committee at our Annual Hearings.

The relaxation of price and wage controls implied by the move to Phase III appears to have been a totally inappropriate step. Given the continued widespread rise in wholesale industrial prices, the recent dramatic increases in grain and livestock prices, the inevitable inflationary effect of the devaluation, and the large number of wage negotiations coming up, the prospect for a continued high rate of price and wage increase throughout 1973 appears large. Direct policies to deal with this prospect are needed. A special danger created by the absence of such policies is that a large share of the burden of fighting inflation will be left to monetary policy.

Already there is mounting evidence that the monetary authority is moving to a policy of increased stringency. The Chairman of the

Federal Reserve Board testified that short-term interest rates have been rising sharply and the Board would not adopt policies to reverse this trend. Indeed, he implied that long-term rates would also rise, while expressing the *hope* that this rise will not be "sharp."

As we discuss in Chapter II, we support a move to a balanced full employment budget in fiscal 1974. In conjunction with the anticipated surplus in the State and local government sector, this will mean that fiscal policy will have a restraining impact on the economy. Our budget recommendation is based on the assumption that monetary policy will continue to accommodate expansion. Any abrupt move toward overly restrictive monetary policy could have disastrous effects on the growth of real output and would require a subsequent move toward more stimulative fiscal policy. Thus, the maintenance of healthy economic growth and the achievement of balance among policy instruments depend in a crucial way on a firm and effective price-wage policy and a responsibly accommodative monetary policy.

A summary of our major policy recommendations follows.

Summary of Major Recommendations

Employment Goals

A reduction in unemployment to no more than 4 percent of the civilian labor force remains an appropriate *interim* target. This goal can and should be achieved within the next 12 months.

An unemployment rate no higher than 3 percent should continue to be our longer-run objective.

Fiscal Policy

Congress should enact a firm budget ceiling for fiscal 1974, and it should establish procedures both for conforming to the ceiling and for reviewing and revising the ceiling if economic conditions depart from present expectations.

Federal tax and expenditure policy in fiscal 1974 should be designed to produce an approximate balance between full employment receipts and full employment expenditures. Given the revenue potential of the existing tax system, this means that outlays on a unified budget basis must be held at or close to $268 billion.

To meet fiscal policy requirements while at the same time financing our most urgent public needs, Congress should make major reallocations within the Administration's proposed expenditure total. A balanced growth of output can be fostered by reducing the tax incentives to business investment through repeal of the Asset Depreciation Range (ADR) and reduction or elimination of the investment tax credit.[1] [2] [3]

In reforming its procedures for making budgetary decisions, Congress should provide that formal action be taken annually establishing

[1] Senator Proxmire states: "The investment tax credit should be retained at its present rate. It is one of the few tax provisions which effectively encourages plant modernization and productivity gains."

[2] Senator Humphrey states: "I favor reduction, selective use, or elimination of the investment tax credit. Selective use to promote environmental improvement, rural development, or job opportunities in depressed areas could make the investment tax credit a valuable policy tool."

[3] See supplementary views of Representative Carey.

an expenditure total and accompanying tax policy designed to promote the national goals of maximum employment, production and purchasing power. This formal action should be based on full review of current and anticipated economic conditions and policies. The Joint Economic Committee, which has long had this responsibility under the Employment Act, should continue to conduct an annual review of the economic situation and prospect and provide the Congress early each year with a recommendation on the required budget surplus or deficit.

Monetary Policy and the Federal Reserve

The monetary authorities should not permit interest rates to rise above present levels. If possible, interest rates should be reduced. Monetary expansion should be adequate to support growth of real output during 1973 at the 6½ to 7 percent rate needed if unemployment is to be reduced to 4 percent within the next 12 months.[4] [5]

The Administration and the monetary authorities should move at once to establish a stand-by credit allocation system, including guidelines for the banking community to assure that home buyers, local governments and small business are provided adequate access to credit in any period of tight money. The Federal Reserve should sharply step up its purchases of securities of State and local governments and of mortgages and, in its discount policy, should show due regard for the credit needs of small business.

Congress should create a National Development Bank to provide adequate funds at reasonable rates of interest for all priority areas of the economy which cannot obtain funds through the usual lending channels.[6]

To improve and modernize the central banking system, Congress should enact legislation which would:

- Vest open market operations in the Federal Reserve Board and eliminate the Open Market Committee. This would serve the purpose of maintaining the monetary powers vested in the Congress by the Constitution in a body that is exclusively public rather than a mixed committee like the Open Market Committee.
- Require the Federal Reserve to pay into the Treasury all of its revenues, to come before the Congress for appropriations as other agencies do, and provide for audit of the Board and regional bank accounts by the Comptroller General. These provisions are designed to insure public control.

---

[4] Senator Proxmire states: "Policy should aim at holding the cost of borrowing for State and local governments, home buyers, consumers, and small businesses at or below present levels. Other interest rates should be allowed to find their competitive level."

[5] Representative Reuss states: "I do not concur with this recommendation. The Federal Reserve should primarily focus its attention on the proper growth in the money supply. It may be possible for the Federal Reserve to counteract inflationary actions of the Administration—actions which promote higher interest rates."

[6] Representative Reuss states: "I do not concur with this recommendation. A National Development Bank such as here recommended could readily become the vehicle for large-scale government bail-outs of mismanaged enterprises."

- Retire existing Federal Reserve stock, thereby eliminating the spurious notion that the member banks own the Federal Reserve System.

Price and Incomes Policy

Stricter and more formal price and wage controls over large firms and major unions are needed during the coming year. Congress should incorporate legislative requirements for a more formal control program for the next 12 months into the renewal of the Economic Stabilization Act.

The following specific elements should be included in the control program:

- The guidelines for price increases should be tightened to permit only direct costs already incurred to be passed through into price increases. In addition, the costs of that part of any wage settlement which exceeds the wage guideline should be excluded from this direct cost estimate.
- The 5½ percent wage standard is appropriate for 1973 if it is amended to provide for escalator clauses insuring workers of additional wage increases to cover a substantial fraction of consumer price increases in excess of the 2½ percent target. The Administration should adopt either this or some other clear and equitable standard.
- Advance public notice of all significant price increases by firms with sales in excess of $250 million per year and of major wage settlements which exceed the wage guideline should be required.
- Public hearings should be held and advance approval required for proposed price increases which would increase a firm's annual sales revenue by more than a specified amount (say $50 million). When such public hearings are required, the applicant firm should be required to make publicly available sufficient data on costs, profits, and productivity to justify the requested increase.
- An appropriate Committee of Congress should hold oversight hearings on the control program at least once every three months.

Employment and Training Programs

Funding for the emergency public employment program should be continued, and the program should remain in effect until the national rate of unemployment reaches 4 percent. While the emergency public employment program is still in operation Congress should develop a permanent approach to public employment as part of an overall training and job creation program.

The proposed cutbacks in job training programs in the 1974 budget are poorly timed. Those programs which show the largest benefits in relation to costs have been cut back most sharply. At the very minimum, funding for training programs at levels prevailing in the 1973 budget should be continued. Congress should re-examine and reform the Work Incentive Program. Additional programs to deal more effectively with the particular problems of women, young people, and minority groups should be developed.

92-659 O - 73 - 2

Economic Status of Women

Congress should examine the operations of the Equal Employment Opportunity Commission to determine whether additional staff are needed to reduce the backlog of complaints. Congress should correct through legislation the inequitable tax treatment of working married couples and the discriminatory provisions against women with regard to Social Security and military benefits and credit availability.

Structural Reform

While we support the belated moves to increase agricultural production and exports, earlier action could have eased the increase in consumer prices that now threatens to upset the present economic recovery. Further actions to expand supply should be taken.[7]

Oil import quotas should be abolished immediately.

The Committee is concerned by evidence that regulatory practices, particularly in the transportation field, are quite costly to the consumer and possibly are no longer justifiable. We suggest a careful evaluation of the need for reforms in this area.

Enforcement of anti-trust violations must be stiffened.

The additional stockpile disposals recently proposed by the President should be promptly reviewed by Congress and sales to counter current inflationary pressures should be approved to the maximum extent consistent with national security requirements.

Tax Reform

We urge Congress, after completing a careful re-examination of the tax code, to enact revenue-raising tax reform by eliminating or revising the following provisions in the individual and corporate income tax system: corporate and individual capital gains, Asset Depreciation Range, investment tax credit, mineral depletion allowance, expensing of exploration and development costs, excess depreciation on buildings, and foreign tax preferences. To the extent that these and other types of preference income continue to escape taxation, the minimum income tax should be made more effective by expanding the tax base, reducing the $30,000 exemption and eliminating the deduction for taxes paid on regular income. The Federal estate and gift taxes should also be consolidated and capital gains should be fully taxed at death. A Federally supported alternative to the tax exempt bond as a means of State and local finance should be established.[8]

Spending Reform

Expenditures can be significantly reduced in areas the Administration has failed to cut such as defense and foreign military aid. Funds should be restored to meet pressing domestic needs for housing, health, manpower and anti-poverty programs.

---

[7] Senator Humphrey states: "Changes in agricultural policy must not expose farmers to risks that farm prices will fall below the level necessary to provide the farmer with a decent income and a fair return on his investment."

[8] Senator Bentsen states: "The House Ways and Means Committee is currently holding hearings on each of the items mentioned in this recommendation and I reserve judgment until the Senate Finance Committee considers these matters later this year."

All major changes in spending programs should be undertaken in full consultation with the Congress. Impoundments and administrative reprogramming which destroy the legislative mandates of Congress should not be tolerated.

The Administration should supply adequate economic analyses in support of proposed program changes.

Congress should increase its professional staff for analyzing the budget.

Welfare Reform

Congress and the Administration should direct their attention toward the elimination of duplication, inconsistencies and inequities in the present welfare programs, consolidation of some programs, and elimination of in-kind programs which can be converted to cash assistance. Congress should develop a mechanism for overview of all income support programs, including a systematic review of the relationship of any proposed new legislation to existing transfer programs. Our objective should be the development of a comprehensive Federal income support program which protects work incentives, and provides assistance needed to reach an acceptable minimum standard of living for all needy segments of the population—the unemployed, the unemployable and the working poor.

Revenue Sharing

The formula for distributing general revenue sharing funds among communities does not give sufficient priority to the criterion of need, and this deficiency should be corrected. Congress should monitor the results of general revenue sharing very closely during its first year and should delay any enactment of proposed special revenue sharing until experience with general revenue sharing is collected and analyzed. In the meantime, funding of the categorical programs involved should be continued at levels Congress determines to be appropriate. We are fundamentally skeptical that the Federal Government should relinquish all responsibility in the important fields for which special revenue sharing is proposed.

Defense Spending

In conjunction with any ceiling it may establish on total spending, Congress should also place a ceiling on spending for defense and national security. The ceiling for fiscal year 1974 defense spending should be no higher than total actual outlays for defense in fiscal 1973. This will provide the United States with sufficient resources to maintain the strongest military force in the world.

Chapter II. MONETARY, FISCAL, AND PRICE-INCOMES POLICY

The Employment Act of 1946 explicitly established the responsibility of the Federal Government to promote "maximum employment, production, and purchasing power" and assigned this Committee a responsibility for making recommendations to achieve this objective. This Chapter identifies the goals toward which economic policy should be directed in both the short and long run and describes the aggregate economic policies—fiscal, monetary, and price-incomes—which should bring us to our interim target over the next twelve months. The following chapter, Chapter III, describes the specific employment and training policies and the structural reforms of product markets which will not only facilitate the achievement of our immediate policy objectives but will represent an essential step toward building a more efficient economy, one in which the long sought goal of jobs for all who are willing, able, and seeking to work can be realized.

The Goal of Full Employment

Quite properly, the Employment Act did not attempt to translate basic policy goals into quantitative targets, such as unemployment rates or inflation rates. The quantitative goals which are realistically achievable may change over time due to changes in the structure of the economy. At any given time, however, it is both possible and desirable to establish specific quantitative goals for economic policy and to specify a time by which these goals should be reached.

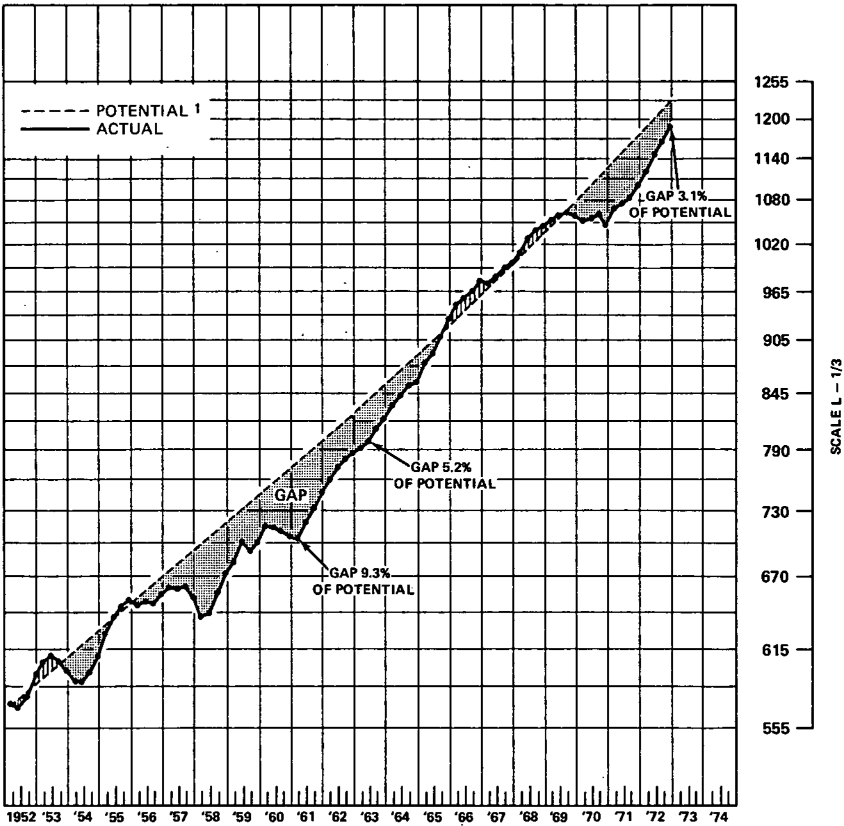
During most of the 1960s, a 4 percent unemployment rate was generally regarded as an appropriate *interim* target for economic policy. Four percent unemployment was chosen as an interim target because it was thought to be the lowest unemployment rate which could be achieved in a noninflationary fashion through the use of aggregate economic policies alone. Lower rates of unemployment were considered possible and desirable, but could be made consistent with reasonable price stability only by structural improvements which would strengthen competition, increase productivity, and increase the efficiency of the job placement process.

Both the "full employment budget" and the "GNP potential" were, and continue to be, defined in terms of a 4 percent unemployment rate. The full employment budget is an estimate of the tax receipts which would be realized and the expenditures which would be made if unemployment were consistently at this level. Potential GNP is an estimate of the output which would be produced at 4 percent unemployment. Potential GNP rises an average of between 4 and 4½ percent each year due to productivity gains and to growth of the labor force. Chart 1 compares actual and potential GNP. During 1972, rapid growth of real output brought actual GNP gradually closer to its potential, but even so, there remained a gap of almost $40 billion in the fourth quarter. A gap of this size means an additional 900,000 persons unemployed, and it means a loss of perhaps $12 billion per year in Federal tax revenue.

CHART 1

ACTUAL AND POTENTIAL GROSS NATIONAL PRODUCT

GNP in 1972 Dollars, Annual Rate



1 - Trend line of 3.5 percent per year (intersecting actual line in middle of 1955) from 1st quarter 1952 to 4th quarter 1962, 3.75 percent from 4th quarter 1962 to 4th quarter 1965, 4 percent from 4th quarter 1965 to 4th quarter 1969 and 4.3 percent from 4th quarter 1969 to 4th quarter 1972.

SOURCE: U.S. Department of Commerce

The gap between actual and potential GNP can and should be closed over the next 12 months. If this is accomplished, unemployment can be expected to drop to approximately 4 percent over the same period. The Administration adopted no specific unemployment target in its Economic Report. However, various past statements by Administration officials have indicated they believe structural changes have taken place in the economy which make 4 percent unemployment no longer consistent with reasonable price stability. The structural change most often noted is the increased proportion of women and young people in the labor force. Because women and, especially, young people have higher unemployment rates than adult men, it is argued that a higher unemployment rate—perhaps 4½ to 5 percent—now represents the same degree of overall resource utilization and hence of inflationary pressure as a 4 percent unemployment rate once did.

The high unemployment rate for young people, over 16 percent in 1972, is a national disgrace. In Chapter III, we discuss the particular employment problems faced by women and by young people. In that chapter we also set out in some detail the reasons why we emphatically reject the notion that because the demographic structure of the labor force has changed, a higher overall rate of unemployment is inevitable.

In brief, our conclusion is that available information concerning changes in labor market structure is not only deficient but misleading because disproportionate importance has been attached to changes in the age and sex composition of the labor force while equally important changes in average educational levels and in the occupational and industrial structure of employment have been ignored. There is no persuasive evidence that 4 percent has become an unrealistically ambitious unemployment target. The intractability of inflation in the past few years stems not from labor market changes, but from policy errors, such as the abandonment of incomes policy in early 1969, when inflation was so obviously a problem.

A reduction in unemployment to no more than 4 percent of the civilian labor force remains an appropriate *interim* target. This goal can and should be achieved within the next twelve months.

A 4 percent unemployment rate is not a satisfactory long-term objective. At 4 percent unemployment, 3½ million persons will still be out of work, and roughly an additional 2 million who want full-time work will be able to find only part-time jobs. An additional 600 thousand or so will be classified as discouraged workers, persons who have stopped seeking work because they are convinced no work is available. Millions of others will be "underemployed," working at poorly paying jobs which do not make full use of the workers' ability. This failure to utilize our labor resources is in sharp contrast to most other industrial countries. An unemployment rate as high as 4 percent would be politically intolerable in most European countries or in Japan.

It is generally believed that in the United States reduction of unemployment much below 4 percent would bring with it strong inflationary pressures unless this reduction was accompanied by structural reforms in labor and product markets designed to reduce the inflationary bias in the economy. Actually, there is little empirical evidence in support of this proposition because the unemployment rate has so seldom been brought below 4 percent under peacetime conditions. It may be that a gradual reduction in unemployment below 4 percent would bring with it far less inflation than many now fear. Structural reforms could hasten this process and would make possible still lower rates of unemployment. In Chapter III we discuss a number of important reforms which should be undertaken promptly. With these reforms, we believe it will be possible over time to reduce the unemployment rate at least to 3 percent and perhaps even lower, and to do so in an environment of reasonable price stability.

An unemployment rate no higher than 3 percent should continue to be our longer run objective. Attainment of this goal can be hastened by an immediate beginning on the structural improvements in labor and product markets necessary to make this employment goal compatible with reasonable price stability.

Fiscal Policy

At present the economy is operating some $35 to $40 billion below its potential and unemployment is a full percentage point above the 4 percent level which is used to define potential. As discussed above, economic policies should be directed toward restoring the economy to its potential level of output and employment by the spring of 1974.

Achievement of this objective will require that the rate of growth of real output must continue to exceed the 4 to 4½ percent "potential rate" which is necessary simply to absorb increases in the labor force and in productivity. At the same time, real output growth should be gradually reduced from the 8 percent rate recorded during the fourth quarter of last year and brought roughly into line with the growth of potential by about the second quarter of 1974. Careful and well-timed economic policies will be required to keep the economy on this growth path. Overly expansive policies could lead to an over-heated economy and new inflationary pressures. Overly restrictive policies would cause the growth rate to drop below the 4 to 4½ percent range, meaning that unemployment would rise. If currently accepted forecasts are correct, over-restriction and a new rise in unemployment would appear to be the greater danger.

The Need To Control Spending

The need for both Congress and the Executive to improve the procedures by which budgetary decisions are made and executed has long been recognized. A new urgency attaches to this question this year. The economic situation requires precise and well-timed budget decisions. The continuing severity of inflation also requires that both Congress and the Executive signal to the American public and to the world their intention and their ability to pursue a carefully controlled and noninflationary fiscal policy.

To say that Congress should enact a budget ceiling is not to say that Congress must adopt the figure suggested by the President in his Budget Message. The respective responsibilities of Congress and the Executive need to be better understood. The President *recommends* a specific budget total. It is the responsibility of Congress to review this recommendation and make such changes as it deems appropriate. In conducting its review the Congress must take into account the public needs which must be financed through the budget, the impact of the budget on output and employment, and the tax revenues which can be made available to finance the expenditure total.

Once Congress has made the basic tax and expenditure decision, it is the responsibility of the Executive to insure that these decisions are properly executed. The proposed budget ceiling is a ceiling on *outlays*. Congress, through its authorization and appropriation process, enacts *obligational authority*, it does not enact *outlays*. Obligational authority is not necessarily spent during the year in which it is made available and, of course, much spending authority is "open-ended." Social security expenditures, for example, are determined by the number of eligible persons who apply for benefits. One of the most difficult technical problems associated with budget control is simply to estimate the actual outlays which are implied by the obligational authority enacted by Congress. Since it is the executive branch which actually makes the outlays, Congress must have full technical cooperation from the Executive in order to enact spending authority which is consistent with the desired outlay ceiling. To date this cooperation has been sadly lacking. In view of the great stress the President has placed on budgetary control, it is to be hoped that the Congressional efforts presently under way to reform the budgetary process will be accorded full cooperation and technical assistance by the executive branch.

It is further to be hoped that, once Congress has determined the appropriate outlay ceiling and enacted the requisite spending authority, the ceiling will be adhered to by the Executive. The Executive has considerable discretionary authority over the amount and timing of actual outlays. There is little doubt that, if desired, this authority can be used to temporarily evade the dictates of Congress. To do so, however, would be irresponsible and detrimental to the public good. What is needed at this critical juncture in economic policy is full cooperation between Congress and the Executive in resolving some extremely difficult technical questions of budget management.

Congress should enact a firm budget ceiling for fiscal 1974, and it should establish procedures both for conforming to the ceiling and for reviewing and revising the ceiling if economic conditions depart from present expectations. It will then become the responsibility of the Executive to make outlays conform to this congressionally imposed ceiling. This joint Congressional-Executive action would signal the intent of the United States Government to pursue a responsible, noninflationary approach to the restoration and maintenance of full employment.

In addition to enacting a ceiling on total outlays, Congress must determine how these outlays are to be allocated among major budget categories. Otherwise the Executive will be left with inappropriately large discretion over the composition of spending. Obviously the Executive must retain the flexibility needed to efficiently manage programs and to meet any sudden change in fiscal policy requirements. At the same time, Executive discretion must not extend to the point either of destroying programs Congress has enacted or of continuing to spend for purposes Congress has disapproved. This problem is among those presently being reviewed by the recently established Joint Study Committee on Budget Control. A complete solution cannot be achieved in time to apply to the fiscal 1974 budget. However, in enact-

Chapter I. INTRODUCTION AND SUMMARY

Economic policy makers face difficult challenges in 1973. Some elements of the short-term outlook are favorable, but others—especially the price outlook—are disturbing. The outlook beyond the first half of 1973 is highly uncertain.

A recovery from the 1970 recession was established at last during 1972. The unemployment rate dropped from 6 percent at the end of 1971 to 5 percent in early 1973. Real Gross National Product rose 6½ percent during 1972 and, in the view of most forecasters, should continue to grow strongly during the first half of 1973. However, there is increasing concern about developing imbalances that may frustrate continued healthy growth in the second half.

- Inflation is not presently being held within the 2½ to 3 percent range desired by the Administration, and a reduction to that range will be extremely difficult, particularly in view of the weaknesses of the Phase III price and wage controls.
- Continued inflation may lead the monetary authorities to adopt restrictive credit policies which would slow the growth of real output and cause unemployment to rise.
- The stimulus provided by the Federal Budget will decline during the year, and unusually large surpluses in State and local budgets are expected to continue. Together these will have a dampening effect on the economy.
- The investment boom may build to an unsustainable pace and then fade abruptly.

The Committee finds little cause either for congratulation on 1972 developments or for complacency regarding 1973. The current recovery, welcome as it is, represents a return from a recession that should never have taken place and that has cost the United States some $180 billion in lost output. As pointed out in earlier reports of this Committee, it was a recession resulting from economic mismanagement by the Administration.

After ignoring the need for an incomes policy for 2½ years and refusing for four critical months to use the price control powers provided by the Congress in April 1971, the Administration turned abruptly in August of 1971 and put into effect its hastily contrived price-wage freeze, followed three months later by the Phase II controls. Although poorly conceived and administered, Phase II at least had the advantage of establishing ground rules for wage and price increases, and it succeeded in achieving a modest reduction in the inflation rate. In some areas, however, such as interest rates and food prices, it was ineffective.

Recently, in spite of recommendations by this Committee and others for a more effective and equitable price-wage program, the Administration chose to retreat to the semi-voluntary and highly ambiguous Phase III, a move that has caused great public uncertainty, increased inflationary expectations, and impaired confidence in the dollar.

ing a ceiling on total outlays for fiscal 1974, Congress can and should also enact a ceiling on the largest single outlay component, defense spending.

The Administration's recommended level of defense outlays represents 30 percent of total outlays, and 70 percent of those outlays which are classified by the Office of Management and Budget as "relatively controllable." A congressionally imposed ceiling on defense outlays for fiscal 1974 would be a first step toward longer range reforms which might very well include outlay ceilings on a number of major functional components of the budget. Chapter V of this Report contains a discussion of defense spending needs and the appropriate ceiling for 1974.

The Budget Balance

It is currently estimated that in fiscal 1973 there will be a small deficit in the full employment budget. Because of the need to stimulate output and employment, this full employment deficit is appropriate for the current fiscal year. For fiscal 1974, it is appropriate that the budget move to a full employment balance. A surplus of any significant size, however, would be unduly restrictive.

Federal tax and expenditure policy in fiscal 1974 should be designed to produce an approximate balance between full employment receipts and full employment expenditures. Given the revenue potential of the existing tax system, this means that outlays must be held at or close to $268 billion.[1] [2]

The President's budget recommendations would meet this fiscal policy requirement, but they represent a totally unacceptable plan for meeting public needs. As we discuss in Chapters IV and V, the allocation of funds can be greatly improved within the total outlays proposed by the President. In particular, there is room for a significant cut in the defense spending request, and this would allow more room in the budget for expenditure on manpower, anti-poverty, housing, and other social programs.[3]

Adjustments are also required on the revenue side of the budget, not only to increase tax equity (as we discuss further in Chapter IV) but to improve the balance among sectors of the economy and sustain a pattern of steady expansion of real output. At present the tax system appears to be providing unneeded stimulus to business investment. Two especially timely tax reforms would be the repeal of the Asset Depreciation Range (ADR) and the elimination or reduction of the investment tax credit. If not repealed, ADR and the investment tax credit will cost about $7 billion in lost tax revenues in fiscal 1974. Given the

[1] Representative Reuss and Senator Humphrey state: "To the extent that additional dollar receipts are obtainable from the tax reforms discussed below, they can be added to the outlay total without disturbing the full employment balance."

[2] See supplementary views of Senator Bentsen.

[3] Senator Humphrey states: "Even so, the adequate financing of even our most urgent public needs will be extremely difficult within the expenditure total proposed by the President. These needs can best be met through tax reforms designed to raise an additional $5 billion or more in fiscal 1974."

current strength of business investment, this is an unnecessary sacrifice of revenue. Furthermore, a reduction in the incentives to invest would be the most direct means of bringing under control a sector of the economy which many observers feel is in danger of expanding at an unsustainably fast pace. Certainly a reduction in tax incentives is to be preferred to higher interest rates or credit rationing as a technique for moderating the growth of business investment.

The President's recommended budget would meet the fiscal policy requirement of full employment budget balance, but it is a totally unacceptable plan for meeting public needs, and on the tax side it promotes an imbalance among sectors of the economy. To meet fiscal policy requirements while at the same time financing our most urgent public needs, Congress should make major reallocations within the proposed expenditure total. A balanced growth of output can be fostered by reducing unneeded stimulus to business investment through repeal of ADR and the reduction or elimination of the investment tax credit.[4 5 6]

Periodic Review of Fiscal Policy

Two factors which will influence the impact of government budgets on output and employment this year are the uneven timing of Federal receipts and expenditures within calendar 1973 and the unusual surplus in State and local budgets.

State and Local Budgets.—The State and local government sector, as shown in the National Income Accounts, recorded a $12½ billion surplus in 1972. When the combined government sector (Federal, State, and local) is considered, fiscal policy is thus considerably less expansionary than would appear from looking only at the Federal budget. Many observers expect a similarly large, or even larger, State and local surplus in 1973. This wholly unprecedented situation is due in part to revenue sharing, but a more important cause has been the large increase in State and local tax receipts due to the rapid growth of personal and corporate incomes as the economy finally began to recover from the 1970 recession. This comfortable fiscal situation does not, of course, apply evenly to all States and localities. In general, State governments would appear to be running the surpluses, while many local units remain extremely hard pressed for funds. Far more needs to be known about the distribution of financial resources *among* State and local units and about the effects which recent and proposed changes in Federal aid policies will have on this distribution. Presently available information is seriously inadequate either for estimating the need for Federal assistance or for analyzing the probable fiscal impact of State and local budgets.

---

[4] Senator Proxmire states: "The investment tax credit should be retained at its present rate. It is one of the few tax provisions which effectively encourages plant modernization and productivity gains."

[5] Senator Humphrey states: "I favor reduction, selective use, or elimination of the investment tax credit. Selective use to promote environmental improvement, rural development, or job opportunities in depressed areas could make the investment tax credit a valuable policy tool."

[6] See supplementary views of Representative Carey.

The Timing of Federal Receipts and Expenditures.—In the first half of calendar 1973 the Federal budget will be highly expansive due to the refund of personal income tax payments overwithheld during 1972 and to the bunching up of revenue sharing payments, some of which are retroactive payments for 1972. Later in 1973 the budget will become significantly more restrictive.

Many observers expect that stimulative forces in the private economy will also slacken late in 1973 and that the restrictive swing in the budget, coming at the same time, may slow the economy too much and perhaps even precipitate a recession.

Two factors, however, suggest that the change in the economic impact of the budget on the economy may be less than the change in the numbers seems to imply. First, most revenue sharing payments will not be immediately spent by State and local governments. Formulation and execution of expenditure plans take time and the actual spending of these funds by State and local units will be more evenly spaced than the transfer of funds by the Federal government. Second, not all the personal income tax refunds will be spent immediately. Some individuals will already have spent in anticipation of the refund and will use the refund for debt repayment. Others will initially put their refunds into savings. Existing empirical evidence on the impact on consumer spending of changes in the timing of tax payments is limited. We can only guess what the impact of this year's enormous refunds will be.

The fiscal policy recommendations in this report are based on the assumption that the actual impact of the budget swing during calendar 1973 will be only moderately restrictive, that the private economy will continue to expand fairly strongly, that the State and local sector surplus will be no larger in 1973 than it was in 1972, and that the monetary authorities will succeed in preventing both sharp rises in interest rates and serious shortages of credit. Should any of these assumptions prove seriously in error, then policy must be adjusted accordingly.

The President's Budget Message implies that the Administration regards the appropriate expenditure total as already determined not only for fiscal 1974, but for fiscal 1975 as well. It is helpful to have information on a possible expenditure pattern for 1975, and we commend this innovation in the Budget document. However, to make a commitment to an expenditure total or to a particular fiscal position for fiscal 1975 is premature.

While full employment balance presently appears to be the most appropriate budget policy for fiscal 1974, the outlook could change, and the outlook for fiscal 1975 is even less certain. Many observers predict that by early in calendar 1974, the rate of growth of real output will have dropped to or below the potential growth rate. Since unemployment is still expected to be above 4 percent at that time, further fiscal stimulus may become necessary.

We support the Administration's effort to bring expenditures under control so that full employment balance will be *possible* in fiscal 1975 without further abrupt program reductions, but fiscal policy must remain flexible. Automatic adherence to a rule of balance in the full employment budget is not an acceptable substitute for discretionary fiscal policy.

In analyzing the economic outlook and making fiscal policy recommendations, the Committee has been hampered by the lack of sufficient information on the Federal sector of the National Income Accounts (NIA). This NIA budget reflects the economic impact of Federal receipts and expenditures more accurately than does the unified budget, and it permits estimates by half-years and by quarters. It is, therefore, to be preferred for purposes of estimating the effect of the budget on output and employment. In view of the unusual swing in the budget during calendar 1973, it is particularly important that half-year estimates be made available. Delay by the Council of Economic Advisers in supplying this information at the committee's request required the committee to rely primarily on its own estimates and those of private forecasters, estimates which necessarily were made without full knowledge of the exact spending plans of the Executive Branch.

Quarterly or, at a minimum, half-yearly estimates of Federal receipts and expenditures on a National Income Accounts basis, both actual and full employment, for the current and forthcoming fiscal years should be included in each year's Budget document.

Reforming the Budgetary Process [7]

The 93d Congress, which convened in January, has already begun steps to improve the congressional procedures for making budgetary decisions. The newly established Joint Study Committee on Budget Control has issued an interim report containing eleven tentative recommendations for procedural reforms.[8] The Study Committee has indicated that it plans to proceed rapidly to hold further hearings and to finalize its recommendations. Legislation will then be required in order to establish the permanent organizational structure and staffing which it is generally felt will be required to implement these recommendations.

Reform of congressional budgetary procedures is long overdue, and we welcome the current initiatives. One aspect of the budgetary process of special concern to the Joint Economic Committee is the mechanism for insuring that tax and expenditure totals are developed with full consideration for their impact on the overall level of output and employment and on the rate of price increase. In estimating the economic impact of the budget it is, of course, essential that other aspects of economic policy, including monetary and price-incomes policy, be considered along with the budget. Under the Employment Act of 1946, the Joint Economic Committee is required to provide the Congress with "findings and recommendations" regarding all the aspects of economic policy which the President is required by the same Act to include in his Economic Report.

The Joint Economic Committee has filed such a report with the Congress each year since 1947. In recent years, we have also regularly filed a mid-year report after the end of the fiscal year. There has, however, been no requirement that Congress take any formal action adopting,

[7] See the supplementary views of Senator Humphrey.

[8] "Improving Congressional Control Over Budgetary Outlay and Receipt Totals," Feb. 7, 1973.

modifying, or rejecting the Joint Economic Committee's recommendations.

In reforming its procedures for making budgetary decisions, Congress should provide that formal action be taken annually establishing an expenditure total and accompanying tax policy designed to promote the national goals of maximum employment, production, and purchasing power. This formal action should be based on full review of current and anticipated economic conditions and policies. The Joint Economic Committee, which has long had this responsibility under the Employment Act, should continue to conduct an annual review of the economic situation and prospect and provide the Congress early each year with a recommendation on the required budget surplus or deficit.

Money and Credit

Financial Developments

Demands for capital funds in 1972 grew even more rapidly than the record expansion of 1971 and were more than 70 percent greater than experienced in 1970. These demands featured especially sharp increases by business for fixed and working capital and by consumers for purchases of durable goods and housing. Capital expansion demands by business in 1972 were up by one-fourth and new consumer credit additions rose at an almost equal pace.

Despite these record financing requirements, general liquidity in the non-financial sectors remained high. Total liquid asset holdings by non-financial sectors grew by 13 percent in 1972, including substantially increased holdings of such money-type assets as demand and time deposits. Holdings of U.S. Government securities at the end of 1972 were little changed over the last two years, and were well below those of 1969.

Individuals' ownership of liquid assets continued to grow at a rapid pace. Cash assets were further augmented, while holdings of U.S. securities were maintained at about the level of the preceeding year, in contrast to a sizeable liquidation of such ownership in 1971. Business liquidity was equally well maintained. All in all, the financial positions of business and individuals remained favorable at the end of 1972. There were few signs of excess illiquidity, despite the rapid expansion of indebtedness during the year.

Monetary Policy

The stated aim of the monetary authorities in 1972 was to accommodate a rapid expansion in the economy. Over the year as a whole, the money stock grew at a rate of 8.3 percent, as compared with an expansion of 10.8 percent in money GNP between the fourth quarter of 1971 and the comparable period of 1972. Actually when account is taken of the unusually slow growth in the money supply in the second half of 1971—a pace not contemplated by the monetary authorities—money growth for the last 18 months was not especially out of line with historic trends. From June of 1971 through December 1972, the money stock grew at an annual rate of 6½ percent, compared with an annual growth rate of money GNP of 10 percent.

During the course of 1972, the Federal Reserve sought to slow the rate of monetary growth. Non-borrowed reserves—those over which the Board has most direct control—rose at only a 2 percent annual rate in the second half of the year, down from a 12 percent rate in the first half year. That this was not reflected in a cutback of monetary growth was due to member banks' increased use of borrowed reserves. As a result, the money stock grew at a rate of 8.7 percent in the second half of 1972, compared to a rate of 7 percent during the first half of the year.

The Economic Report of the President and the Annual Report of the Council of Economic Advisers make a considerable point of the stability of interest rates in 1972. This is puzzling in light of the facts. The three month Treasury bill rate was up to 5.3 percent at the start of 1973 compared with 3.2 percent in early 1972, and 5.4 percent in July 1971, just before Phase I. Similar movements prevailed in other money market instruments.

Long-term rates have not changed significantly over the past year, and they are down from the extremely high levels reached in the inflationary environment of 1970. The significant point to make in this respect, however, is that the Administration, its economic advisers, and private experts have continually noted that market interest rates before the imposition of wage-price controls reflected a sizeable inflationary expectation factor. Therefore the question remains why rates have not been lowered since Phase I. The standard answer rests on the illusory concept that interest rates would have been higher had not controls been in effect. This is a meaningless analysis based on "might-have-beens" which can never be measured. The objective facts are that interest rates, long and short, had fallen sharply during the year before wage-price controls. For example, FHA mortgage rates dropped from over 9 percent in early 1970 to just over 7 percent in early 1971—well before the New Economic Policy was set in motion. This suggests the expectational aspect of further inflation had already receded before Phase I. With the imposition of wage-price controls it would seem logical that further reductions would have been in order.

In other words, it is the view of this Committee that interest rates have been held up during the last year and a half because investors and borrowers believed that inflationary forces were not under control, and more recently that interest rates would be under upward pressures as monetary authorities are committed to fostering further increases in interest rates in 1973 to head off expected price increases.

This interpretation is based on the stated position of the Chairman of the Federal Reserve Board that the Board is concerned with renewed inflationary pressures in 1973. Chairman Burns made this clear in his testimony last month when he admitted that jawboning to keep bank prime rates down was window-dressing, that the prime rate was not connected to "market" rates, and that market rates would be allowed to rise while the prime rate was contained.

This stress on controlling the prime rate, while letting other rates rise is exactly opposite to an equitable approach to interest rate controls as part of a general incomes policy. A prime rate is the rate charged only on loans to large, rich concerns which generally have little if any trouble borrowing all the money they need. The small firm, home buyers and local government units are most in need of protection. They are the ones who pay the higher interest charges and feel the pinch when tight money forces interest rates upward.

Even the attempt to hold down the prime rate was half-hearted. Indeed, within days after Dr. Burns' testimony, it became clear that when a conflict of interest developed between Dr. Burns as Chairman of the Federal Reserve and Dr. Burns as overseer of interest rate controls, the head of the money control apparatus would prevail. The Federal Reserve Banks raised their discount rates charged bank borrowers, and member banks in turn immediately raised their prime rates, a further signal for generally higher interest rates.

It is the firm view of this Committee that the monetary authority should not permit interest rates to rise above present levels. If possible, interest rates should be reduced. Monetary expansion should be adequate to support growth of real output during 1973 at the 6½ to 7 percent rate needed if unemployment is to be reduced to 4 percent within the next 12 months.[9] [10]

It is true that the containment of interest rates to present or even lower levels may give rise to an excess aggregate demand for credit in the latter part of this year. In this event, it is important to assure that credit is available to meet priority demands.

In his testimony before this Committee, the Chairman of the Federal Reserve Board indicated his awareness of the possibility that existing financial market mechanisms tend to supply credit most freely to the more powerful and well-off segments of the business community. There is no reason why this situation should be allowed to prevail.

The Administration and the monetary authorities should move at once to establish a stand-by credit allocation system. The Federal Reserve authority should establish a set of guidelines for the banking community to assure those who are most likely to be cut off from credit sources in a period of tight money—builders, home buyers, local governments, and small business—are provided adequate access to credit. The central bank can and should move directly to provide more funds in these areas by stepping up sharply its purchases of securities of State and local governments and mortgages and by indicating in its discount policy due regard for the credit needs of small business.

---

[9] Senator Proxmire states: "Policy should aim at holding the cost of borrowing for State and local governments, home buyers, consumers, and small businesses at or below present levels. Other interest rates should be allowed to find their competitive level."

[10] Representative Reuss states: "I do not concur with this recommendation. The Federal Reserve should primarily focus its attention on the proper growth in the money supply. It may be possible for the Federal Reserve to counteract inflationary actions of the Administration—actions which promote higher interest rates."

A National Development Bank

In the absence of equitable monetary policy, it is essential to develop alternative public policies to protect priority areas of the economy from being victimized by periodic bouts of tight money. A mechanism must be established by which the Government is able to allocate credit. The need to take such action has been made all the more acute by the Administration's freeze on Federally-assisted housing which provided low and moderate income borrowers a large degree of immunity from exorbitant interest rates. Elimination of Federally-subsidized housing programs by executive fiat, if only on a temporary basis, prices virtually every low and moderate income family in the nation out of the housing market under current high interest rate conditions—conditions which are expected to worsen in the months ahead.

Establishment of such a facility designed to provide adequate loan funds at reasonable interest rates for all priority areas of the nation's economy could provide a large part of the solution to problems created by periods of monetary restriction. Such a public lending institution could furnish loans for housing, for small business, for State and local governments and other priority areas when credit-worthy borrowers are unable to obtain loans at reasonable rates from conventional sources. It could not only respond to priority credit needs during high interest-tight money periods, it could operate as well on an ongoing basis to supply otherwise absent investment capital for the creation of jobs and job training opportunities in economically-depressed areas or areas threatened by economic depression, high unemployment and underemployment. In the latter instance, the facility could make available the seed capital necessary to initiate the processes of economic revitalization. In addition, the Bank should have authority to make loans to individuals and to small and medium size businesses and industries for the purpose of financing technological innovation in terms of developing and producing new and improved products. This field is dominated by the Nation's largest corporations whose market position often robs them of motivation in this area.

> **This Committee recommends that the Congress create a National Development Bank to provide adequate funds at reasonable rates of interest for all priority areas of the economy which cannot obtain funds through usual lending channels.**[11]

This Bank should be authorized to guarantee the obligations of State and local governments and small businesses in order to improve opportunities to raise investment capital in the financial markets. The use of Development Bank guarantees for this purpose would in effect extend a Federal guarantee to such obligations and give borrowers the best possible standing in the market. In this way the capacity of the Development Bank could be used to open otherwise closed doors in this money market.

Funds for Development Bank loans could be obtained through the sale of stock to the Treasury and the sale of Federally-guaranteed

---

[11] Representative Reuss states: "I do not concur with this recommendation. A National Development Bank such as here recommended could readily become the vehicle for large-scale government bail-outs of mismanaged enterprises."

bank obligations to the Treasury and in the open market. Operations of the Bank, including any deficiency between income from bank loans and the cost of money to the Bank, could when necessary, be made up through appropriations.

All repayments on loans would go into a revolving fund to be relent to other priority borrowers. Development Bank borrowers would be required to refinance their loans through private investors as soon as they can possibly do so. In this way the possibility of Development Bank competition with private sector financial institutions would be minimized.

Responsibility of the Monetary Authority to Congress

For years the monetary authority has acted as if it were independent not only of the Executive, but of the Congress to which it is legally responsible. The Federal Reserve Board members are appointed for a term of 14 years, a period nearly twice as long as any President can normally hold office. Financing of Board operations is obtained largely from interest paid on its holdings of U.S. Government bonds. Thus, the Board enjoys complete financial independence not only from the Executive, but from the Congress, even to the point of refusing to allow the General Accounting Office to audit the System's books, a unique exception among Federal agencies.

To improve and modernize the central banking system, the Congress should enact legislation which would:

- **Vest open market operations in the Federal Reserve Board and eliminate the Open Market Committee. This would serve the purpose of maintaining the monetary powers vested in the Congress by the Constitution in a body that is exclusively public rather than in a mixed committee like the Open Market Committee.**
- **Require the Federal Reserve to pay into the Treasury all of its revenues, to come before the Congress for appropriations as other agencies do, and provide for audit of the Board and regional bank accounts by the Comptroller General. These provisions are designed to insure public control.**
- **Retire existing Federal Reserve stock, thereby eliminating the spurious notion that the member banks own the Federal Reserve System.**

Price and Incomes Policy

Prices continued to increase at an unsatisfactorily rapid rate during 1972, and it presently appears that price performance during 1973 will be even less satisfactory. In view of this outlook, recent moves by the Administration to partially dismantle the price and wage controls are difficult to understand. Although a largely voluntary price-incomes policy is desirable for the longer run, the steps taken in January were premature and appear to have been a major policy error. A reversal of policy toward more formal controls now appears to be necessary,

92-659 O - 73 - 3

and since the Administration has not acted under its existing authority to re-impose controls, Congress should act legislatively to mandate more formal controls for the remainder of 1973. The remainder of this section describes the current price and wage outlook and presents this Committee's recommendations for a strengthened control program.

The Price Outlook

For a few months in mid-1972, it appeared that the rate of inflation was being brought within tolerable limits. Consumer prices rose at a seasonally adjusted annual rate of 2.5 percent from February to August and the GNP deflator for private output rose at rates of 1.7 percent in the second quarter and 2.2 percent in the third. Over the same period, however, the wholesale price index rose at an annual rate in excess of 5 percent, indicating that a new outburst of inflation at the consumer level might lie ahead. This has indeed proved to be the case, with consumer prices rising at an annual rate well above 4 percent from August 1972 to January 1973. This consumer price figure, the latest available as this Report is being written, does not yet reflect the possible impact on prices of the move to Phase III nor of the recent devaluation of the dollar, and it reflects only a small part of the enormous increase in wholesale food prices which has taken place since mid-1972. Further large increases in consumer prices seem inevitably in prospect during the first half of 1973.

If it could be confidently anticipated that the rate of increase in consumer prices will diminish sharply in the second half of the year, it might be possible to regard the large increases in the first half of the year as a temporary phenomena of no enduring concern. Unfortunately, the available evidence gives no assurance that the price situation will improve markedly in the second half of the year. If world crops are good in 1973, food prices may stop rising in the latter half of the year. However, because reserve stocks have already been badly depleted, a 1973 crop shortfall in any of the major producing countries would set off a further spiral of grain and oilseed prices, leading to further increases in the consumer prices of most foods.

Food prices can be most effectively dealt with through policies to expand supply, and these are discussed in Chapter III. If the inflation problem were limited to food, the move to Phase III might have been an appropriate step. Unfortunately, rapid price increases are also continuing in other sectors of the economy. The dramatic rise in food prices should not be allowed to distract attention from these other aspects of the inflation problem.

In many ways the index of wholesale industrial prices is a particularly useful barometer of inflation. If reasonable price stability is to be achieved overall, industrial prices must be held to virtually *no increase at all* in order to offset the almost inevitable rise in prices of services. Futhermore, the control program ought to be at its most effective in the industrial sector. It is, therefore, especially disturbing to note that, as shown in Table 1, industrial prices rose at a seasonally adjusted annual rate of 5.9 percent in the three month period from November 1972 to February 1973 and that this rise was broadly spread over all but one of the 13 major industrial categories. In February—the first full month of Phase III—industrial prices rose a full percentage point, the largest monthly increase since January, 1951. Part of this sharp increase can be attributed to particularly acute supply problems in the lumber and petroleum industries. But a large part of the increase appears to be attributable to a broadly based response to the relaxation of controls under Phase III.

TABLE 1.—WHOLESALE PRICES (PERCENT CHANGE)

	November 1972 to February 1973 (seasonally adjusted compound annual rate)	February 1972 to February 1973
All commodities	18.6	8.2
Farm products, processed foods and feeds	56.0	19.1
Consumer foods	32.1	11.2
Consumer goods, excluding food	6.8	3.1
Industrial commodities	5.9	4.1
Textile products and apparel	8.2	4.8
Hides, skins, leather and related goods	2.5	21.7
Fuel and related products and power	15.3	8.5
Chemicals and allied products	3.1	2.0
Rubber and plastic products[1]	2.6	.8
Lumber and wood products	20.5	16.9
Pulp, paper, and allied products	3.2	4.4
Metals and metal products	6.6	3.5
Machinery and equipment	2.0	2.0
Furniture and household durables	1.1	2.1
Nonmetallic mineral products	−0.9	3.0
Transportation equipment[1]	4.3	.5
Miscellaneous products[1]	8.2	2.7

[1] Not seasonally adjusted.

Source: Bureau of Labor Statistics.

The Wage Outlook

As shown in Table 2, the average rate of increase in wages and benefits was significantly lower in 1972 than in 1970 or 1971. Average compensation in the private non-farm sector increased 6.4 percent in 1972. This was only slightly above the Pay Board guideline, which in effect was 6.2 percent when all fringe benefits are included. The 7.3 percent increase in wages and benefits negotiated in major collective bargaining settlements was above the guideline, but nonetheless was a significant reduction from 1970 and 1971 settlements. Though money wage increases were reduced, real hourly earnings showed the largest gain in several years and were roughly in line with the 3 percent long-run trend of productivity increase.

Thus a situation seemed to exist at the beginning of this year in which, had Phase II been continued and made effective on the price side, the Phase II standards for wages could have been enforced, perhaps even more effectively than in 1972. This point was stressed by expert private witnesses who testified before the Committee on this subject. These witnesses found it incredible that, in view of the extremely heavy wage negotiation calendar this year, a program which gave promise of working effectively was abruptly abandoned. We share this puzzlement, and indeed, we feel that the dismantling of Phase II at this particular time was a serious policy error.

TABLE 2.—WAGE AND BENEFIT CHANGES, SELECTED MEASURES

	Percent change over previous year		
	1970	1971	1972
Average hourly earnings: [1]			
Current dollar	6.6	7.0	6.3
Constant dollar	.7	2.6	2.9
Compensation per man-hour: [2]			
Current dollar	7.2	7.1	6.4
Constant dollar	1.1	2.7	3.1
Wages and benefits, major settlements: [3]			
All industries	9.1	8.8	7.3
Contracts with escalator clauses	(4)	7.9	5.8
Contracts without escalator clauses	(4)	10.1	7.7

1 Adjusted for overtime (manufacturing only) and for interindustry employment shifts.
2 Private nonfarm sector.
3 Annual rate of increase over life of contract. For 1972, includes only settlements approved by the stabilization authorities.
4 Not available.

Source: Bureau of Labor Statistics.

Some Administration spokesmen have insisted in recent statements that the 5.5 percent wage guideline and other elements of the Phase II wage standards are still in effect, while others have stressed that 5.5 percent is only one of a "family of standards" and that policy will be flexible. There is no evidence that labor leaders continue to feel bound by the Phase II standards, and with no enforcement machinery, it seems unlikely that the standards will be voluntarily observed. Indeed, given recent and prospective price developments, a 5.5 percent standard is not likely to be consistent with a real wage gain anywhere close to the 3 percent productivity trend which has been regarded as the basis of the standard. At the moment, there is in reality no wage standard, and the Administration is apparently relying on case-by-case negotiation. While some flexibility for negotiation is undoubtedly desirable, this almost totally unstructured approach is an open invitation to higher wage settlements. Unnecessarily high settlements in the major wage negotiations this year could help set an inflationary pattern for at least another three years. In addition, a serious equity problem will be created if, as is likely, the 5.5 percent guideline is more nearly observed in the unorganized sector than by the major labor unions, which are in a position to negotiate for more favorable treatment. There is a clear and immediate need to return to a consistent wage standard and an enforcement machinery.

An Effective Price-Incomes Policy for 1973

A policy of relying largely on voluntary compliance with price and income guidelines is desirable for the longer run, but it is not suited to the potentially highly inflationary situation which will exist throughout 1973. Congress must act by April 30 on the extension of the Economic Stabilization Act, the law which authorizes the control program, and it currently appears that incorporation into this extention of a more specific legislative mandate by Congress is the only way of insuring a more effective price-incomes policy for the coming year.

Stricter and more formal controls over large firms and major unions are needed during the coming year. Congress should incorporate legislative requirements for a

more formal control program for the next 12 months into the renewal of the Economic Stabilization Act.

This more formal and more effective control program can be accomplished through a few relatively simple provisions which will clarify the standards and provide appropriate enforcement procedures but not prevent a desirable degree of administrative flexibility. Our specific recommendations follow.

Strengthened Price Guidelines.—The Phase II price guidelines were unduly permissive, and in moving to Phase III an additional degree of permissiveness was added by the provision that price increases which average up to 1.5 percent per year are permissible regardless of the profit margin. For a large, multi-product firm, this regulation permits almost unlimited price increases on particular products. In a report last December, this Committee recommended a number of modifications of the price guidelines, and these remain desirable.[12] The single most important modification, one which should be required by legislation if necessary, is to limit the cost increases which can be used to justify price increases to direct costs already incurred. The present regulations permit use of estimates of anticipated total costs, including overhead, and permit the customary profit mark-up to be added to the cost increase. This procedure weakens incentives to hold down costs, and it permits price increases which are not consistent with rapid progress against inflation. While price increases could not be held indefinitely to the increase in direct costs only, to do so for one year would require business to absorb its share of the costs of slowing down the inflationary spiral. In addition, the costs of wage increases in excess of the guideline should be excluded from allowable costs used to justify price increases. This latter guideline was generally practiced by the Price Commission during Phase II, and it is an effective technique for discouraging employers from agreeing to excessive wage increases in the belief that the wage costs can be passed on in price increases.

The guidelines for price increases should be tightened to permit only direct costs already incurred to be passed through into price increases. In addition, the costs of that part of any wage settlement which exceeds the wage guideline should be excluded from this direct cost estimate.

An Equitable and Enforceable Wage Guideline.—The law presently requires that the wage standards "take into account changes in productivity and the cost of living." The 5½ percent standard of Phase II was designed to meet this requirement by allowing for the average annual increase in productivity of about 3 percent and an anticipated rate of price increase of about 2½ percent. In the present situation, when anticipations of future inflation are high, cost-of-living escalators in wage contracts can be a useful means of providing wage earners with protection against inflation while avoiding excessive initial settlements aimed at compensating for future cost-of-living increases which may or may not occur. For the coming year, we believe a basic 5½ percent wage standard is fair and appro-

[12] "Price and Wage Control: Evaluation of a Year's Experience," Dec. 14, 1972.

priate, if it is accompanied by a cost-of-living escalator covering a substantial fraction (perhaps 75 percent) of any increase in the CPI in excess of the 2½ percent price target. Provision of something less than the entire increase in the cost-of-living would provide for absorption by labor of part of the costs which must be absorbed by various groups if inflation is to be reduced. Reliance on escalator clauses would give the administrators of the control program the responsibility and the opportunity for keeping wage settlements reasonable by keeping price increases within the target. It is interesting to note in Table 2 that in 1972 contracts with escalator clauses were much closer to the 5½ percent guideline than contracts without such clauses. The other Phase II wage standards, including the exemption of workers earning below-poverty wages, remain appropriate and should be continued. The intent of Congress that the poverty exemption should include all workers earning less than $3.50 per hour should be observed.

The 5½ percent wage standard is appropriate for 1973 if it is amended to provide for escalator clauses insuring workers of additional wage increases to cover a substantial fraction of consumer price increases in excess of the 2½ percent target. The Administration should adopt either this or some other clear and equitable standard. If the Administration continues to evade its responsibility to establish and enforce a credible wage standard it may be necessary for Congress to incorporate specific standards into the law.

Enforcement of the Price and Wage Standard.—It is quite possible to have an effective enforcement mechanism without creating excessive bureaucracy and red tape. The following, or similar mechanisms, should be required by law for the next year.

Advance public notice of all significant price increases by firms with sales in excess of $250 million per year and of major wage settlements which exceed the wage guidelines should be required.

Public hearings should be held and advance approval required for proposed price increases which would increase a firm's annual sales revenue by more than a specified amount (say $50 million) or which could be of unusually critical importance in setting a pattern for an industry. When such public hearings are required, the applicant firm should be required to make publicly available sufficient data on costs, profits and productivity to justify the requested increase.

To prevent evasion of the notification and hearing requirements, the law should be written in terms of the cumulative impact of all price increases by a particular firm within a specified time period (6 months or 1 year). Even so, a law such as this would *require* public hearings only in the case of the largest price increases by the largest firms. In other cases, public hearings and actions to enforce the price standards would be at the discretion of the stabilization authorities, but both the authorities and the public would at least have advance warning of problem situations. The requirement for public disclosure of cost, profit, and productivity data is a necessary accompaniment to a plan for meaningful public discussion of the need for a price increase. The present law prohibits the stabilization authorities from disclosing such data. These data, especially when they apply to firms with billions of dollars in sales and assets and enormous market power, should be in the public domain, and the law should be amended to require this disclosure.

Congressional Oversight.—The law presently requires the Cost of Living Council to file written quarterly reports with the Congress. These reports are useful, but there is no way a written report can provide for discussion and exchange of views on the controversial or difficult problems related to the control program. These written reports should be supplemented by quarterly oversight hearings by an appropriate Congressional Committee.

An appropriate Committee of Congress should hold oversight hearings on the control program at least once every three months.

Chapter III. IMPROVING LABOR AND PRODUCT MARKETS

In 1972 the economy continued to suffer from both high unemployment and inflation. Policies in 1973 must be directed toward simultaneously reducing unemployment and achieving greater price stability. The fiscal, monetary and price-incomes policies discussed in the previous chapter are essential elements in meeting these objectives, but these policies are not by themselves sufficient. Also needed are strengthened programs of public service employment and job training and a vigorous beginning on major structural reforms designed to strengthen competition. Given the unemployment-inflation tradeoff that exists today, employment programs and structural reforms will hasten the return to 4 percent unemployment and are absolutely essential if we are to achieve our long-run goal of no more than 3 percent unemployment. This chapter contains our recommendations in these areas of economic policy.

CHANGES IN LABOR MARKET STRUCTURE

Repeatedly throughout the last four years the large number of women and teenagers in the labor force has been used as an argument for the acceptability of higher unemployment rates. This argument often used by Administration spokesmen has three flaws.

First, it is callous to assume that the unemployment problems faced by women or by young people are less important than those faced by adult men. Many women are heads of household and the sole support of their families. And even when a woman and her husband both work, the income that she earns may be an essential part of the family's total earnings. Young people need work experience as well as earnings—earnings which often are essential to further their education or to contribute to family support. Second, if it is true that women and teenagers face particularly acute employment problems since they are just entering the labor force, training programs for them should be expanded, not cut back sharply as the Budget proposes. Third, the Administration argument ignores the fact that unemployment among adult men has increased substantially more than unemployment for women and teenagers in the last four years. As Table 3 shows, unemployment among adult men rose 87 percent from December 1968 to December 1972 while in the same period, unemployment among adult women rose 58 percent and among teenagers, 53 percent.

The argument has been made that the higher proportion of women and young people in the labor force is inflationary. Even if it were true that the shift in the age and sex composition of the labor force over the past 15 years in itself made inflationary pressures stronger at any given level of unemployment—and this is far from proved—this change might well be offset by other labor market changes over the same period. In order to estimate changes in the degree of "tight-

TABLE 3.—UNEMPLOYED PERSONS, SELECTED CHARACTERISTICS

[In thousands—seasonally adjusted]

	December 1968	December 1972	Percent change
Total	2,698	4,487	66.3
Men 20 and over	896	1,677	87.2
Women 20 and over	955	1,512	58.3
Both sexes 16 to 19	847	1,298	53.2
White total	2,128	3,542	66.4
Nonwhite total	576	938	62.8
Married men	558	945	69.4
Household heads	833	1,471	76.6

ness" or inflationary pressure in the labor market associated with a given overall unemployment rate, it is necessary to analyze all the significant changes in both the demand for and the supply of labor.

On the supply side, age and sex are only two of a number of relevant characteristics of an individual seeking employment. General education, specific job training, experience, and less readily measurable characteristics such as willingness to work are quite properly regarded as more important measures of potential job performance. The dramatic increase since the mid-fifties in average years of schooling may be a labor market change at least as important as the change in age-sex composition, yet it has received far less attention.

On the demand side, striking changes have taken place in the last fifteen years in the occupational and industrial structure of employment, that is, in the kinds of jobs which need to be filled. Chart 2 illustrates the distribution of employment by industry in 1956 and in 1972. Goods-producing employment (manufacturing. mining, and construction) now represents less than one-third of total employment. Private services account for more than half of the total. State and local government employment has also risen significantly as a percent of the total. By contrast, Federal employment has declined somewhat in percentage terms.

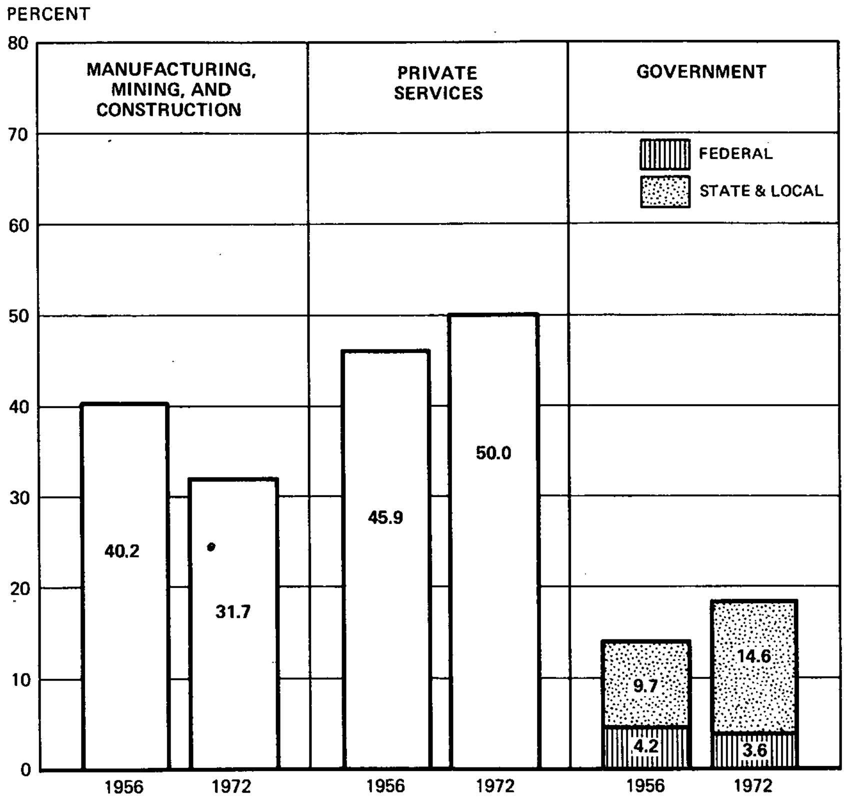
Similar changes have occurred in the distribution of employment by occupation. Table 4 compares labor force distribution and unemployment rates by occupation in 1959 and 1972. White collar workers made up a significantly larger proportion of the work force in 1972, with professional, technical, and clerical occupations showing the most rapid growth. Unemployment rates have *risen* for those occupations which have grown rapidly and have *fallen* for slowly-growing occupational categories. The white collar unemployment rate was higher in 1972 than in 1959, while the blue collar rate was lower. Thus the *difference* between the relatively low white collar rate and the relatively high blue collar rate has narrowed significantly.

Does this more even distribution of unemployment over the occupational spectrum imply that the labor market is in better balance today than it was in 1959 and that the overall unemployment rate can be reduced further today without developing inflationary bottlenecks in particular occupations? If so, this is a most important and encouraging labor market development. Surely it is an aspect of the labor market which should receive far more study. During the next year this Committee plans to undertake studies of various changes in the structure of U.S. labor markets and we urge others both within and outside the government to do likewise.

CHART 2

EMPLOYMENT BY INDUSTRY 1956 & 1972

(Percent Distribution of Average Annual Payroll Employment)



SOURCE: Bureau of Labor Statistics

The Council of Economic Advisers should undertake adequate studies of all major changes in the labor market structure over the past two decades. These include changes in average educational attainment and in the occupational and industrial structure of employment as well as changes in the demographic composition of the labor force. These and other studies of factors which may influence the relationship between inflation and unemployment should form the basis for specific quantitative short- and long-term employment goals. The Administration should make an explicit commitment to such goals.

TABLE 4.—CIVILIAN LABOR FORCE AND UNEMPLOYMENT, BY OCCUPATION, 1959 AND 1972

	Civilian labor force [1] (percent distribution)		Unemployment rate [2]	
	1959	1972	1959	1972
Total	100.0	100.0	5.5	5.6
White collar	41.4	46.8	2.6	3.4
Professional and technical [3]	10.6	13.6	1.7	2.4
Managers and administrators	10.3	9.4	1.3	1.8
Sales workers	6.4	6.5	3.8	4.3
Clerical	14.1	17.3	3.7	4.7
Blue collar	38.0	35.3	7.6	6.5
Craftsmen and foremen	13.2	13.0	5.3	4.3
Operatives	18.7	16.8	7.6	6.9
Laborers [3]	6.1	5.4	12.6	10.3
Service workers	12.0	13.5	6.1	6.3
Farm workers	8.0	3.6	2.6	2.6
No work experience	.6	.8		

[1] Civilian labor force in each group equals employed in that group plus unemployed whose last job was in that occupation.
[2] Percent of labor within group, by occupation of last job.
[3] Nonfarm.

Source: Bureau of Labor Statistics.

EMPLOYMENT AND TRAINING PROGRAMS

Public Employment Program

One means of alleviating high unemployment, especially when this unemployment is localized in selected areas, is a public employment program. The Emergency Employment Act of 1971 provided for a 2-year, $2.25 billion program to relieve unemployment when the national rate is above 4.5 percent and the unemployment rate in a State or locality is above 6 percent. The Administration proposes to discontinue this program at the end of 1973. It is uncertain that the national unemployment rate will be below 4.5 percent by year end, and it is most unlikely that unemployment in some States and cities will be reduced to manageable levels by the end of 1973. Many economic forecasts predict unemployment will be close to 5 percent at year end. In addition, a number of States had unemployment rates above 6 percent in 1972, and nine States had unemployment in excess of 7 percent. There is no reason to believe that there will be a shortage of eligible participants in the public employment program by the end of 1973.

The program had employed by the end of October, 1972, a total of 274,000 workers. Table 5 shows selected characteristics of those who participated, cumulative through October, 1972.

The data compiled by the Manpower Administration suggest that the program has aided those labor groups which would have the greatest difficulty in finding jobs at high levels of unemployment, the disadvantaged, the veterans, the welfare recipients and the hard core unemployed. The program has taken more than half of its participants from those who had been unemployed 15 weeks or more and 40 percent from among the disadvantaged. There is little evidence that States or localities have used public employment funds to substitute for existing jobs. There has been substantial net job creation as a result of the program—job creation for those groups most likely to suffer when the economy is operating below potential.

TABLE 5.—*Selected characteristics of participants in the public employment program (data cumulative through October 1972)*

	Percent
1. Race or ethnic origin:	
White	64
Black	21
Spanish-Americans and Puerto Rican	12
Other	3
2. Military status—Vietnam veterans	27
3. Disadvantaged (by OEO standard definition)	38
4. Public assistance recipients	11
5. Previously employed by same employer	10
6. Weeks unemployed:	
5 weeks or less	21
5 to 14 weeks	23
15 weeks or more	56
7. Occupation:	
Law enforcement	11
Education	19
Public works and transportation	23
Health and hospitals	9
Environmental quality	4
Fire protection	2
Parks and recreation	9
Social services	6
General administration	17
8. Status upon leaving program:	
Employed	56
With same employer	18
With other public institution	14
With private industry	24
In school, training program or armed services	17
Unemployed	10
Not in labor force	17

Source: Manpower Administration, Department of Labor.

The costs of this program have not been prohibitive. In fact they have been quite reasonable—unit costs per man-year at the Federal level were only $6,791. Of this total, $6,518, or 96 percent, was wages and fringe benefits going directly to the participant. Administrative costs at the Federal level were only $115, or less than 2 percent of unit costs per man-year—substantially lower than for most Federal programs.

Public employment has served not only to provide jobs in the short run. After leaving the program, about 75 percent of the participants either found other jobs or took some form of training. The remainder was unemployed or dropped out of the labor force.

The available evidence on costs, characteristics of the participants, and status after leaving the program suggests that public employment has been successful and should be continued. The trigger for public employment funds is now a 4.5 percent national unemployment rate. Since 4 percent unemployment is our interim goal, the program should be used as a countercyclical tool until unemployment is at or below 4 percent.

Even at 4 percent unemployment, approximately 3.5 million workers would still be unemployed. These unemployed would include the most disadvantaged and the least skilled members of the labor force who have difficulty finding jobs even at very high levels of aggregate demand. While the emergency public employment program is still in effect Congress should develop a permanent approach to public employment as part of an overall training and job creation program. A public employment program for, say, 500,000 workers should be an important part of an over-all effort to get unemployment down to 3 percent or lower. Because of the multiplier effect of the income earned by the participants, the total number of jobs created would substantially exceed the number directly employed by the program.

Public employment should not be eliminated from the budget, as unemployment remains unacceptably high in many States and urban areas. Funding for public employment should be continued in order to relieve high unemployment for those regions and those labor groups which have not shared fully in the recent economic expansion. The public employment program should be expanded so that it remains in effect at least until the national unemployment rate reaches 4 percent. While the existing program is still in effect Congress should develop a permanent approach to public employment as part of an overall training and job creation program.

Training Programs

Since the early 1960's policymakers have recognized that the stimulation of aggregate demand alone is not sufficient to reduce unemployment to acceptable levels. Some workers are displaced by advances in technology, others by the pressures of import competition. New entrants into the labor force, particularly teenagers, and re-entrants, most of whom are married women, may not have the job skills demanded in today's market. The Manpower Development and Training Act and the Economic Opportunity Act were designed to provide initial training for new entrants into the labor force and retraining for displaced workers.

While these programs aid in reducing structural problems in the labor market, it cannot be emphasized too strongly that training in the absence of job opportunities is frustrating for the worker and wasteful expenditure on the part of the Federal government. Displaced or young workers who participate in training programs and subsequently enter a slack labor market become disillusioned. This is especially regrettable for young people just entering the labor force since their initial contact with the labor market may color their entire work experience. In other sections of the report, the Committee recommends a reduction in the unemployment rate to 4 percent within the next 12 months. Public employment should be used as a tool to hasten our return to 4 percent unemployment. It is in the context of an explicit full employment goal and a national policy to achieve it that manpower programs should be undertaken.

Training programs must be accompanied by job creation policies either in the private sector through the stimulation of aggregate demand or in the public sector through the expansion of public service employment. Otherwise, manpower programs will be wasteful and inefficient for the Federal Government and disillusioning to the worker.

The 1974 Budget proposes a reduction in spending for manpower programs for the first time since they were instituted 10 years ago. Not only does the Administration plan to cut many programs but also to lump a number of them into manpower revenue sharing. The Neighborhood Youth Corps national programs, and institutional and on-the-job training formerly funded under the Manpower Training and Development Act are the largest programs subsumed under manpower revenue sharing, which in total is to be cut by 17 percent. The Administration has often argued that defense spending, although rising in current dollars, has actually fallen in real terms. While the problems inherent in constructing a deflator for defense spending are examined in Chapter V, a discussion of government spending in real terms should not be confined to defense. Inflation affects all government programs. If probable price increases in 1973 are taken into account the real cut in these manpower programs will be not 17 but about 21 percent.

This reduction in expenditures for training is especially ill conceived at this time given current labor market conditions. The President suggested in his economic message to Congress that the current 5 percent rate of unemployment is not as high as it seems because "only 40 percent of those now counted as unemployed are in that status because they lost their last job." He neglected to mention that 48 percent of the unemployed are either new entrants or re-entrants into the labor force, the groups who most need training assistance.

The proposed conversion of MDTA training and Neighborhood Youth Corps from Federal programs to manpower revenue sharing is inappropriate and short-sighted. Employment and training programs, unlike some other government functions, are best administered at the Federal level. Reduction of unemployment is a specific national goal legislated by the Employment Act of 1946. Programs to achieve this goal are best administered nationally where decisions about the type of training needed and the scope of the overall unemployment problem can be made. If manpower training is implemented at the local level, the local administrators may have too narrow a concept of the unemployment problem and may encourage programs that are short-sighted and not in the best interests of the local, but highly mobile, labor market. Our reservations concerning special revenue sharing are discussed further in Chapter IV.

The reduction in training programs is more incomprehensible when one examines the composition of these cuts. Those programs which had the highest benefit-cost ratios are being cut back most sharply. The Subcommittee on Fiscal Policy of the Joint Economic Committee recently examined the five largest training programs.[1] The staff study concluded that MDTA on-the-job training and institutional training have very high social rates of return. This is especially true of on-the-job training. The study found that disadvantaged workers who

[1] "Studies in Public Welfare, Paper No. 3, the Effectiveness of Manpower Training Programs: A Review of Research on the Impact on the Poor." A staff study of the Subcommittee on Fiscal Policy, Joint Economic Committee, Nov. 20, 1972.

participated in the program experienced increases in earnings which more than covered the social cost of the training. Those who graduated from on-the-job training had an 86 percent rate of employment 6 months after completing the program compared to 74 percent for those undergoing institutional training. These results compare quite favorably with other training programs.

The other program which has demonstrated relatively high benefits in relation to cost is the Neighborhood Youth Corps out-of-school program. Studies have shown that this program had positive rates of return, especially for high school dropouts. These two programs, which are subsumed under manpower revenue sharing, will presumably be cut substantially, although it is not possible to determine the extent of the cuts in each program since they are lumped together.

The cuts in the most effective programs for training are in contrast to the sharp expansion of the Work Incentive Program (WIN) by 37 percent. Studies of WIN have shown that the placement rates of those completing the program are only 20–30 percent, compared with 70–80 percent for MDTA training. Amendments to the Social Security Act in 1971 mandated that welfare recipients register for work under the WIN program. However, the work requirement is so poorly conceived that some families are worse off if the husband works than if he refuses to participate in the program and loses some of his benefits. Our staff study concluded that "high benefit reduction rates confronting many AFDC recipients may discourage work effort and hinder the success of the program . . . Regardless of the amount of earnings, if an AFDC father is employed more than 100 hours a month, his family is ineligible for assistance."

Furthermore, the penalties which can be imposed on those who refuse to participate have been ineffective; first, because the severe penalties are difficult to administer, and second, because a family may be better off by accepting the penalty than by participating in the program. At the very least, the WIN program should be reexamined by Congress and reformed to eliminate the strong disincentives to work.

More ideally, Congress should examine the rationale behind training programs. Tying income maintenance to training programs is probably the least efficient way to solve both problems. The HEW special Task Force on Work in America recommended late last year that "the majority of these programs for the disadvantaged would undoubtedly be more effective if we distinguished between the purposes of the income maintenance and manpower strategies. Instead of building a welfare strategy with so-called work incentives, we need to have a work strategy which does not penalize people who want to work. If work itself were refurbished and made the incentive, neither coercion nor pressure on existing welfare recipients—who are in no position to resist—would be needed." [2]

Essentially the task force recommended that a national goal to provide jobs for all those willing and able to work would preclude the need for the punitive aspects of programs like WIN. The great majority of welfare recipients would prefer the dignity of a paying job to income support payments, if they were not penalized economi-

[2] "Work in America." Report of a Special Task Force to the Secretary of Health, Education, and Welfare, December 1972.

cally for taking that job. This Committee endorses a long-term full employment goal of an unemployment rate of 3 percent or less. If this goal is adopted and implemented through job creation policies, programs such as WIN should and can be eliminated or drastically reformed.

Structural problems in the labor force impede achievement of our full employment goal. The proposed cutbacks in training programs in the 1974 Budget are poorly timed, since the number of new and re-entrants into the labor force is very high. Moreover, those programs which showed the largest benefits in relation to costs have been cut back most sharply. At the very minimum, funding for manpower programs at levels prevailing in the 1973 Budget should be continued. Congress should re-examine and reform the Work Incentive Program. Additional programs to deal more effectively with the particular problems of women, young people, and minority groups in the labor force should be developed.

Economic Status of Women

While we applaud recognition in the President's Economic Report of the economic role of women, there are no recommendations in the Administration's program to deal with the employment-related problems of women. As the President's Report points out, Title VII of the Civil Rights Act prohibits discrimination in hiring and compensation on the basis of sex. Last year Congress empowered the Equal Employment Opportunity Commission (EEOC) to bring suit against noncomplying firms. Congress also increased appropriations for the EEOC to enable it to file suits. These funds are projected to increase substantially again this year. In spite of a significant increase in funding and personnel, the backlog of cases is as large as 2 years in some EEOC regional offices. Since the Commission has only had the power to bring suits since March 1972, it may be too early to determine whether the backlog is due to an inefficient operation or to a lack of attorneys. Congress should investigate the EEOC's activities within the next six months, and if necessary provide funding for additional attorneys if the administrative problems have been resolved at that time.

Congress also should extend coverage of the Fair Labor Standards Act to household workers, who still lack the protection of the Federal minimum wage. Furthermore, laws affecting Federal employment should be reformed. Under present law, a male member of the military automatically receives quarters allowance and medical benefits for his wife, but a female member receives the same for her husband only if he is dependent on her. Nor is free education at military schools equally available to children of female personnel and children of male personnel.

Another area where discrimination persists is in the tax treatment of married couples when both husband and wife work. The tax reforms of 1969 sought to eliminate the discrimination against single taxpayers vis-a-vis couples filing joint returns. In so doing, the tax laws replaced an inequity against one group with inequity against another. As a result, married couples where both work may pay Federal income taxes up to $2000 higher than if both were single and filing separate returns. The tax writing committees of Congress should correct this unequal treatment of married working couples in any tax legislation passed this year.

Discriminatory provisions against women also exist in the payment of Social Security benefits and in the availability of credit. Under present law, a wife who for many years has worked and paid Social Security taxes often receives benefits no larger than if she had not worked at all. A retired couple where both husband and wife have worked may receive less in benefits than a single-breadwinner family which had the same or lower total earnings and paid less Social Security taxes. To ease these problems, Congress should permit Social Security benefits to be paid on the basis of a husband's and wife's combined earnings record.

Social Security devalues the contribution of working women in other ways. When a husband dies or retires, his wife may draw on his Social Security regardless of her income; however, when a wife dies or retires, her husband may draw only if he received at least half of his support from her. Similarly, the benefits going to a family when the mother dies are lower than the benefits to a family when the father dies.

Women face discrimination not only in earning money and paying taxes on it, but also in spending it. Women do not have access to credit on an equal basis with men. Congress should give women legal protection against discrimination in the extension of all forms of credit, especially loans to buy a home. Congress also should require that life insurance, automobile insurance, and medical insurance be made available to women on an equal basis with men.

Congress should examine the operations of the Equal Employment Opportunity Commission to determine whether additional attorneys and other staff are needed to reduce the backlog of complaints. Congress should further correct through legislation the inequitable tax treatment of married working couples vis-a-vis other taxpayers, and the discriminatory provisions against women with regard to Social Security, military benefits, and credit availability.

Structural Rigidities in Product Markets

Year in and year out, even in times of excessive inflation, the Federal Government adheres to policies, such as import controls and certain kinds of regulatory rulings, that constitute barriers to competition, higher productivity, and lower prices for goods and services. While there may be reasons for retaining these rigidities in the economic structure, they should be reviewed regularly and eliminated where possible. Moreover, the government often fails to exploit legitimate possibilities to curb price increases, such as more vigorous antitrust enforcement and, in the past year, prompter relaxation of agricultural output restrictions.

Action to reduce the structural barriers to lower prices—combined with more effective adjustment assistance—would permit the economy to move closer to full employment without excessive inflation. The

92-659 O - 73 - 4

present resurgence of inflation makes effective action more necessary than ever.

The Administration's record in this area leaves much to be desired. In 1970, the President set up the Regulations and Purchasing Review Board to investigate the price impact of government policies. Its efforts came to naught. In early 1972, the Council of Economic Advisers promised to make "an intensive study" of structural reforms. At hearings held in October, the Committee was told that the Council was pressing this study and that the 1973 Economic Report would recommend ways to deal with these obstacles. However, nothing is said in the Economic Report on this subject and the Council of Economic Advisers did not supply any substantive material on this subject in response to the request made by this Committee at our annual hearings.

Agriculture

In the past year, the Administration took no action to relieve shortages of grain and meat until these shortages had become critical and prices had reached record levels.

Last July, when the magnitude of the Russian crop disaster was well known and massive Russian purchases were being made, the Department of Agriculture announced a restrictive U.S. wheat program for 1973 and refused for six months to correct this error. Moreover, the U.S. wheat shortage was aggravated by the continuation of export subsidies long after the prospect of this shortage was clear.

At present, carryover stocks are seriously depleted and the Russian wheat crop appears to be off to another poor start. Thus any significant crop shortfall this year could set off a new round of price increases. Regarding the need for further action to expand U.S. output, one witness, Dr. John Schnittker, told the committee:

> There is every indication in today's markets that further changes may be required, doing away with all or nearly all remaining agricultural production restrictions for 1973 . . . the U.S. can afford to err only on the side of plenty.

The case of meat is similar. Very large areas were taken out of feed grain production for 1972 by the Department of Agriculture. In June, when beef prices already were high, the Department was urged to encourage expansion of herds by permitting grazing on the idle land. It ruled against this action. Six months later, when the meat shortage had become worse, this ruling was reversed. Import restrictions on meat were removed in June 1972, but this move has not been very effective in boosting supplies and constraining prices. It should not be overlooked that 15 to 20 million acres of land are still being diverted from feed grain production in 1973.

In his 1973 Natural Resource Message, the President appears to propose changes in the legislative framework for agriculture policy which would move toward reducing subsidies to this sector. While we favor elimination of subsidies that are not necessary to sustain farm output and the incomes of farm families, any new policy must assure that these two goals are met.

While we support the belated moves to increase agricultural production, prompter action in response to well-known changes in market conditions would have eased the increase in consumer prices that now threatens to upset the present economic recovery. Additional moves to expand production in 1973 should be taken.[3]

Import Quotas

The Administration also delayed in liberalizing oil imports until the situation became critical. It took measures in December that were too late to help much last winter and too limited to ease the long-run shortage. Unlimited imports of heating oil were authorized until April 30, but there was not much heating oil to be had on short notice in mid-winter. The 1973 import quota for crude oil also was expanded, but this too was an empty gesture because the U.S. has little additional refining capacity, especially in the East.

The oil shortage will not disappear with the end of this year's heating season. The economic recovery is rapidly boosting industrial and transport demands for oil, and record sales of automobiles with reduced fuel efficiency are boosting the demand for gasoline.

The best response to our present situation is the indefinite suspension or abolition of the oil import quota system. Although this step has been highly controversial in the past, the present system is no longer tenable, and the present high-level parity between the delivered prices of U.S. and foreign crude means that abolition now would not cut domestic production or hurt American producers or importers. Over time abolition should increase domestic refining.

Elimination of import restrictions is necessary now to reduce upward pressures on oil prices in the United States. Moreover, continued restriction of imports will discourage construction of new refineries in this country and will cause the shortages to shift from one oil product to another and from one part of the country to another as our reserve fuel stocks run down.

Regarding other trade barriers, the Committee believes that the major exchange-rate reforms of the past 20 months will permit American industries—after an adequate transition period—to compete more effectively in domestic and foreign markets. This long overdue development should allow further progress toward trade liberalizations of particular benefit to consumers. One of the first liberalizing steps should be the relaxation of "voluntary" quotas on steel and textile imports to the U.S. The cost to consumers of import quotas on wool and synthetic textiles has recently been estimated at $1.9 billion per year. The question of trade policy is discussed further in the recent report of our Subcommittee on International Economics.[4]

Oil import quotas should be abolished immediately.[5] "Voluntary" agreements to control steel and textile imports

[3] Senator Humphrey states: "Changes in agricultural policy must not expose farmers to risks that farm prices will fall below the level necessary to provide the farmer with a decent income and a fair return on his investment."

[4] "A New Initiative To Liberalize International Trade," March 1973.

[5] Senator Bentsen states: "It should be noted that a perverse effect of the recent increase in the import quotas for crude oil has been to decrease rather than increase the utilization of some domestic refining capacity. Due to the reduction in the value of import tickets which independent refiners previously traded for domestic crude and the inability of many such refiners to process the high sulfur foreign crude, they are actually producing less product than before the relaxation

should be relaxed in the context of multilateral negotiations to reduce world barriers to trade.[6]

Federal Regulatory Practices

Federal regulation of industry also contributes to maintenance of excessive prices and inefficiency, particularly in the field of transportation. The establishment of the Interstate Commerce Commission in the 1880's was justified at that time because the railroads were exploiting a virtual monopoly. This monopoly ceased to exist for most purposes with the advent of automobiles, trucks and pipelines. A recent study submitted to the Joint Economic Committee cites an estimate for the total cost to the economy of cartel rates and inefficiencies imposed by the ICC of about $5 billion per year above the cost of shipping without regulation.[7] Although there is reason to retain regulation for certain kinds of shipments—primarily bulk cargoes—for which competition still is limited, serious consideration should be given to suspending Federal rate-making for the large majority of shipments and to ending interference with changes in technology and routes.

Another aspect of transport regulation requiring critical review is regulation of interstate air passenger fares by the Civil Aeronautics Board. Recent analyses have concluded that regulated fares on major interstate routes are substantially higher than competitive levels. Airlines often compete away these high passenger-mile revenues through excessive investment in aircraft and facilities and too many flights with low average seat occupancy. Experts suggest that lower fares need not lower airline profits because airlines could respond with moves to raise seat-occupancy rates. As in the case of freight deregulation, such changes can be made with least difficulty to the carriers in a period like the present when, due to cyclical expansion, demand is rapidly approaching industry capacity.

These are only the latest of a gathering mass of investigations that conclude that many aspects of existing regulation are not in the public interest. This does not detract, however, from the continuing need for regulation of prices and service in situations of true monopoly.

The Committee is concerned by evidence that some regulatory practices, particularly in the transportation field, are quite costly to the consumer and possibly are no longer justifiable. We suggest a careful evaluation of the need for reforms in this area.

Anti-Trust Policy

With respect to anti-trust policy, it is evident that enforcement has been lax if not moribund in the recent past. The disposition of

in imports. While I support changes in the present import program those changes should insure the survival of independent refiners and marketers of gasoline which have traditionally provided a healthy competitive influence in this industry."

[6] Senator Humphrey states: "Some voluntary quotas may need to be maintained if their removal would have a direct adverse effect on the economy of an area."

[7] George W. Hilton. "The Costs to the Economy of the Interstate Commerce Commission," in "The Economics of Federal Subsidy Programs: Part 6—Transportation Subsidies," Washington, Joint Economic Committee, 1972. See also Thomas G. Moore, "Freight Transportation Regulation," American Enterprise Institute, Washington, 1972.

the ITT case is well known. The IBM case and the investigation of so-called "conglomerate" firms by the Department of Justice seem to be at a standstill. Few other actions have been brought.

In this connection, Chairman Arthur Burns of the Federal Reserve Board stated before the Committee:

> . . . Not a few of our corporations and trade unions now have the power to exact rewards that exceed what could be achieved under . . . active competition. As a result, substantial upward pressure on costs and prices may emerge long before excess aggregate demand has become a problem. . . . As far as our anti-trust laws are concerned . . . we need even stricter enforcement.

We concur.

Enforcement of anti-trust violations must be stiffened.

Stockpile Disposal

As one more example of government actions not consistent with price stabilization, it appears that the managers of Federal stockpiles recently have withheld scheduled disposals of aluminum, lead, and zinc from the market at times when prices were being raised by the companies producing these metals. By doing so, they have facilitated the price increase. We welcome the President's recent statement that stockpile disposals will be increased to counter current inflationary pressures.

> **The additional stockpile disposals recently proposed by the President should be promptly reviewed by Congress and sales to counter current inflationary pressures should be approved to the maximum extent consistent with national security requirements.**

Matters treated here are but a few of many possible structural reforms. We have addressed those that seem to offer unique opportunities for action now. The list of possible reforms could be extended to include sugar import quotas, the Jones Act, the Davis-Bacon Act, the Buy American Act and others.

Chapter IV. MEETING PUBLIC NEEDS THROUGH TAX AND SPENDING REFORM

The Committee welcomes the professed interest in economy in government and expressed concern to make government more responsive to the average citizen which are stressed in the President's Budget Message this year. During previous years of this Administration, in fact, we have called for a reordering of national priorities, the elimination of outmoded and ineffective government activities, and greater Federal efforts to ensure that low- and moderate-income families share in the benefits of our economy. In addition, the Committee and its Subcommittees have actively worked to achieve these ends through hearings and studies on income distribution, Federal subsidies, defense procurement, tax reform, and other aspects of national priorities and government efficiency. It is this experience, however, that forces us to conclude that the President's budget rhetoric is not matched by a thoughtful and genuine program of budget reform.

The Budget Message erroneously attributes the growth of Federal spending in recent years almost entirely to Congress, claims budget savings for clever bookkeeping manipulation as well as true program cuts, and applies frugality in an uneven way. While social programs for low- and moderate-income people are critically reviewed, and significantly cut, national defense, space, foreign aid, and business subsidies are left untouched. In lieu of carefully documented studies justifying the cuts in social programs, the Congress has so far been offered only undocumented assertions that programs are bad. Finally, the President's budget ignores the need for an improved tax system and offers no program initiatives to meet pressing domestic needs.

This Chapter outlines the tax reforms and changes in the expenditure mix which we believe Congress should examine during its review of the President's budget.

Tax Reform

Last June, President Nixon indicated that the Treasury Department had been conducting an intensive study to determine how we could reform the Federal tax system to make it more simple and equitable. He said that "considerable progress has been made. Secretary Shultz is continuing these [tax] studies and I will make a decision on it prior to submitting the budget and will present recommendations to the next Congress dealing with these issues." The Budget and the President's Economic Report have now been presented but with no mention of tax reform. In addition, the testimony the Committee received from the Secretary of the Treasury and the Chairman of the Council of Economic Advisers provided no indication that the Administration's commitment to provide tax reform proposals would be met. In fact, every effort has been made by Administration spokesmen to downgrade the importance of tax reform and focus attention only on the expenditure side of the budget.

The Federal revenue system has lost much of its revenue producing power by the widespread introduction of exemptions, deductions, credits, preferential rates, and other special tax privileges. The combined effects of major tax changes which have gone into effect since January 1, 1971 (excluding social security) have been to reduce Federal revenues by $9 billion in fiscal 1972; $14 billion in 1973; and $16 billion in 1974. Many of these special privileges were placed into the tax law for admirable purposes, such as stimulation of economic growth, encouragement of exports, accelerated development of certain natural resources, or the stabilization of overall economic activity. While some of the provisions may efficiently achieve these objectives, others do not. Moreover, these tax privileges greatly reduce the tax burdens of large corporations and wealthy individuals.

The individual income tax burdens, for example, bear almost no relationship to the Internal Revenue Service statutory rate schedule that runs from 14 to 70 percent. The Department of the Treasury's data show individuals with adjusted gross incomes above $200,000 paying an overall effective tax of only 46 percent in 1970, and this rate seriously overestimates the true tax burdens of this group. Adjusted gross income by definition excludes large amounts of preference income, such as capital gains, tax exempt bond interest, and excess depletion. When such preference income is added to the adjusted gross income measure, it is estimated that taxpayers with incomes in excess of $200,000 a year paid an effective rate averaging about 30 percent. Many wealthy individuals pay far lower rates, and some continue to entirely escape the Federal income tax.

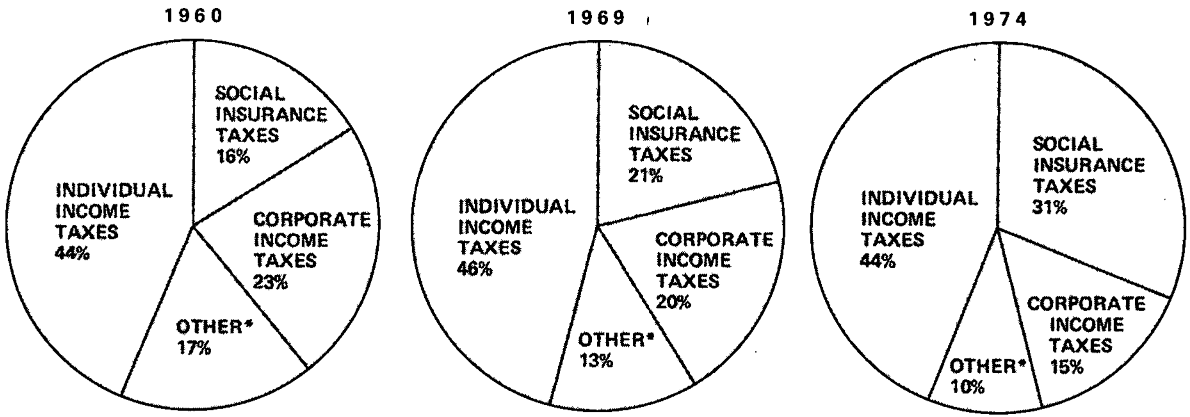
In 1969 Congress responded to the outrage created by 154 high income individuals who paid no tax by instituting a minimum tax. Unfortunately, this tax has had little effect. The tax base for the minimum tax does not include many items of preference income such as interest from tax-exempt bonds, interest on life insurance savings, intangible drilling and development expenses, or the accrued gain on property transferred at death or by gift. The present law also allows taxes paid on regular income to be deducted from the minimum income subject to tax, and the first $30,000 of preference income is exempt from the minimum tax. Because the minimum tax itself is deficient, in 1970 there were still 111 Americans with an adjusted gross income over $200,000 who paid no tax. But these 111 "no-tax" payers are only the exposed portion of a much larger group. For those who did pay some minimum tax, the rate paid on preference income averaged only about 4 percent for those with adjusted gross incomes of $100,000 and over. If the minimum tax is to be effective it must be strengthened.

In a similar fashion, corporate income tax burdens have been seriously erroded by special tax privileges. Some of the largest corporations escape the Federal corporate income tax almost entirely, even in years when they have substantial profits. Although the data is sketchy, it appears that nine of the country's top 86 industrial corporations made $682 million in profits but paid no Federal taxes in 1970. Another thirteen of the top eighty-six corporations had effective tax rates of 1 to 10 percent even though their profits totaled more than $3 billion. Since 1970 the corporate tax base has been further eroded by the introduction of the Asset Depreciation Range (ADR) and the investment tax credit.

The overall result of the decline in the individual and corporate income tax rates has been to shift the composition of the Federal tax system away from our most progressive taxes. Chart 3, showing Fed-

CHART 3

PERCENT OF FEDERAL BUDGET RECEIPTS, BY SOURCE



* Other includes excise taxes estate and gift taxes, customs duties and miscellaneous receipts.

eral receipts by source for fiscal years 1960 and 1969, and Administration estimates for fiscal 1974, illustrates this trend. Individual income taxes drop as a share of the total tax burden from about 46 percent in fiscal 1969 to an estimated 44 percent in fiscal 1974. At the same time corporate income taxes drop from 23 percent in 1960 to 20 percent in 1969, and then to an estimated 15 percent in fiscal 1974. Looking at just the last five years, this represents about an 11 percent decline in the proportion of total receipts represented by our most progressive Federal taxes. Over the same period social insurance taxes rose from 21 percent to an estimated 31 percent of total Federal receipts. Thus, the effect of the revenue changes from fiscal 1969 to 1974 has been to shift the tax burden away from the relatively progressive income taxes to the more regressive payroll taxes.

The erosion in the income tax might be acceptable if these special privileges yielded public benefits equal to or greater than their costs. A somewhat distorted distribution of tax benefits might be the price that must be paid for an accelerated depreciation provision that efficiently stimulates the production of quality housing, or of a capital gains provision to stimulate a significant increase in economic growth. But available evidence suggests that most of these provisions are not worth the revenue lost to provide them. Evaluations recently undertaken by private experts at the request of the Joint Economic Committee of seven tax subsidies worth a total of at least $15 to $20 billion a year found that the subsidies didn't work at all, didn't work efficiently, or had adverse effects on the economy.[1]

Because many of these tax subsidies or privileges do not make a positive contribution to the performance of the economy, they can be eliminated, or reduced gradually, without detrimental effects to the economy. A period of strong economic expansion is the time to make such reforms. To increase tax equity and provide needed revenues, we suggest reform of a number of tax subsidies and special provisions as listed in the following recommendation. Depending on the precise nature of the revisions, the annual revenue savings from these reforms could be from $10 to $20 billion.

In addition to problems in the individual and corporate income tax systems, the manner in which we tax accumulated wealth passed from one generation to another is unsatisfactory. The Federal estate tax appears to be highly progressive, increasing from 3 percent to 77 percent. In practice it has not been an effective device for raising revenues, improving income distribution, or preventing the accumulation of massive amounts of wealth. In 1966 the average rate of tax was 26 percent on estates having an average value of $270,000. By 1970 this had declined to an average tax of 12 percent on an average estate of $204,900. Over the same period the percentage of Federal revenues raised by estate and gift taxes fell from 2.3 percent to 1.9 percent.

Estate and gift taxes need to be reformed and two provisions of the current law are most in need of change. First, the treatment of capital gains at death allows vast sums to go untaxed and treats the same amount of wealth held in different forms unequally. Experts have estimated that in 1966 approximately $11.5 billion of long-term capital gains escaped taxation, and by 1972 this had increased to approxi-

[1] "The Economics of Federal Subsidy Programs, Part 3, Tax Subsidies." Compendium of Papers. July 15, 1972.

mately $16 billion. Secondly, under current laws, wealth transferred as a gift is taxed at lower rates and on a lower base than wealth transferred through an estate, thus encouraging avoidance of estate tax.

The Administration's continued opposition to reforming the revenue side of the budget is regrettable. We urge Congress, after completing a careful reexamination of the tax code, to enact revenue-raising tax reform by eliminating or revising the following provisions in the individual and corporate income tax systems: corporate and individual capital gains, Asset Depreciation Range, investment tax credit, mineral depletion allowance, expensing of exploration and development costs, excess depreciation on buildings, and foreign tax preferences. To the extent that these and other types of preference income continue to escape taxation, the minimum income tax should be made more effective by expanding the tax base, reducing the $30,000 exemption, and eliminating the deduction for taxes paid on regular income. The Federal estate and gift taxes should also be consolidated and capital gains should be fully taxed at death. A Federally supported alternative to the tax exempt bond as a means of State and local finance should be established.[2] [3]

Expenditure Reallocation

Regrettably, the Administration appears embarked on an effort to use the spending issue as a political device rather than an opportunity for true reform. The Budget document distorts and disguises the true nature of the budget "cuts" and reallocations in both fiscal 1973 and 1974. The Administration's recent actions which violate the clear intent of Congress with regard to certain major domestic programs have raised a serious constitutional issue.

Congressional and Administrative Control Over Spending

The fundamental and difficult question of the sharing of constitutional powers and responsibilities between the Executive and Congress is not addressed in a constructive way in the President's budget program. While there is, of course, some need for executive discretion in the management of Federal funds, this discretion should not encompass the refusal to implement or continue programs for which Congress has authorized and appropriated funds. The granting of such discretion to the Executive would destroy the power of Congress to direct that funds be spent for designated purposes. Whatever may be the merits of the OEO, or low- and moderate-income housing subsidies, or manpower programs, these Government activities deserve a thorough hearing in Congress before they are eliminated or significantly altered. The Administration's effort to dictate the allocation of funds within the budget is unacceptable.

---

[2] Senator Proxmire states: "The revenue realized through these tax reforms can be used to make other equity improvements in the tax system such as ending the discrimination against working married couples discussed on p. 45 and reducing the exploding burden of the regressive social security tax."

[3] Senator Bentsen states: "The House Ways and Means Committee is currently holding hearings on each of the items mentioned in this recommendation and I reserve judgment until the Senate Finance Committee considers these matters later this year."

All major changes in spending programs should be undertaken in full consultation with the Congress. Impoundments and administrative reprogramming which destroy the legislative mandates of Congress should not be tolerated.

Misleading Aspects of the Budget Presentation

The Administration has repeatedly implied that it was "unconstrained" congressional spending that threatened to push fiscal 1973 outlays from the President's proposed budget figure of $246 billion to $261 billion, an increase of $15 billion. An examination of the composition of the $15 billion, however, reveals this is not true. The President's fiscal 1973 budget proposal to spend $246 billion was raised to $250 billion by the Administration itself, which felt that additional outlays of $1.2 billion for Vietnam, $1.5 billion for hurricane Agnes, and various other supplementals were necessary; $2.6 billion was due to an Administration request to shift fiscal 1972 revenue sharing into fiscal 1973. Another $1.6 billion was an increase in interest payments on the public debt. Congress launched spending initiatives to increase social security benefits by $2.8 billion (partially offset by increased social security taxes), establish black lung benefits of about $1 billion, and increase revenue sharing payments by $1 billion. Most of the remaining "unconstrained" spending growth is a projection of what the social services grant program would have cost if Congress had not put a $2.5 billion ceiling on it during the last session.

Thus, the potential $15 billion increase in fiscal 1973 spending over the President's original budget proposals consisted of roughly $6½ billion in presidential spending initiatives, $1½ billion in uncontrollable spending increases, $5 billion in congressional spending initiatives, and $2 billion in imaginary cost increases for the social service grant program. Even these distinctions oversimplify the issues, however, because virtually all the spending initiatives were eventually supported by both the Congress and the President.

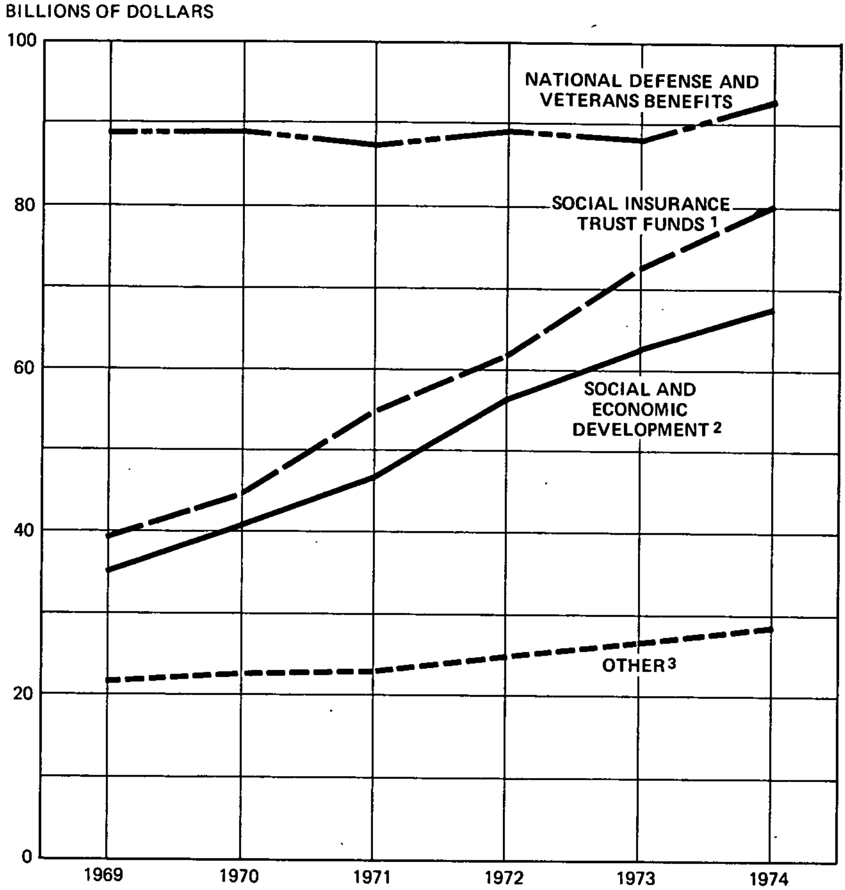
In addition to exaggerating the impact of congressional action on spending, the Administration exaggerates the savings it has proposed in the 1974 budget through the use of a wide range of timing changes, asset sales, projected receipt increases, reductions in artificially inflated expenditure estimates, and other bookkeeping devices. Increases in Outer Continental Shelf oil lease sales are hypothesized to increase receipts. The automatic shifting of unemployment and retirement costs to the privitized Post Office is considered a saving. And again the social service program reductions enacted by Congress are presented as savings made by the Administration. These misrepresentations can only mislead the Congress and the American people about the nature of the true way in which the President has altered the pattern of Federal spending.

Budget Trends

Another shortcoming in the presentation of how resources are being spent is the discussion of budget trends in terms of three categories—human resources, national defense, and other. Lumped together into the "human resource" category are such disparate things as social insurance trust fund expenditures, education and manpower expendi-

CHART 4

BUDGET TRENDS



1 - Social Insurance Trust Funds includes, Retirement, Social Security, Medicare and Unemployment benefits.
2 - Social and Economic Development includes education and manpower; health (excluding Medicare); agriculture and rural development; natural resources and environment; commerce and transportation; community development and housing; public assistance and services; general revenue sharing, and allowances for civilian pay raises and contingencies.
3 - Other includes international affairs and finance; space research and technology; interest; general government

SOURCE: Budget of the U.S. Government, 1974.

tures and veterans' benefits. This presentation does not show the Administration's influence on governmental solutions to major domestic problems. A more informative functional division of spending can be developed by including veterans' benefits in national defense because it is a defense-related expenditure; separating out self-financing social insurance funds; and creating a social and economic development category which would show what the nation is spending in the important domestic areas of education, manpower, health, environment, agriculture, transportation, housing, public assistance, and revenue sharing. As Chart 4 illustrates, social insurance expenditures have risen most rapidly in recent years, with defense spending taking a disturbing jump in 1974 despite the end of hostilities in Vietnam. Spending on social and economic development, on the other hand, has shown a reduction in the rate of growth.

The Budget Margin

A helpful way of examining year to year changes in the budget is to look at how the Administration proposes to allocate the budget margin. Although this margin is not always the best measure of changes in real resource commitments, it does show clearly the funds available for shifting in a given fiscal year. Table 6 summarizes the major shifts between fiscal 1973 and 1974 by showing the sources and uses of the budget margin.

The major source of the margin is the proposed overall increase in budget outlays from $249.8 billion to $268.7 billion. To this $18.9 billion must be added the proposed program cuts from fiscal 1973 levels of $8.4 billion. In addition, there are some requests for legislation which will affect outlays in 1974. These are shown as increases in the sources of the budget margin because, if enacted, they would reduce otherwise uncontrollable outlays and thereby free funds for other purposes. Other items included in the budget margin are primarily accounting changes which have only limited effects on real resource allocation.

Some of the items in this table have been changed since the Budget was released in January. Proposed reductions in certain veterans benefits, for example, have been withdrawn. Nevertheless, the program-by-program listing of items which increase the budget margin provides a good indication of the items lowest on the Administration's list of priorities.

Uses of the budget margin can be divided into those increases which are relatively uncontrollable, such as trust fund expenditures and interest on the national debt, and those increases over which the Administration has considerable discretion. In fiscal year 1974, the controllable increases total over $10 billion. Most of the increase is for the Department of Defense, with Education Revenue Sharing also representing a large increase. While the uses of the budget margin do not include any new spending initiatives, they illustrate the Administration's desire to continue and expand spending for international affairs, pollution control, law enforcement, and transportation subsidies.

TABLE 6.—MAJOR CHANGES IN BUDGET OUTLAYS, FISCAL YEAR 1974

[In billions of dollars]

Sources of budget margin:		
Increase in total outlays over fiscal year 1973		18.9
Major reductions in outlays from fiscal year 1973, by program		8.4
Aid to elementary and secondary education	1.7	
School assistance in federally affected areas	.3	
Vocational education	.2	
Net reduction in training programs due to introduction of manpower revenue sharing	.3	
Emergency employment assistance	.5	
Unemployment benefits	.7	
Office of Economic Opportunity	.4	
Social service grants to States	.5	
Welfare grants to States	.4	
Benefits for disabled coal miners	.5	
Disaster loans (Small Business Administration)	1.0	
Agricultural price support and related activities (Commodity Credit Corporation)	.7	
Rural environmental assistance program	.2	
Water resources and power	.3	
Forest Service road construction	.1	
Highway construction	.2	
Postal Service subsidy	.3	
Educational benefits for veterans	.1	
Proposed legislation to reduce otherwise uncontrollable outlays		1.3
Social security	.3	
Medicaid and medicare	.5	
Welfare grants to States	.2	
Veterans benefits	.3	
Changes in credit programs and in asset sales		−2.4
Reduction in receipts from agricultural credit program	−.4	
Rural Electrification Administration	.2	
Reduction in rural housing asset sales	−.2	
Reduction in royalties on Outer Continental Shelf lands	−2.0	
General revenue sharing, timing shifts		.8
Total budget margin		27.0
Uses of budget margin:		
Relatively uncontrollable increases		16.2
Honoring past housing commitments	.9	
Mortgage insurance defaults	.5	
Medicare	3.0	
Medicaid	.9	
Social security	6.0	
Federal employee retirement	.4	
Railroad retirement (requires legislation)	.2	
Supplemental security income (welfare)	2.1	
Veterans benefits and services	.2	
WIN (work incentives job training program)	.1	
Interest on the national debt	1.9	
Relatively controllable increases		10.8
National defense	4.7	
International affairs	.5	
Pollution control and abatement	1.0	
Law enforcement	.2	
Space research	.1	
Mass transit	.1	
Airport and airways	.1	
Shipping subsidy	.1	
Heart and cancer research	.1	
Education revenue sharing	1.7	
Higher education—student assistance	.2	
Emergency school assistance	.1	
Allowance for contingencies and civilian agency pay raises	1.3	
Other	.6	
Total budget margin		27.0

Unfortunately, the budget margin concept is useful primarily for analyzing only very short-run changes. Major changes which have longer run implications are: a moratorium on housing subsidy commitments which will not be fully reflected in the Budget until fiscal 1975; a shift in Rural Electrification Administration loans from direct loans at 2 percent to insured loans at 5 percent; and a shift away from direct education loans to students toward a combination of grants, insured loans, and work-study jobs.

Congressional Review of the Budget

Once the major proposed changes in funding levels have been identified and separated from the bookkeeping gimmicks, these proposals must be examined and justified. Unfortunately the President has chosen to present Congress with a *fait accompli* supported by simplistic and conflicting reasoning. The Budget tells us, for example, that the Community Action program "has had an adequate opportunity to demonstrate its value" and therefore Federal funding can be eliminated. Housing subsidy programs have been "plagued with problems" and therefore additional money cannot be committed to them. People who remain unemployed at the end of 1973 will "need more assistance than is possible under" the emergency employment assistance program and therefore the program will not be continued. No more than these brief assertions have been offered as justifications. While some of the program reductions and terminations are commendable and could be justified, others are highly debatable. A recent Subcommittee report on housing, for example, found that the major shortcoming in our housing policies lies with their poor management rather than with the program formulation. The need is not to halt the housing programs but to reform the management of them.

In focusing attention on the many programs that have been reduced or terminated, programs that have been continued are overlooked. Clearly there is ample room for major cuts in the defense budget. But there are other programs which could be reduced in favor of higher priority items; these include highway construction, the space shuttle, some public works construction, maritime subsidies, and foreign military aid.

The Administration is correct in emphasizing the need for spending reform designed to eliminate outmoded and inefficient Government programs. However, the list of reductions, terminations, and timing alterations as presented in the Budget is neither correct nor complete. The Congress should join with the President in pursuing a spending reform of both domestic programs and national security programs. Major spending changes, however, should be based on a complete economic analysis of the current impact of the program as well as an evaluation of how the change will affect national output, employment, prices, and the distribution of income. The Congress should not accept the President's lopsided priorities of more for national security and less for domestic needs. In order to fully evaluate and make changes in the President's budget recommendation, Congress should provide itself with more professional staff to analyze the Budget.

Expenditures can be significantly reduced in areas the Administration has failed to cut such as defense and foreign military aid. Funds should be restored to meet pressing domestic needs for housing, health, manpower and anti-poverty programs.

The Administration should supply adequate economic analyses in support of proposed program changes.

Congress should increase its professional staff for analyzing the budget.

Poverty and Welfare Reform

The concept of poverty has disappeared from government publications following an administrative edict which substituted "low-income" for poverty. But an unconscionably high level of poverty persists because of sluggish economic performance, inadequate job opportunities, and ineffective welfare programs. In the face of an increase in poverty in the last two years, the Administration is eliminating our major poverty program.

The steady rate of decline in the 1960s in the proportion of the population with incomes below the poverty line leveled off in 1969 and both the numbers and proportion of the population in poverty actually increased slightly between 1969 and 1971. This reversal of the trend is demonstrated in Chart 5 which shows the annual increase or decrease in the number of persons below the poverty line. In 1960, 22.2 percent of the population was counted as poor. This proportion was reduced to 12.1 percent in 1969, but increased to 12.5 percent in 1971. In 1971, 25.6 million persons were poor, as compared to 24 million in 1969 and 40 million in 1960. Among persons age 65 and over the proportion living in poverty continued to decrease between 1969 and 1971, largely due to increases in social security benefits. Nonetheless, 22 percent of aged persons were still below the poverty level in 1971.

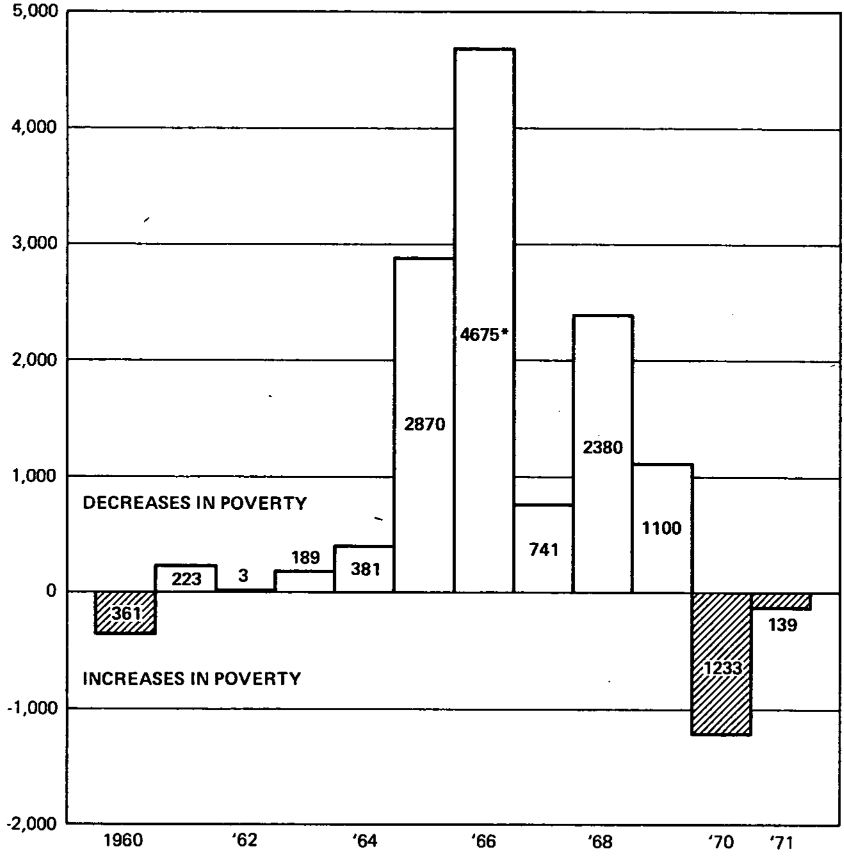
The value of the work ethic and self-reliance which are so stressed by the Administration are not by themselves an antidote to poverty. Three-fourths of working age men heading poor families worked in 1971, and one-half of those who worked were employed all year at full-time jobs. Many of their wives also worked—45 percent of the wives in black families and 34 percent of white wives. Among women who headed families in 1971, 41 percent worked during the year, and almost one out of five worked full time, all year. The evidence is overwhelming that the poor are both willing to work and do work if they are physically able, if jobs are available, and if their work effort is not excessively penalized by loss of benefits under poorly designed welfare programs.

Little progress has been made in reducing poverty in recent years primarily because there have been inadequate job opportunities. A sluggish economy, inflation which reduces the value of increased earnings, and high unemployment among low-skilled workers in the last few years explains why poverty has increased. Even in years of expanding economic conditions and lower unemployment, poverty persists for many working people who depend on low wages in marginal employment.

CHART 5

CHANGES IN NUMBER OF PERSONS AT OR BELOW POVERTY LEVEL OF INCOME 1960 - 1971

[Thousands of Persons]



*Change includes data revision.

SOURCE: Bureau of Census, Department of Commerce.

The Administration's budget proposals ignore the problems of low wages in marginal employment, high unemployment rates of low-skilled workers, and the poverty of working people. The Administration has abandoned its own plan for providing assistance to families of the working poor. Instead, budget savings in the Federal cost of welfare programs are to be realized by penalizing the States for errors in eligibility and overpayments. This may have a cosmetic effect and may assuage public attitudes, but does nothing about the basic problems of administrative complexities and inconsistencies in welfare programs which confront needy recipients as well as administrators.

Another reason for the ineffectiveness of Federal policies to reduce

92-659 O - 73 - 5

poverty is a proliferation of programs. The entire structure of publicly supported programs, including the so-called noncontrollable as well as controllable programs should be re-examined. Special attention should be given to overlapping effects, inconsistencies, and inequities in coverage of the present income support programs. This is necessary not only to improve present administrative structures, but to lay a foundation for the development of income replacement and supplement programs which are defensible and fair to all segments of the population, both taxpayers and beneficiaries.

Congress and the Administration should direct their attention toward the elimination of duplication, inconsistencies, and inequities in present poverty programs, consolidation of some programs, and elimination of in-kind programs which can be converted to cash assistance. Congress should develop a mechanism for overview of all income support programs, including a systematic review of the relationship of any proposed new legislation to existing transfer programs. Our objective should be the development of a comprehensive Federal income support program which protects work incentives and provides assistance needed to reach an acceptable minimum standard of living for all needy segments of the population—the unemployed, the unemployable, and the working poor.

Revenue Sharing

The long-sought experiment in unrestricted revenue sharing between the Federal Government and the States and localities was put into effect late in 1972. Ironically, the original premise for this device—the supposed inability of State and local governments to finance their responsibilities—no longer exists to the expected degree. Because of the stabilization of school populations, for example, the expansion of educational outlays has declined sharply. At the same time State and local tax receipts have stepped up as a result of tax increases together with the recovery from the 1970 recession. Thus, State and local governments in aggregate ran an unprecedented budget *surplus* as estimated for National Income Account purposes of over $12 billion in 1972 ($5 billion excluding trust funds), and a similar surplus is anticipated for 1973.

This fiscal recovery among States and localities, however, is far from uniform. It applies more to States than to the municipalities, and it is clear that the metropolitan cities, with their special and critical problems, continue to face great financial difficulties. Given this situation, it is urgent to point out that the formula for distributing shared Federal revenues does not adequately reflect the needs of the various jurisdictions. To make matters worse, most large cities find themselves receiving *less* Federal financial support since revenue sharing than before because of the concomitant reduction of social services funding and the recent impoundments of funds by the President. The deletion of programs in the President's proposed budget for 1974, moreover, is concentrated in areas of greatest urgency for the cities, such as housing, urban renewal, emergency public employment, job training, and education. One urban Mayor estimates, for example, that even if the new "special revenue sharing" proposed by the President is passed, his city will receive less than 40 percent of the Federal funding in 1974 that it received in 1972.

It should be noted, of course, that the Administration now places its heaviest emphasis on a different rationale for revenue sharing, the alleged desirability of decentralizing spending decisions from the Federal level to the State and local levels, and of removing Federal standards and strings. This transforms the issue from one of fiscal pragmatism to one of government philosophy.

To justify revenue sharing with the slogan, "Power to the people," as the President seeks to do, one must tie it to a scheme for allocating the monies among jurisdictions that does justice to this slogan. More basically, however, one must contend that the decisionmaking process at the local level will serve the needs of people better than those at the national level. It is not a foregone conclusion that this will inevitably be the case. It is a question that can be answered only by observation of revenue sharing and its results over time.

Despite the fact that this new fiscal system began to operate only a few months ago, and that its efficacy is far from proven, the President proposes to expand its scope to encompass Federal funding for education, manpower, community development, and law enforcement in the form of "special revenue sharing." This move would do away with Federal administration and standards for grants to States and localities in these fields and would eliminate any requirement for "matching" funds as a condition for Federal support.

Conversion to this system at the funding levels proposed in the Administration's Budget would shortchange these vital programs in the aggregate and especially, as we have seen, in the cities. We oppose this. More fundamentally, however, we urge the Congress to go slowly in enacting any special revenue sharing until we have more experience with the results of general revenue sharing. Any move to shift toward special revenue sharing through administrative action without legislative mandate—as is being done now for manpower programs—should be met with determined congressional resistance.

If and when special revenue sharing is deemed to be superior to the existing categorical grant programs or a consolidated version of these programs under Federal administration, then it should be enacted in a way to assure—

(1) That special revenue sharing formulas are constructed to achieve certain minimum national standards in the functional areas covered by the system, and that program objectives are attained more efficiently and fairly than could be done with Federal categorical grants;

(2) That the funding is set by Congress at levels such that special revenue sharing does not become a cover for cutbacks in Federal funding and commitment to these vital program areas; and

(3) That necessary reforms are achieved in the design and administration of State and local programs in these areas.

We seriously question the Administration's presentation of revenue sharing as the panacea for domestic problems. The formula for distributing funds under general revenue sharing does not give sufficient priority to the criterion of need, and this deficiency should be corrected.

Congress should monitor the results of general revenue sharing very closely during the first year of the program.

Because of the many uncertainties about the operation of revenue sharing, Congress should delay any enactment of proposed special revenue sharing until experience with general revenue sharing is collected and analyzed. In the meantime, funding of the categorical programs involved should be continued at levels Congress determines to be appropriate. We are fundamentally skeptical that the Federal Government should relinquish all responsibility in the important fields for which special revenue sharing is proposed.

Chapter V. DEFENSE AND NATIONAL SECURITY

Outlays for national defense, as defined in the Budget document, are scheduled to rise from an estimated $76.4 billion in fiscal 1973 to an estimated $81.1 billion in 1974, a rise of $4.7 billion. The President is recommending new budget authority for defense of $87.3 billion for 1974, heralding continued spending increases in the years ahead. 1975 defense spending is estimated at $85.5 billion.

Controlling Defense Spending

We find insufficient justification for these spending hikes in the Economic Report of the President or in the Budget document itself. Just as the Congress should establish a ceiling on total spending, it should also set a ceiling on defense spending. We conclude that defense spending can be reduced below the level of actual outlays in the current fiscal year without endangering national security. According to the Administration, most of the increase in outlays consists of military and civilian pay and retirement increases and "normal' 'inflation. Assuming the necessity of paying for these increases, there are a number of areas in the defense budget where they can be more than offset by significant cuts. Indeed, the elimination of wasteful and excessive defense spending will contribute to our military strength.

Sizable reductions can be made in the costs of research, development, test and evaluation (RDT&E), and procurement. Outlays for RDT&E are estimated to rise from $7.6 billion in fiscal 1973 to $8.1 billion in fiscal 1974; outlays for procurement are estimated to increase from $15.6 billion to $16.5 billion in the same period. Significant savings can be realized and cost overruns can be controlled by procuring only essential weapons systems, eliminating gold plating, and preventing lengthy delays in the production and delivery of complex systems.

Costs of the War in Southeast Asia

The budget once again fails to identify the costs of the war in Southeast Asia, despite repeated recommendations that this deficiency be corrected. However, official spokesmen for the Department of Defense released some of the figures in late January of this year. Total obligational authority (TOA) for incremental war costs is $6.3 billion for fiscal 1973 and $2.9 billion for 1974. As of the end of January 1973, an estimated $4.9 billion of the amount budgeted for 1973 has been used, leaving $1.3 billion for the remainder of the year. In terms of outlays, the amount estimated for 1973 is $5.9 million, close to the TOA for that year. But outlays for 1974 are estimated at $4.1 billion, considerably higher than the TOA figure.

Of course, Southeast Asia war costs were budgeted prior to the cease-fire in Vietnam and our agreement to remove U.S. forces from that area. The question remains whether any of these funds can now be saved. Substantial savings should be possible for the remainder of 1973 and for 1974. It may be possible to sharply reduce the amount of war spending planned for the second half of fiscal 1973. In light of the cessation of U.S. war actions in Vietnam, most of the $1 billion planned for U.S. forces in that area in 1974 should not be needed.

An additional $1.9 billion in TOA and substantially more in outlays has been scheduled for military assistance to our allies in South Vietnam and Laos. These outlays, under the present budget, could go as high as $3 billion in fiscal 1974. Current plans and future requests for military assistance to Southeast Asia should be carefully examined before being approved. It should be recalled that it was through the continuously widened use of military assistance to that area that we became involved in the disastrous war in Southeast Asia in the first place.

Contractor Bailouts

The problem of unnecessary cost overruns has been aggravated in recent years by a series of decisions to provide extraordinary relief to defense contractors who encounter financial problems. The mechanisms employed to provide financial relief, or bailouts, include restructuring of contracts from fixed-price to cost-plus types, price increases over and above the amount agreed upon in the contract, waiving of contractual rights, such as penalty clauses for late deliveries, acceptance of weapon systems with known deficiencies, loans, advance payments, provisional payment of pending claims and payment of unsubstantiated claims. In only a few instances is prior approval by or notice to Congress required. As a result, large sums are often added to the costs of procurement without Congress' knowledge, or in a way calculated to evade congressional control.

An analysis of data supplied by the General Accounting Office shows that the costs of 45 selected major weapon systems have risen by $36.5 billion over the original planning estimates for those weapons. In arriving at this figure, the dollar value of program quantity changes was taken into account. While some of the cost increases were undoubtedly unavoidable because of inflation and problems inherent in new technology, a substantial portion was caused by poor planning, poor management, and the practice of bailing out contractors who encounter financial difficulties of their own making.

Military Bases and Support Costs

Further cuts should be made in the costs of maintaining and operating domestic and foreign military bases, in other support costs, and in the area of manpower utilization. The ratio of support to combat forces is unnecessarily high. Indirect support costs for service-wide activities such as logistics, training, headquarters, communications, and intelligence, have been climbing relative to combat costs at an alarming rate. These costs have risen by 30 to 45 percent since 1964 and by 20 percent since 1968. The Brookings Institution estimates that it cost $16,800 to provide indirect support for one Army combat soldier in fiscal 1973, compared to $11,700 in 1964.

The costs of maintaining and operating military bases account for about 10 percent of the defense budget. Despite reductions over the past four years in military forces and manpower, there has not been a proportionate reduction of bases. Yet, spokesmen for the Pentagon, such as former Deputy Secretary of Defense David Packard, have estimated that $1 billion annually would be saved if excess military bases were closed. It is difficult to understand why the Administration has failed to take action in this area.

Inefficiency and avoidable waste are also evident in manpower utilization. The promotion and retention of more officers than are necessary relative to enlisted personnel, a practice known as grade creep, has reached an unprecedented level. Military pay has been substantially increased in recent years in order to achieve the objective of an all-volunteer force. The complex formula for calculating military compensation leads to misunderstanding and poor manpower utilization policies. For example, the computation of pay and benefits received by general officers does not include the costs of providing military servants to themselves and their families.

A comprehensive study of military personnel basic and specialized training programs would reveal areas of large potential savings. About $4 billion was spent in fiscal 1972 to give basic training for an average of eight weeks and specialized training for an average of eleven weeks. Small changes in the length of training courses and increased use of on-the-job training instead of specialized courses would significantly reduce costs. For example, if specialized training courses were shortened from eleven to ten weeks, close to $100 million annually could be saved.

In conjunction with any ceiling it may establish on total spending, Congress should also place a ceiling on spending for defense and national security. The ceiling for fiscal 1974 spending for national defense should be no higher than the total amount of actual outlays for national defense in fiscal 1973. This will provide the United States with sufficient resources to maintain the strongest military force in the world.

DOD needs to undertake a serious effort to eliminate waste and mismanagement throughout the military establishment. Ways must be found to do away with the unnecessary cost overruns and gold plating of weapons systems, to improve manpower utilization, to reduce excessive support costs and support-combat ratios, and to close down unnecessary bases. The military pay structure should be simplified.

Congress should review and take steps to control the increasing use of government bailouts of defense contractors who encounter financial difficulties of their own making.

Military Assistance

The military assistance funded through the Defense Department's budget represents only a small portion of the total military assistance program. Much of this money is presently spent by agencies other than the Defense Department and is not officially defined as part of the defense budget. Table 7 lists the budget outlays and transfer costs of all military assistance activities for fiscal 1973. This program, which is expected to cost about $6 billion next year, should be substantially reduced.

TABLE 7.—MILITARY ASSISTANCE—TRANSFER OF RESOURCES

Item	Fiscal year 1973 amount	Appropriation category
Military assistance (MAP)	$803,442,000	Foreign assistance.
Military assistance service funded	2,055,000,000	Defense.
Transfer of defense stocks (excluding excess)	105,800,000	None.
Excess defense articles	245,000,000	Do.
Ship transfers	39,600,000	Do.
Real property transfers	485,580,000	Do.
Security supporting assistance	874,500,000	Foreign assistance.
FMS credit sales	629,000,000	Do.
Eximbank bank military loans	360,000,000	Do.
Public Law 480 (sec. 104C) defense	124,000,000	Agriculture.
Purchases of local currency (subsidy)	91,900,000	Defense.
Total	$5,928,176,000	

The military assistance program needs to be coordinated under a single agency and reduced in size.

The Administration's Alleged Defense Cuts

The President's Budget contains a table purporting to list a series of outlay savings from program reductions and terminations. The savings or cuts in defense are shown to total $2.7 billion for fiscal 1974 and another $2.7 billion for 1975. An examination of the defense items listed reveals that to a large extent they represent hypothetical or phony cuts. For example, included in the savings that are supposed to result from procurement reductions are alleged cuts in the Safeguard ABM program and in the S–3 aircraft program.

The cut in Safeguard, however, is largely a consequence of the decision not to ask for funds for a new ABM site in the Washington, D.C., area. This site has never been authorized or funded by Congress. It does not represent a reduction in an ongoing program or the termination of an activity. Similarly, the S–3 reduction is not a real reduction. In fiscal 1972, the Navy purchased thirteen S–3 aircraft. In 1973, 35 were purchased. The current request is to purchase 45 S–3s for 1974. In each year, the quantity of S–3 purchases has gone up. According to the Office of Management and Budget, the Navy wanted to buy more than 45 S–3s in 1974, and reducing the number to 45 represents a real cut in the Defense Department's request. But it is common for the Services to request more funds than are approved by the President, and it would hardly be proper to claim that the taxpayer is being saved money whenever a military request for funds is trimmed back. In fact, where programs are stretched out in time rather than reduced, the results are invariably to increase costs. If S–3 purchases are being held down this year while the decision remains for eventually purchasing the planned original quantity, the total cost of the program will go up, not down.

The Administration should refrain from taking credit for nonexistent cuts in the defense budget. The facts available to the Committee show that the purported $2.7 billion outlay savings in defense for each of the fiscal years 1974 and 1975 are largely the consequence of bookkeeping manipulations, stretchouts of ongoing programs, and reductions of service requests for spending increases.

Defense and Inflation

The Chairman of the Council of Economic Advisers has stated that real defense expenditures, adjusted for pay and price increases, have declined over the past four years by over 30 percent, or about $35 billion in today's prices. He has also stated that real defense expenditures are lower than they have been at any time in the past 22 years. These statements echo the conclusions contained in a Pentagon publication issued last year, a few months before the election. The publication, entitled *The Economics of Defense Spending—A Look at the Realities*, asserts that "the National Defense Program proposed in the President's fiscal 1973 budget, represents the lowest program, in real terms, for 22 years." An analysis of the way the Pentagon reached its conclusion shows that it is both misleading and incorrect.

In the first place, the Commerce Department, which is responsible for publishing deflators of economic activity, has not developed or published adequate measures of price changes in Federal defense purchases, despite repeated urgings by this Committee that it do so. How, then, did the Pentagon measure the influence of inflation on defense? An acceptable method would have been to analyze Defense price experience. Instead, the Department of Defense relied primarily on the noncompensation component of the deflator for Federal purchases of goods and services provided by the Department of Commerce. This is not a satisfactory approach. The deflator developed by the Commerce Department for Federal purchases of goods and services is not separated into defense and nondefense for the very good reason that adequate figures have not been developed. The deflater used for DOD military and civilian pay is also defective in that it does not make adequate allowance for increases in productivity.

In an attempt to show that defense spending is falling in real terms, the Defense Department used in its publication, *The Economics of Defense Spending—A Look at the Realities*, three different definitions of defense spending and two different base periods for deflating purposes. Of the six deflated series that the Defense Department devised, only one showed a decline in real defense spending over the last 22 years. And even this one series is questionable since it excluded retired pay. Retired pay, of course, is a substantial part of the defense budget, amounting to $4.4 billion in fiscal 1973, and has increased sharply in the past few years. Accepting, for the moment, the questionable way that the Pentagon deflated defense spending, if retirement pay is deflated by any reasonable method and incorporated in the figures, the conclusion that defense spending is at a 22-year low in real terms turns out to be incorrect no matter how defense is defined or what base period is used.

The Pentagon-CEA approach to defense spending misses the mark for other reasons. The issue is not whether defense spending in real terms is more or less than in previous years. Conditions change and so do defense requirements. The current high level of defense is a legacy of the Cold War and of tensions with the Soviet Union and China dating back to the early 1950s. These tensions have eased considerably as is evident from the arms agreements entered into with the Soviet Union and the improved relations with China. One also needs to examine the forces supported by the defense budget, as well as the amount of spending. The fact that our strategic and conventional forces have increased in recent years, as measured by nuclear deterrence and conventional firepower, in the face of relaxation of international tensions suggests that there are opportunities for cutting back the budget without endangering our national security.

The Commerce Department should develop measures of price changes in Federal defense purchases of equal quality to those for deflating other sectors of the GNP and publish such measures on a regular basis. Until such measures are developed and published, it is not possible to know how inflation is affecting defense spending and vice versa. Current discussions of this issue imply we know something that we don't know, and are therefore misleading.

Focusing attention on the impact of inflation on the defense budget overlooks the fact that defense spending itself has contributed to inflation. The elimination of wasteful defense activities can only have a beneficial effect on the strength of the economy, as well as on the strength of the military establishment.

Rather than relying on self-serving assertions made by the Department of Defense, it would be most useful if the Council of Economic Advisers would at long last initiate a series of studies on the economic impact of defense spending. This Committee would welcome publication of the Council's own analysis of the relationship between defense spending and inflation, the impact of defense spending on employment and production, including regional impacts, and the effects that significant changes in the defense budget are likely to have on the economy.

The Council of Economic Advisers should end its long neglect of the impact of defense spending on the economy and should heed the repeated urgings of this Committee to allocate a portion of its own staff resources to conduct studies of the effects of defense spending increases and decreases on prices, production, and employment.

The National Security Budget

The way we define "defense" profoundly influences the interpretation of national priorities as viewed in the President's budget. As we have pointed out before, the present definition of National Defense is unjustifiably narrow. It includes spending for Department of Defense military activities, the portion of the military assistance program funded through the Department of Defense, the Atomic Energy program, and a few relatively small defense-related activities. Not taken into account are programs and activities that are clearly related, at least in part, to the cost of defense. Table 8 attempts to correct this deficiency.

The Administration's argument that it has reordered national priorities breaks down to a large extent if we look closely at its definition of defense, human resources, and "all other" programs. The Administration claims that outlays for National Defense as a percentage of Federal outlays have declined from 54.5 percent in 1969 to 42 percent in 1973. But a study of the defense, human resources and other components reveals a different picture. For example, Veterans' benefits and services are listed under human resources by the Administration definition. Outlays for Veterans' programs have increased from 5 percent of the Federal budget in 1969 to 6.3 percent in 1973. Spending for veterans' education, training, and rehabilitation benefits alone amounted to about $2.5 billion in 1973, compared to under $60 million in 1965. We include this item as part of the National Security budget because it represents an expense that is clearly related to previous defense programs. Veterans' benefits to a large extent are directly tied to military service. They were established by Congress to compensate persons who have interrupted their civilian careers and risked their lives in service to the country. If the Veterans' component were acknowledged to be a part of our national security effort, it would raise the National Defense percentage of Federal outlays to 48.3 percent. This is illustrated graphically in Chart 4 in Chapter IV.

We believe that for the sake of truth in budgeting, portions of international affairs and finance, space research and technology, and interest should also be acknowledged as national security costs. If this were done, National Defense would comprise more than 50 percent of total Federal spending rather than the 30 percent attributed to Defense by the Administration. This definition of defense spending raises further doubts over the Administration's claims about reordering national priorities.

The defense budget document needs to be expanded and improved to provide the public with a better accounting of the true costs of defense and national security.

TABLE 8.—NATIONAL SECURITY BUDGET*

[In millions of dollars]

	Outlays (fiscal years)								Budget authority 1974 estimate
	1965	1968	1969	1970	1971	1972	1973 estimate	1974 estimate	
Defense, military assistance and defense related activities:									
DOD military [1]	45,173	77,373	77,877	77,150	74,546	75,151	74,200	78,200	83,481
Military assistance [2]	2,469	1,237	1,355	1,186	2,045	1,806	1,648	1,959	3,038
Atomic Energy	2,625	2,465	2,450	2,453	2,275	2,392	2,194	2,374	2,429
Space Research and Technology	5,093	4,721	4,247	3,749	3,381	3,422	3,061	3,135	3,015
U.S. Arms Control and Disarmament Agency	7	11	1	11	10	9	10	8	7
Renegotiation Board	3	3	3	4	5	5	5	5	5
National Security Council	1	1	1	1	2	2	3	3	2
Stockpiles	16	19	18	15	23	17	17	18	18
Expansion of defense production	60	51	166	−15	−188	−12	66	−8	
Selective Service	43	57	65	75	81	75	92	55	55
Emergency Preparedness	17	12	11	4	13	7	7	8	9
Deductions for offsetting receipts	−124	−115	−133	−118	−89	−108	−751	−382	−382
Subtotal	56,383	85,835	86,065	84,515	82,104	82,766	80,552	85,375	91,677

Payments for past wars and defense program:									
Veterans benefits	6,080	6,882	7,640	8,677	9,776	10,731	11,795	11,732	12,253
Interest [3]	8,577	10,308	11,834	13,734	14,707	15,437	17,106	18,504	18,504
Subtotal	14,657	17,190	19,483	22,411	24,483	26,168	28,901	30,236	30,757
Programs justified on grounds of national defense: [4]									
Ocean shipping	253	227	236	239	321	317	327	377	408
Impacted area school aid [3 5]	263	380	299	492	395	487	351	98	45
Subtotal	516	607	535	731	716	804	678	475	453
Total, national security	71,556	103,632	106,083	107,657	107,303	109,738	110,131	116,086	122,887

*This is admittedly an imperfect attempt to explain to the American taxpayer the full costs of national security, whether for past or present wars or defense. The committee recognizes that others will question certain items contained in the national security program, that objections will be raised to parts of it, and that suggested changes will be proposed. In the past, the Joint Economic Committee recommended that the full costs of past and current defense-related activities be included in the category of defense programs found in the budget document. No action was taken on this recommendation. We now hope that the national security program breakdown that we have offered will provoke widespread discussion and debate, and that the Office of Management and Budget will be moved to incorporate this concept in next year's budget.

[1] DOD military excludes DOD civil outlays which totaled $1,200,000,000 in 1965; $1,300,000,000 in 1968; $1,300,000,000 in 1969; $1,200,000,000 in 1970; $1,400,000,000 in 1971; $1,500,000,000 in 1972 $1,800,000,000 in 1973 (estimated); $1,500,000,000 in 1974 (estimated); and $1,600,000,000 in new obligational authority for 1974.

[2] Includes military assistance program (MAP), supporting assistance, credit sales, and part of the food for peace program. Excluded are outlays for military assistance purposes funded through the Department of Defense. Total obligational authority for this program is shown in the budget as $2,600,000,000 for 1972; $2,900,000,000 for 1973 (estimated); and $2,900,000,000 for 1974 (estimated). The budget authority for credit sales to Israel are under separate legislation. (Military assistance includes military assistance, security supporting assistance, foreign military credit sales, credit sales to Israel, and food for peace (Public Law 480, sec. 104[C]).)

[3] Includes 75 percent of the program.

[4] Portions of programs, other than those listed, have been justified in the past as essential to national security, including the National Defense Highway System, the airport program, and others. The committee intends to further analyze this matter.

[5] Additional authorizing legislation required.

Source: Estimated from data in the U.S. budget, various years.

SUPPLEMENTARY VIEWS OF CHAIRMAN PATMAN

Although I generally agree with the findings and recommendations of the report, there are several areas which deserve elaboration.

Chief among these is the failure of the Administration to extend the authority of its economic stabilization program to the control of rising interest rates. The battle against inflation cannot be won unless the cost of money, which is a part of the cost of virtually all goods and services produced in the nation, is held at reasonable levels. The absence of interest rate controls is reflected in a 25 percent increase in the prime rate, a 47 percent increase in three month Treasury bills, a 25 percent increase in six month Treasury bills, a 36 percent increase in prime commercial paper rates, a 28 percent rise in three to six month finance company paper and substantial increases in business and residential mortgage loan rates since April, 1972.

In my view, the continuing currency crisis abroad, based in part as it is on lack of confidence in the Administration's will to reduce inflation, is directly linked to the failure to control interest rates.

The history of how the prime rate has been handled in the past several weeks constitutes a pathetic case in point.

Throughout much of January and February of 1973, the Committee on Interest and Dividends, through its chairman, Arthur Burns, frequently insisted that the prime rate could and should remain at the 6 percent level—presumably because any further increase would place it above the mark that existed in August, 1971, when the Administration launched its so-called economic stabilization program. During the latter part of this period, four large New York and Philadelphia banks announced a ¼ percent increase in their prime rates.

The Committee on Interest and Dividends demands that the banks furnish evidence that the rate increase was necessary. Three of the banks immediately dropped their rate back to 6 percent, and the fourth followed suit a number of days later. Shortly afterward, one of the four, Girard Trust of Philadelphia, was given approval for the quarter point increase by the Committee on Interest and Dividends on the grounds that evidence presented by the bank justified the raise. In effect, the Committee on Interest and Dividends had given tacit approval for all commercial banks in the country to raise their prime rates by at least ¼ percent, something that most of them did in the rapid fashion that is characteristic of such circumstances.

As a result the prime rate, the lowest rate provided by major lending institutions in the nation, has been allowed to rise above levels that prevailed in the summer of 1971 when economic conditions prompted the Administration to attempt formal regulation of the economy.

The situation, at the time, was made all the more ludicrous in view of the fact that the four banks which first tried to raise their prime rates were informed that no punitive action would be taken against them if they refused to back down. Furthermore, it was an openly admitted fact in the financial industry that the large banks intended to pay lip service to the 6 percent prime rate while secretly charging more than prime rates to prime customers, thus making a charade of what on the surface appeared to be compliance with the demands of the Committee on Interest and Dividends.

During the latter part of February, the Federal Reserve Board, with Arthur Burns as its chairman, announced that the Federal Reserve discount rate was being increased from 5 to 5½ percent, the second such increase in six weeks. The discount rate rise from 5 to 5½ percent was rationalized on the grounds that increases which had occurred in short-term money market rates made the move necessary. Nothing has been said or done to support an assumption that short-term money market rates will not continue their steady, 11-month rise into the indefinite future, once again laying the basis for another raise in the discount rate.

The situation is made even more ludicrous by the dual role played by Dr. Burns. On the one hand, he is chairman of the Committee on Interest and Dividends, which is theoretically dedicated to the task of holding interest rates down. On the other hand, he is chairman of the Federal Reserve Board and has publically stated that monetary policy will become increasingly restrictive during the year. In effect this means less loan money will be available at higher interest rates during the coming months.

Another graphic illustration of the Administration's refusal to control interest rates in order to achieve economic stabilization is contained in the remarks made to the Committee by Herbert Stein, Chairman of the President's Council of Economic Advisers. During the hearing on the President's Economic Report, Dr. Stein casually implied that consumer loan interest rates were at realistically fair levels. He cited what apparently are commercial banks automobile loan rates of 9 and 10 percent as an example, and denied that consumer loan rates ran as high as 36 percent and higher. The facts of the matter—and these facts have existed for years—are that consumer loan interest rates range well beyond the 36 percent level in many states.

In its recently released report, the National Commission on Consumer Finance, disclosed that finance company interest rate ceilings in 16 states had mean ceilings ranging from a low of 10 percent to 42.58 percent in 1971. Half of the 16 states had ceilings above 32 percent. For the most part, finance companies rates exceed 90 percent of the permissible ceiling. Rates are even higher—ranging up to 240 percent—in states which in effect do not have ceilings.

Under any circumstances, such rates are exhorbitant and their existence constitutes a stark contradiction of any effort to achieve economic stabilization.

This is especially true when it is recognized that a large percentage of the nation's low income families cannot obtain urgently needed credit from any other source. Thus, the people who are least able to afford it are made to pay the highest rates, something that often chains them to poverty.

How can economic stabilization possibly be achieved under such circumstances.

The same is true of residential mortgage interest rates which are once more approaching the 8 percent level. When residential mortgage interest rates are in this range, low and moderate income families are required to pay for a $20,000 nearly three times over because interest rate payments alone during a 30-year mortgage term will approach a total of $40,000. Exhorbitant residential mortgage interest rates guarantee that low and moderate income families are priced out of the housing market unless Federal mortgage assistance is available, a fact that fails to disturb the Administration inasmuch as it has seen fit to freeze Federally-subsidized housing programs.

While openly acknowledging the damage caused to priority areas of the nation's economy, the Federal Reserve Board has so far failed to develop effective means by which to protect these sectors from lack of adequate credit at reasonable rates during periods of restrictive monetary policy.

The proposed use of investment tax credits to make priority area investments more attractive during periods of monetary restriction ignores the fact that aid in this form, if and when it materialized, would be provided well after the onset of severe credit conditions. Moreover, the proposal carries with it the assumption that nonpriority areas could not successfully compete for funds against the availability of an investment tax, a stance that ignores the fact that large corporate borrowers have little difficulty in passing on the increased cost of loan funds to the consumers of their products and services. The basic result of an investment tax credit would simply provide investors with windfall profits on the priority area investments they would make in any case.

The use of variable interest rate residential mortgage loans, also proposed by the Federal Reserve Board, would do nothing more than protect lending institutions from the risk of diminished profits in the face of increasing costs to attract loan funds. High residential mortgage interest rates would still prevail during restrictive monetary periods and homebuyers would, as in the past, be priced out of the housing market. Moreover, homebuyers who borrowed when rates were down would find themselves having to meet steadily rising mortgage payments as rates increased. Under these circumstances, many would have to cut back on other necessary expenditures or default on their home loans.

The variable term residential mortgage loan, suggested as an alternative to variable interest rates, proves equally if not more unattractive. This approach can drastically slow achievement of equity by the homebuyer. Moreover, extending the term of a 7 percent, 30-year mortgage, to compensate for a less than one percent increase in market mortgage rates, causes the term of the loan to equal infinity.

Another proposal, lengthening the term of maturity for some types of deposits held by residential mortgage lending institutions, is also implausible. This suggestion is aimed at stemming the outflow of funds from residential mortgage lending institutions for investment in competitively superior financial market instruments during tight money-high interest rate periods. Lengthening the maturity of such deposits would merely make the owners of such money all the more impatient to move their funds into higher yielding investments.

The Federal Reserve has also proposed adjusting deposit rate ceilings upward in order to attract and hold savings for the purpose of making residential mortgage loans. Increased yields on deposits would be reflected in increased interest rates on residential mortgages in order to compensate lending institutions for the rising cost of loan funds. This in turn would result in pricing low, moderate and even middle income families out of the housing market.

In this connection, it is also suggested that the average life of the earning assets of thrift institutions be shortened. Such a move would result in a demand for larger down payments, larger monthly mortgage payments or both.

The same effect, pricing families out of the housing market, would result from the proposal that Federal Housing Administration and Veterans Administration residential mortgage loan interest rate ceilings be removed and that state usury rate ceilings applying to housing loans be eliminated. It is probably true that more mortgage funds would be available if the price tag was marked up, but it is also true that fewer families, particularly those in greatest need, would be able to afford such funds. This proposal, as it is directed to FHA and VA rates is all the more ironic inasmuch as such loans are virtually risk free by virtue of the Federal mortgage insurance and guarantees that apply to them.

The Federal Reserve, however, has made several suggestions which would, with some qualifications, provide real assistance to homebuyers and the housing industry.

It is proposed that legislation be adopted permitting the Federal Reserve banks to make loans to member banks on the basis of sound mortgage collateral at regular discount rates. It is my understanding that Federal Reserve banks already have authority to do this, but any doubts could be quickly eliminated by Congressional action on this provision. Legislation of this kind should carry with it the requirement that Federal Reserve Bank loans to member banks, using residential mortgages as collateral, be used only for residential mortgage loans. Moreover, a prescribed portion of such funds should be used for low and moderate income family residential mortgage loans.

The Federal Reserve also proposes removing statutory restrictions on real estate loans made by national banks. I would favor such a step so long as safeguards were established to prevent national banks from engaging in speculative real estate transactions for their own benefit and to require that relaxation or restriction will result in residential rather than commercial or industrial real estate loans.

Removal of geographic restrictions on conventional residential mortgage loans made by thrift institutions is also proposed by the Federal Reserve. I approve of this step, but only on the condition that methods be established to require residential mortgage lending thrift institutions to meet the housing investment requirements of their immediate service areas—particularly the housing requirements of low and moderate income families—before any funds are channeled into housing investments in other areas of the country.

Finally, the Federal Reserve has proposed that a modest portion of the earning assets of residential mortgage lending thrift institutions be comprised of consumer loans. I would favor this approach so long as

92-659 O - 73 - 6

such an alteration did not reduce the volume of residential mortgage loan funds available at such thrift institutions. Residential mortgage lending thrift institutions must not be allowed to shift into the consumer loan field at the expense of residential lending in the absence of any compensating structural changes among financial institutions. However, it would seem apparent that residential mortgage lending thrift institutions would have a steadier base if they were allowed to achieve some diversification in their earning assets through consumer loan investments. Moreover, a change of this kind would provide welcome competition to finance companies and other high interest lenders. By the same token, it is important that removal of restrictions against consumer loans carry with it the requirement that consumer loan rates be far less than the loan rates charged by the high interest lenders that now occupy such a large portion of this market.

Although some of the proposals made by the Federal Reserve are more or less positive in nature, on balance the suggestions that have been made tend to protect lending institutions rather than assure the availability of adequate loan funds at reasonable cost for housing. The recommendations made by the Committee concerning establishment of a National Development Bank for priority purposes, including housing for low and moderate income families, and reorganization of the Federal Reserve, would be far more effective and should be given much greater status by Congress and the Administration.

In this connection, it should be pointed out that the recommendations of the Committee concerning reorganization of the Federal Reserve, while highly desirable, do not go far enough. In addition to the recommendations made by the Committee to assure that monetary policy is responsive to the will of Congress and the Administration, the term of Federal Reserve Board members should be reduced so that the President, with the advice and consent of the Senate, can appoint the chairman, and a majority of Board members during his first term of office. Under present circumstances, each member of the Federal Reserve Board is appointed for a term of 14 years, a period nearly twice as long as the maximum period a President can hold office. As it is now, an incoming President must contend throughout the course of much if not all of his tenure with a Federal Reserve Board appointed by his predecessor with the result that neither he nor the Congress have adequate opportunity to achieve needed change in the attitudes and, therefore, the decisions of the Board.

By the same token, the Committee's recommendations regarding financing Federal Reserve operations, good as they are, do not go far enough. Although it is recommended that the operations of the Federal Reserve be financed through Congressional appropriations and that the $4 billion a year paid on Treasury bonds held in the Federal Reserve portfolio, be retained by the Treasury, nothing is said about cancelling Treasury bonds held by the Federal Reserve. These bonds now total $71.8 billion and are fully paid up. The enormous growth in Treasury bonds held by the Federal Reserve's Open Market is indicated in the following schedule which shows the holdings from 1915 through March of this year.

U.S. Government securities in the Open Market Committee's portfolio from 1915–March 1973

[In millions]

Year	Year-end holdings
1915	$46
1916	55
1917	122
1918	239
1919	300
1920	287
1921	334
1922	430
1923	434
1924	540
1925	375
1926	315
1927	617
1928	228
1929	511
1930	729
1931	817
1932	1,855
1933	2,437
1934	2,430
1935	2,431
1936	2,430
1937	2,564
1938	2,564
1939	2,484
1940	2,184
1941	2,254
1942	6,139
1943	11,543
1944	18,846
1945	24,262
1946	28,350
1947	22,559
1948	23,383
1949	18,885
1950	20,778
1951	23,801
1952	24,697
1953	26,916
1954	24,932
1955	24,785
1956	24,915
1957	24,238
Year—Continued	
1958	$26,347
1959	26,648
1960	27,334
1961	28,881
1962	30,820
1963	33,593
1964	37,044
1965	40,768
1966	44,282
1967	49,112
1968	52,937
1969	57,154
1970	62,142
1971	69,000
1972	69,356
Week:	
Sept. 6, 1972	69,796
Sept. 13, 1972	68,342
Sept. 20, 1972	68,643
Sept. 27, 1972	69,348
Oct. 4, 1972	69,906
Oct. 11 1972	70,526
Oct. 18, 1972	70,257
Oct. 25, 1972	69,878
Nov. 1, 1972	70,146
Nov. 8, 1972	70,094
Nov. 15, 1972	69,834
Nov. 22, 1972	69,606
Nov. 29, 1972	69,468
Dec. 6, 1972	69,611
Dec. 13, 1972	69,376
Dec. 20, 1972	69,851
Dec. 29, 1972	69,356
Jan. 4, 1973	69,839
Jan. 11, 1973	70,262
Jan. 18, 1973	70,244
Jan. 26, 1973	70,244
Feb. 1, 1973	71,032
Feb. 8, 1973	70,594
Feb. 15, 1973	70,573
Feb. 22, 1973	70,772
Mar. 1, 1973	71,153
Mar. 8, 1973	71,899

Source: Series H.4.1—weekly release of the Federal Reserve Board.

The existence of these paid up Treasury bonds unnecessarily enlarges the national debt by nearly $72 billion. The Federal Reserve itself has acknowledged that it does not need to hold Treasury bonds totaling this amount. During hearings held by the House Banking and Currency Committee on the Vault Cash Bill in 1959, the Federal Reserve admitted that it needed no more than $10 billion in Treasury obligations with which to conduct open market transactions for the purpose of implementing monetary policy. There is no reason why all but $10 billion of the bonds should not be cancelled and the national debt reduced by $62 billion.

SUPPLEMENTARY VIEWS OF SENATOR FULBRIGHT

Although other responsibilities have prevented me from participating in many of the hearings and much of the debate of the Joint Economic Committee, I am in general agreement with many of the conclusions and a number of recommendations endorsed by the Committee in this Annual Report.

I especially concur with certain points made in those sections of the report dealing with spending reform and defense spending. Despite considerable rhetoric to the contrary, the fiscal 1974 budget, as proposed by the President, is again dominated by military expenditures. Faced with a budget document which the report correctly characterizes as exaggerating the effects of Congressional spending, advertising false economies, presenting a misleading picture of the shift in budget priorities, and expounding political rhetoric, the Committee has recommended a number of steps which are certainly warranted. Among those to which I attach particular significance are the following:

1. Congress should enact a firm budget ceiling for fiscal 1974, and it should establish procedures both for conforming to the ceiling and for reviewing and revising the ceiling if economic conditions depart from present expectations.
2. To meet fiscal policy requirements while at the same time financing our most urgent public needs, Congress should make major reallocations within the Administration's proposed budget total.
3. All major changes in spending programs should be undertaken in full consultation with the Congress. Impoundments and administrative reprogramming which destroy the legislative mandates of Congress should not be tolerated.
4. Congress in making a comprehensive review of the Administration's proposed budget should reduce expenditures in areas the Administration has overlooked such as defense and foreign aid, and should restore adequate funds to meet pressing domestic needs.
5. In conjunction with any ceiling it may establish on total spending, Congress should also place a ceiling on defense spending and related purposes. The Report recommends that the ceiling for fiscal 1974 defense spending should be "no higher than total actual outlays for defense in fiscal 1973." I would go beyond the Committee's recommendation and urge that the 1974 ceiling be substantially lower than actual 1973 outlays.
6. The defense budget document needs to be expanded and improved to provide Congress and the public with a better accounting of the true costs of military and related spending. The Department of Defense needs to undertake a serious effort to eliminate waste and mismanagement throughout the military

establishment. Ways must be found to do away with unnecessary cost overruns and gold plating of weapons systems, to improve manpower utilization, to reduce excessive support costs and support-combat ratios, and to close down unnecessary bases (especially foreign military bases).

7. The military assistance program needs to be greatly reduced in size.

While there is much with which I also agree in those sections of the report concerned with employment, monetary policy, wage and price control, structural reform, economic status of women, tax reform, welfare reform, and revenue sharing, I prefer to reserve judgment with respect to specific conclusions and recommendations therein for the reason previously stated.

SUPPLEMENTARY VIEWS OF SENATOR HUMPHREY

I agree with the thrust of the Joint Economic Committee Report.

Ther is, however, one section that I believe must be strengthened: the necessity and the ability of the Joint Economic Committee to play a more direct role in examining the budget of the United States Government.

To this end, Congressman Moorhead and I have introduced the Fiscal and Budgetary Reform Act of 1973.

Under the proposed legislation, an Office of Budget Analysis and Program Evaluation would be created as part of the structure of the Joint Economic Committee.

I believe that the Joint Economic Committee is a natural location for such an office.

The Joint Economic Committee is provided for by the Employment Act of 1946 as a supervisory, analytical, and forecasting entity.

That Act calls, in Sec. 5, for the Joint Economic Committee "to make a continuing study of matters relating to the Economic Report." Thus this committee is mandated to study and make policy recommendations regarding levels of employment, production and purchasing power; and it is mandated to review the economic program of the federal government, and to review economic conditions affecting employment.

The Employment Act also calls for the JEC to "study means of coordinating programs in order to further the policy of this Act."

The Act thus calls for the JEC not only to be the arm of the Congress in appraising the government's economic policy; but also to review programs which affect government economic policy.

The Joint Economic Committee has the necessary expertise in economic analysis. It systematically makes analyses of current and projected economic conditions, revenue estimates, fiscal policies, and effects of government expenditures on social institutions and the economy.

It has the respect and backing of members of the academic, economic, tax, and accounting professions plus the recognized support of Congressmen and Senators.

Its membership consists of members of Congress who have responsibilities in the legislative and appropriation committees.

It is an ongoing structure—of both Houses—with a broad focus for the integration of the thinking of many members of the Congress.

The Office of Budget Analysis and Program Evaluation would have four sections: (1) An information section equipped with the most up-to-date computer facilities for providing members with instant analysis and read-outs on budget and fiscal matters; (2) An analytic office, to perform over both short and long range periods, the necessary economic and fiscal policy studies and to act as liaison with the various Appropriation and Authorization Committees; (3)

An evaluation Section to examine and evaluate both on-going and proposed programs; and (4) A special studies division—to undertake longer range studies.

Under the procedure established by the bill, prior to receiving the budget, the Office of Budget Analysis and Program Evaluation would prepare a revenue estimate; the Joint Economic Committee will then hold hearings, and report to the Congress on a proposed limit on the total amount of new obligational authority, functional categories, total outlays, and a limit on amount of outlays for each functional category.

Upon receiving this report, the Appropriations Committee of the Senate and House will, within fifteen days, report to the floor of their respective Houses a bill with total obligational authorities and total outlays.

Upon passage and Presidential signature, this would be the budget ceiling.

Any future reconsideration of the budget ceiling would follow the same process—as the Joint Economic Committee would be charged wih the preparation of interim reports.

It is expected that during the two hearing periods the Chairmen of the authorization Committees would testify and outline their needs, as best they could foresee them, to the Joint Economic Committee and the Appropriations Committees.

I believe that this legislation strengthens the analytic hand of the Congress.

Congress must set the framework for its own independent analysis of policies, programs, and spending.

Congress must be in a position to act independently, to make choices, gather data, do analysis, and propose policy alternatives.

SUPPLEMENTARY VIEWS OF SENATOR BENTSEN

While I am in agreement with the Committee's recommendation that the Congress impose a ceiling on outlays during fiscal 1974, I believe that such a ceiling should be at a $265 billion level rather than the Administration's higher figure of $268.7 billion.

As the Committee states in this report, the outlook for controlling inflation is not promising. Consumer prices have been rising at an annual rate of 4% for the last half of 1972 and these figures do not include several substantial increases in recent domestic wholesale prices or the effect of the recent devaluation on imports.

Given the general lack of confidence in Phase III to hold the line on inflation, either fiscal or monetary policy must be made more restrictive. The Nation's experience with restrictive monetary policy in the early years of this Administration was a dismal failure. Tight money produced both economic stagnation and unemployment but it did not have a significant impact on inflation.

I prefer a tightening of the reins on government expenditures to the choking off of the current expansion by high interest rates. Holding Federal expenditures to $265 billion will not be easy or painless. However, it is important for the Congress to make a clear statement that it is serious about controlling inflation both to our citizens who are trying to match their own expenditures to income as well as to those who would speculate against our currency abroad.

SUPPLEMENTARY VIEWS OF REPRESENTATIVE CAREY

I do not hold with the Committee's findings to repeal the Accelerated Depreciation Range (ADR) or the investment tax credit. During our hearings, economists indicated that we have begun to move towards full employment. Professor Dan Suits of the University of California predicted that unemployment will fall to 4.2% by the end of this year. I believe that programs such as ADR and the investment credit have made significant contribution to this end.

While not wedded *ad infinitum* to the ADR and the investment tax credit, I believe that judgment on these practices should await the completion of the hearings before the Committee on Ways and Means and any determination made by that Committee. As a member of that Committee, I have heard witnesses testify that many foreign countries have more liberal investment incentives than does the United States.

Further, I do not believe that we can single out the ADR and investment tax credit without also closely examining the estate and gift tax provisions, tax exempt municipal bonds, and the holding periods for capital gains.

I strongly endorse keeping the federal budget at or below $268.7 billion and, under that ceiling, a balance between revenue raised and expenditures. We must not, however, achieve this balance by drastically cutting back those sound domestic programs in the field of health, education, etc. At the same time, we must be selective and eliminate those programs which have outlived their usefulness.

I am pleased to support the other recommendations made in our Committee's report.

Minority Views on the January 1973 Economic Report of the President

NOTE.—These minority views are not directly responsive to the issues and recommendations included in the committee report. The extremely tight schedule prescribed by law does not provide sufficient time for the minority members to receive and analyze the report written by the majority, and then develop views based upon it. Consequently, as has been true in recent years, the two reports have been developed concurrently, and the minority's views are independently based upon the 1973 President's Economic Report, other messages and this committee's hearings.

CONTENTS

I. PROBLEMS AND ACCOMPLISHMENTS: A REVIEW OF 1969–73

In the spring of 1969—the first year of the Nixon Administration—the Majority Views of the Joint Economic Committee Annual Report identified eight serious problems confronting economic policymakers:

1. The high rate of inflation.
2. The highest interest rates in U.S. history.
3. Poverty in America.
4. High unemployment in ghetto areas, a serious factor in social unrest.
5. Imbalances in the allocation of Federal Government resources.
6. Failure to establish adequate methods of assessing and asserting priorities for public expenditures.
7. The uncertainty of the defense burden, due to the Vietnam War.
8. International trade and balance of payments problems.

It is appropriate at the beginning of President Nixon's second term to assess the progress made in attacking these problems. At any point in time one can always point to failings in economic performance, but the true test of economic policy is whether progress can be claimed over the long run. We believe that the economic policies carried out by the Nixon Administration, on balance, have brought substantial improvement to almost all of our difficult economic problems and have set the scene for continued material progress.

Inflation and Interest Rates.—The use of wage and price controls beginning August 15, 1971, was politically courageous. It has and will prove to be a major influence in stemming the tide of inflation. Most interest rates are substantially below 1969 levels.

Poverty.—So long as there are any poor in America, poverty will continue to be a problem of national concern, and we would be the last to say that there is no unfinished business here. However, it should be pointed out that current economic policies, if allowed to be pursued, augur a major lessening of the problem of poverty. The number of aged poor has decreased dramatically in recent years, apparently due to the increase in Social Security benefits. Bureau of Census figures show that the number of aged poor decreased by 520,000, or 11 percent, in 1971. Although final figures are not yet available, a further decline is believed to have taken place in 1972.

The percentage of employed persons with low income decreased as well. We are confident that as the current economic expansion continues, the absolute numbers of poor will decline, with more unemployed being drawn into jobs. Also, the overall demand for jobs will bring a greater percentage of jobholders out of the low income category. Economic expansions have generally been associated with proportionately greater gains in employment for less skilled labor. Unless there are drastically different demand patterns in the labor market during the current recovery period, the same phenomenon should take place as the vigorous rise in employment continues.

The only growing category of low income persons continues to be female heads of families who are keeping house, and it is safe to assume that the rise in this number is related to the welfare system generally. This very knotty problem must not be swept under the rug, and we believe the Administration has come forward with a better effort than has the Congress in regard to welfare reform. Almost insuperable problems remain in this area, but the present responsibility is clearly Congress' so far as action on this issue is concerned.

One aspect of the poverty situation which the statistics on the numbers of poor do not show is the significant increase in in-kind benefits. The food stamp program, in particular, has been given a very substantial boost by the Nixon Administration. The actual value of food stamp benefits in fiscal year 1973 will be more than nine times the 1969 level, and average participation is estimated to increase from 2.9 million in 1969 to 12.1 million in 1973. In fact, one difficulty in assessing the extent of poverty in America is calculating the effect on a person's constructive income of in-kind payments such as food stamps, medicaid, etc. Current statistics on the number of poor are based on money income only. The Subcommittee on Fiscal Policy of the Joint Economic Committee has done a considerable amount of ground-breaking work on the monetary value of certain benefits, the extent of overlapping in benefits, etc. A Subcommittee report being published this month suggests that money incomes of low income persons are not a true test of some families' standard of living, especially when compared with the condition of persons and families who cannot quite qualify for the range of support programs that exist in America today. While we do not intend to equate a payment in kind—over which the recipient has little choice as to its disposition—with a money payment, we believe it is unfair to persons with moderate incomes to fashion policies for the poor based on statistics which report only money incomes. We state the problem this way in order to show how immense the task will be in fashioning a national approach to welfare which is equitable for all members of our society.

VALUE OF FOOD STAMP BENEFITS AND PARTICIPATION LEVELS

[In millions]

	Fiscal year—						
	1967	1968	1969	1970	1971	1972	1973 (estimated)
Bonus coupon value (i.e., excluding administrative costs)	$105.5	$173.0	$228.6	$550.8	$1,523.1	$1,842.5	$2,107.0
Average number of participants	1.447	2.211	2.878	4.340	9.368	11.103	12.106

Source: Department of Agriculture.

Urban Unemployment.—Unemployment in urban, often ghetto, areas is a compound problem: not only is the economic infrastructure of such areas usually insufficient to support the job market that resides there, but unemployment is closely allied with the larger social issues of urban unrest, the housing conditions in inner city areas, and the relative neglect which societies have traditionally shown to the disadvantaged.

The statistics on urban unemployment reveal that certain areas have been part of the problem for a long time. A chart of major areas with chronic labor surpluses near the close of the Eisenhower Administration lists seventeen cities, nine of which turn up as areas of concentrated unemployment in December 1968.

There is substantial evidence at hand to show that urban unemployment is decreasing significantly, with the current recovery clearly accounting for this trend. However, the number of labor areas with substantial or persistent unemployment peaked as late as October 1971, which suggests a lag in the effect of the recovery in urban areas and the possibility of further consistent improvement for some time to come.

We have noted with some interest that any analysis of urban unemployment must deal with up-to-date figures and area classifications. However, the very detailed and useful figures on unemployment which are published monthly by the Bureau of Labor Statistics do not contain adequate figures on urban unemployment. We would urge the Bureau of Labor Statistics to develop indices of urban unemployment, so that better policies in this area can be developed.

Allocating Federal Resources.—The problem of allocating Federal resources in a manner befitting our national aspirations was indeed a problem in early 1969. The new President inherited a budget which was burdened by the Vietnam War abroad and an increasingly cumbersome bureaucracy at home. Military spending had increased from $45.9 billion in 1960 to $80.5 billion in 1968. Civilian employment of the Federal Government had grown by 27 percent over the same period (from 2,398,704 to 3,055,212), a rise which outstripped the rate of our population growth by 147 percent. These were clearly aspects of the credibility problem which faced the outgoing Democratic Administration.

Since 1969, Federal civilian employment has declined, both absolutely and, of course, as a percent of the American population. Real defense spending has gone down by 30 percent—or approximately $35 billion in current dollars. The number of persons engaged in the defense effort, both military and civilian, has dropped by approximately 2½ million.

The problem of allocating budget priorities during this time was made difficult by the fact that program priorities in the 1960's were often drawn up on a paper basis, given a little seed money and a lot of lofty rhetoric, and left for future administrations to finance. For example, the Johnson Administration requested $3.0 billion in new obligational authority for housing and community development programs in 1968, but outlays for the same period were proposed at only $1.0 billion, one third the amount. This characteristic, in combination with the "locked-in" system for Federal pay increases, whatever their merits, has resulted in considerable constraints being placed upon budget planners during the past four years.

An illuminating way to assess the quality of Federal resource allocation during the Nixon Administration, therefore, is to examine how the fiscal dividend (generally defined as the increased Federal spending made possible by economic growth) was spent. Although some of this dividend is necessarily devoted to meeting increases in uncontrollable outlays, a look at how the increase in spending between one year and another was allocated is a valid approach in evaluating government's long-range aims and its ability to plan realistically and effectively with regard to these aims.

Federal government outlays in fiscal year 1969 were $65.96 billion above the fiscal year 1964 level. Projected outlays for fiscal 1974 are $84.12 billion above the 1969 level. Crystal ball gazers back in 1964 and in 1968 had an opportunity to take a long look at the course of Federal spending, and to plan priorities with a certain amount of controllability. The following table shows what part of the dividend went to various categories of government expenditure, by absolute and percentage amounts.

For example, the table shows that the Johnson Administration in fiscal year 1969 spent $27,641,000,000, or 41.9 percent, of the 1964–69 $65.96 billion dividend on national defense. The Nixon Administration, by contrast, spent *none* of the fiscal dividend on the military (despite very large pay increases). Rather, President Nixon focused his attention on the economic needs of people; the Administration is spending $44,277,000,000, or 52.6 percent, of the 1969–74 dividend on income security.

ALLOCATION OF THE FISCAL DIVIDEND

[Dollars in millions]

	Fiscal year—			
	1969 compared with 1964		1974 (estimate) compared with 1969	
	Amount	Percent	Amount	Percent
National defense	$27,641	41.9	−$158	−0.2
Income security	12,589	19.1	44,277	52.6
International affairs and finance	−332	−.5	26	(1)
Space research and technology	77	.1	−1,112	−1.3
Agriculture and rural development	1,034	1.6	−646	−.8
Natural resources and environment	203	.3	1,494	1.8
Commerce and transportation	1,410	2.1	3,659	4.3
Community development and housing	2,146	3.2	2,970	3.5
Education and manpower	4,774	7.2	3,585	4.3
Health	9,895	15.0	10,119	12.0
Veterans benefits and services	1,959	3.0	4,092	4.9
Interest	5,981	9.1	8,881	10.6
General government	826	1.3	3,159	3.8
General revenue sharing		.0	6,035	7.2

[1] Negligible.

Note.—Details do not add up to totals because of rounding, and of miscellaneous items such as contingencies for civilian agency pay raises.

In percentage amounts, larger shares of the 1969–74 dividend, as compared to the 1964–69 dividend, will be allocated to international affairs, natural resources and environment, commerce and transportation, community development and housing, income security, veterans benefits, interest, general government and revenue sharing; in absolute, though not percentage, terms, the Nixon Administration will have spent more of its fiscal dividend on health as well.

Probably the most striking contrast in the table is that between national defense and income security spending over the two periods.

Other evidence of substantial differences in priorities allocation can be found in the comparison of spending for space research, environment, and commerce/transportation.

One figure which does not appear in the published budget reports is the amount of fiscal dividend which has been allocated to tax reduction. Again, this represents a shift of priorities away from government, toward the people. According to figures supplied by the Treasury Department, Federal tax changes during the 1964–69 period had an overall negative effect of $9.4 billion on budget receipts during fiscal year 1969, whereas the 1969, 1970, and 1971 tax changes can be translated into a $16.3 billion loss of revenue in 1974. Of this $16.3 billion figure, $14.0 billion are attributable to individual income tax cuts. Tax cuts are a legitimate way to "spend" federal money, and as such they should be considered alongside other national priorities, like decisions to increase spending for defense, welfare, or housing.

Some concern has been expressed about the rising share of the Federal budget devoted to interest on the Federal debt, and to general government expenditures. The rise in interest rates in recent years is a direct result of the inflationary policies of 1965–68. To reduce the Government's interest cost, therefore, the most important requirement is to reduce inflation and inflationary expectations.

With regard to the rise in spending for general government, the influence of the Federal pay raises is clear: **however, government pay raises without renewed efforts to increase government productivity amount to a penalty on the taxpayer. Last year the Joint Economic Committee sponsored an imaginative and welcome first step in getting to the heart of the Federal productivity issue, with the publication of a study on measuring and enhancing productivity in the Federal Sector. We would not like to see this initiative taken in vain, and urge that follow-up hearings be held this year, in order to chart a concrete course of action for improving Federal productivity.**

Failure To Establish Adequate Methods of Assessing and Asserting Priorities.—In his January, 1973, Budget Message the President urged the implementation of certain internal reforms by Congress: adoption of a rigid ceiling on spending, avoidance of "backdoor financing," elimination of annual authorizations, and prompt enactment of appropriations bills. In addition, Congress itself has under consideration several bills which would accomplish one more of these and other reforms. We hope that these initiatives will yield concrete results, and we note that the President has pledged to cooperate with the Congress on this issue.

The Burden of Defense Spending.—Of all the problems existing in 1969 this one has shown the clearest improvement. To maintain the same defense establishment as we had in 1969 would cost approximately $108 billion in today's dollars, or $35 billion over the present level of outlays. Real levels of defense spending, and the number of persons in arms, have declined to pre-Korea levels. The President's foreign policy initiatives have strengthened the prospects for lasting peace. In this setting, decisions about the defense budget can be made with greater certainty than at any time during the past 23 years.

International Trade and Balance of Payments.—Our views on these important issues are contained in a separate section of this Report.

II. PERFORMANCE IN 1972—THE OUTLOOK FOR 1973

By any standard 1972 was a very good year for the American economy. The general expectation is that 1973 can be an even better year. Our task for this year is not only to insure a high rate of economic growth, which is to a certain extent assured, but also to channel that growth in a way that we may make further progress towards guaranteeing long-term economic growth in a condition of stable prices and rising employment. In order to make such progress during 1973, continued cooperation among the American people, the Congress and the Executive Branch of the Federal Government will be vital, for only with such cooperation can a prudent economic course be charted.

ECONOMIC GROWTH—THE GROSS NATIONAL PRODUCT

An examination of the increase during 1972 in Gross National Product, which is the broadest measurement of our economic performance, reveals just how good a year 1972 was. Total 1972 Gross National Product was 6.4 percent above total GNP in 1971, in real terms. This was significantly higher than the 6 percent real growth predicted for 1972 by the Council of Economic Advisers approximately one year ago. At that time 6 percent was seen as a goal which would represent a healthy economic expansion during the year. Additionally, the 3 percent rise in the GNP implicit price deflator during 1972 was less than the 3.25 percent projected by the Council of Economic Advisers in early 1972 as an achievable target rate to which price increases during the year could be held. The achieved 3 percent and the projected 3.25 percent compare to an increase of 4.7 percent in the GNP price deflator during 1971 and 5.5 percent in 1970. In other words, the increase in 1972 in the GNP price deflator, which is the broadest measure of inflation, was less than two-thirds of the increase which we experienced during 1971 and only slightly more than half the increase experienced in 1970. The 6.4 percent real growth and the 3 percent inflation in 1972 represent the best performance in each of these crucial measures of economic well-being since 1966.

Towards the end of 1972, the growth was even greater than for the year as a whole. In fourth quarter 1972, GNP grew at a seasonally adjusted annual rate of 8 percent in real terms, with the GNP implicit price deflator increasing at a seasonally adjusted annual rate of 2.8 percent, even less than the rate for the year as a whole. The increase in total output from the end of 1971 to the end of 1972 of approximately 7½ percent in real terms is one of the largest one-year increases in the past 25 years. Indeed, the rise in real output during the eight quarters of this recovery has been larger than in any of the previous post-war recoveries.

The expansion in 1972 took place in virtually all areas of demand, with the exception of net exports. Business fixed investment was very strong, with non-residential fixed investment increasing by approximately 14 percent in current dollars and 10 percent in real terms. Of equal importance, plans and commitments for investment were even stronger than actual investment spending during 1972, as evidenced by a high level of new orders for capital goods and new construction contracts for commercial and industrial buildings toward the end of the year. Additionally, new appropriations for future spending in the manufacturing sector and the strong rise in the total value of new investment projects begun in the first nine months of 1972 were substantially above the small rise in actual outlays from 1971 to 1972.

Housing was also exceptionally strong in 1972, with almost 2.4 million private housing units started during the year. This constituted a rise of almost one-sixth over 1971. The strength of this performance is revealed by comparison to the Council of Economic Advisers projection for 1972 of 2.2 million units, which at the time it was made was considered optimistic. Interestingly, the rise in housing starts occurred in spite of a reduction in housing units begun under federally subsidized programs. The percentage which such subsidized housing composed of total housing in 1972 was 13½ percent, compared with 20 percent in 1971 and 28 percent in 1970. Contrary to the views lately expressed loudly and vigorously by some members of this Committee on the Majority side, the continuation of mismanaged and inappropriate housing subsidy programs is not vital to continued growth of the housing industry in the United States. We believe that this opinion is supported by the figures cited above, and we welcome the Administration's pledge to propose thorough housing reforms within the next 6 months.

Consumer spending was also up sharply in 1972. The increase in current dollars of 8½ percent and the real increase of 6 percent were among the largest recorded increases in the past two decades. With the economy growing rapidly, accompanied by strong increases in employment and a slowdown in inflation, consumers were both willing and able to spend. The residential housing boom brought the largest gains in spending on furniture and appliances since 1964 and almost 11 million new automobiles were sold during the year. The large increase in spending was mainly attributable to a rise in personal income during the year of approximately 8½ percent and of 6.8 percent in disposable after-tax income.

What are the prospects for 1973? The Council of Economic Advisers has estimated that aggregate demand for goods and services will rise by about 10 percent in 1973 to about $1,267 billion, from an estimated 1972 level of $1,152 billion. The projected real increase is 6¾ percent, with an implied increase in the GNP implicit price deflator of about 3 percent. This projection is at an even higher rate of increase than took place during 1972 when real output increased by 6.4 percent. **However, we believe the projected increase to be a reasonable one, in view of the strength of the current expansion as the year ended (in fourth quarter 1972, the economy expanded in real terms at an annual rate of 8 percent). Given this current strength, we would expect a continued very high rate of real growth during the first two quarters of 1973, at the end of which time the economy will be much closer to the zone of full potential output. At that time it will be both probable and necessary that the rate of expansion should be reduced to a slightly lower rate, one that is compatible**

with the growth in productivity and our labor resources—i.e., a growth rate that is sustainable over the long-term.

As was the case in 1972, we expect that the expansion in 1973 will occur on a broad front. With regard to business fixed investment, the Council of Economic Advisers has projected an increase from 1972 to 1973 of about 14 percent, approximately the same increase as from 1971 to 1972. In our opinion, this is a reasonable projection. The strength of the expansion in 1972 has created a need for increased capacity, as well as providing substantial funds with which to finance capital goods acquisition. According to the Department of Commerce survey taken in late 1972, businessmen were expecting an increase of 13 percent in plant and equipment spending during 1973. The projected 13½ percent increase for manufacturing companies extended to almost all major industries and was especially large in the area of durable goods.

Business inventories are projected to increase by approximately $12½ billion in 1973, an increase of about $7 billion over the 1972 rate of accumulation. This sharp projected increase is based upon a consideration of the moderate rise in inventories that took place during 1972 as compared to the rise in output and sales. The combination of the strong rise in sales last year with the relatively low rate of inventory accumulation has reduced the ratio of stocks to sales for manufacturing and trade firms combined to the lowest point in seven years. One additional element which will help inventory investment during 1973 is the higher demand for capital goods in certain manufacturing industries.

Housing is expected to drop by less than 10 percent during 1973 from 1972's extremely high level. Housing starts should average 2.2 million units during the year. This reduction will reflect cutbacks because of overbuilding in certain areas, a slightly smaller backlog of demand and somewhat less favorable mortgage market conditions. These factors will be moderated by a continuing very high new household formation rate. **We do not foresee the "disastrous effects on the economy" which the Majority claims will result from the Administration's reform of wasteful and inefficient housing programs.**

The increase in consumer spending in 1973 is expected to exceed even the very large increase of 1972. The 1973 projected rise at 9½ percent is a full percentage point above the 1973 8½ percent increase. Underlying this projected rise is another projected large gain in personal income in 1973, with the rise this year expected to be close to that of 1972. This growth in personal income will stem from not only a large increase in employment and payrolls but from increased social security benefits. The projected increase in disposable income for 1973, at 10 percent, is even larger than the projections for personal income, mainly as a result of the large federal income tax refunds expected in early 1973 due to overwithholding in 1972. Although the large refunds are expected to affect the savings rate during the first half of the year, the consumer confidence which acted to reduce personal savings throughout 1972 will probably produce lower rates in the second half of the year as consumer spending continues to be strong.

Fiscal Policy

The vigorous expansion of the economy in 1972 was primarily fueled by strong demands in the private sector, but it was also attributable in part to deliberately stimulative fiscal policy. This stimulus resulted from higher expenditures and from tax reductions instituted in both 1971 and 1972. In calendar year 1971, for example, full-employment revenues exceeded full-employment expenditures, on a national income accounts basis, by about $1 billion. In calendar 1972, the comparable figure was a full-employment deficit of $4 billion. This swing of $5 billion does not even state the full case, inasmuch as 1972 federal receipts included about $9 billion in overwithheld personal income taxes. The Council of Economic Advisers has estimated that on net balance, "[T]he stimulus from budget policy in 1972 was somewhere between $5 billion and $14 billion and probably closer to the higher end of this range."

Federal expenditures on the national income accounts basis rose 12 percent ($26 billion) from 1971 to 1972. They had been projected to rise by about $29 billion, or 13 percent. On the receipts side, total receipts had been projected in January 1972 at $215.6 billion. Actual receipts were $228.3 billion. The lion's share of this increase over projected receipts is attributable to overwithholding of personal income for federal tax purposes.

Just as a stimulative fiscal policy was appropriate, given economic conditions at the start of 1972, so a more neutral governmental spending policy is appropriate in our present circumstances. The President projected an approximate full employment balance in his budget for fiscal year 1974, with a deficit in real terms of $12.7 billion. This compares to a full employment deficit projected for fiscal year 1973 of $2.3 billion and a real deficit of $24.8 billion. **Given the strength of our current expansion and the need to prevent a revival of rampant inflationary expectations and behavior, we believe that this projected balance at full employment is appropriate, unless economic conditions should change substantially during the year. As the Council of Economic Advisers stated in this year's Annual Report, "Constancy in the relation between full employment receipts and expenditures provides approximate constancy in the Federal contribution to economic expansion . . . [C]onstancy of the balance at full employment is the best single guide to a budget policy that neither pushes the economy above its desired growth rate nor holds the economy below it."**

This essentially neutral approach projected for fiscal year 1974 is especially appropriate in light of the fact that most forecasters expect that the economy will be approaching the zone of its potential growth by the middle to the end of 1973. To permit our growth to accelerate to a rate which would carry us to, and possibly for a short period of time even beyond, the zone of our potential long term output would run the danger of creating that competition for scarce resources which inevitably creates inflationary behavior. Such a fiscal policy would destroy the gains which we have made over the last several years in cooling an overheated economy, gains made at substantial cost and sacrifice.

The need for a balanced fiscal policy during 1973 makes imperative prompt Congressional action on the President's request for a federal budgetary spending ceiling in fiscal years 1973 and 1974. There is in the economics profession today little disagreement that the Federal Budget should be in a position of approximate full employment balance during fiscal year 1974 and that expenditures should be restrained during the rest of fiscal 1973. The achievement of this restrained fiscal policy is threatened not because it is thought to be inappropriate either within the economics profession or in most quarters of the Congress, but because antiquated Congressional authorization and appropriation procedures do not permit us to look at the budget as a whole. **The President requested a rigid spending ceiling on expenditures both in 1972 and 1973. He has requested that this ceiling be established for fiscal year 1974 before any other spending legislation is passed. We support his request and are essentially of the same opinion that we expressed in last year's Minority Views on this matter, namely:**

> **[W]e believe it of vital importance that the Congress act on President Nixon's request that a rigid ceiling be imposed on fiscal year 1973 expenditures, but reserving to itself the right to reallocate expenditures if necessitated by the ceiling. Enactment of such a ceiling would serve several purposes. First, the American people must be assured that the Federal budgetary process is not careening along out of control, but that the large budget deficits have been an appropriate response to pressing economic problems arising during the transition from a wartime to a peacetime economy. Second, it would force both the Executive and Legislative branches to keep the overall budgetary picture in perspective. Absent such a ceiling, there is a great temptation to focus on specific programs within the budget without keeping clearly in mind the place of the programs in the total spending process. Yielding to this temptation results in loss of control over expenditures, something that has happened in the Congress all too frequently in recent years.**

MONETARY POLICY

During 1972 the Federal Reserve Board had as its goals sustaining healthy economic growth and employment increases, reducing inflationary pressures, and at the same time attaining improvements in our balance of payments. As economic conditions changed during 1972, the Federal Reserve acted to vary the rate of growth of the money supply substantially from quarter to quarter.

Specifically, in the first quarter of 1972, as a result of the low growth in the money supply in the last quarter of 1971 and in order to accommodate the strengthening economic expansion, the Federal Reserve Board moved to accelerate the rate of monetary growth. During first quarter 1972 the narrowly defined money stock rose at a rate of 9.6 percent per annum. This was somewhat more than the Federal Reserve had anticipated and, accordingly, the Fed acted to restrain monetary growth and to allow interest rates to rise in the second quarter. As a result of these actions the money supply grew at an annual rate of only 5.4 percent in the second quarter of 1972. One consequence of this reduced growth at a time of vigorous economic expansion was that short term market interest rates increased gradually from June to September.

Early in the third quarter the Fed again acted to increase the growth rate of the money supply; in the third quarter of the year the growth rate rose to 8.7 percent per annum. At this time, with an eye to possible inflationary consequences of continued growth at such a rate, the Fed sought a more moderate level of growth. However, certain changes in Federal Reserve regulations D and J acted to complicate monetary policy and in the final quarter of the year the money supply continued to expand rapidly, increasing at a rate of 8.9 percent on an annual basis.

It is obvious from the above that the fluctuations from quarter to quarter in 1972 in growth in the money supply were rather substantial. However, there are several points worth making in this regard. First, the variation in the quarterly growth rate was much less in 1972 than in 1971 and many previous years; growth ranged from 5.4 percent to 9.6 percent during 1972, compared to a range of 1.1 to 11 percent in 1971. Second, the 8.2 percent rise in the money supply over the year, from December 1971 to December 1972, was substantially less than the 11 percent rise in nominal GNP over the same period. The rise in the narrowly defined money supply, currency plus demand deposits, of 7.4 percent from final quarter 1971 to final quarter 1972 was somewhat less than the increase in the real output of goods and services over the same period. Third, the appropriateness of the total growth in the money supply which took place seems apparent from an examination of both price and interest rate behavior over the year. During 1972, the GNP implicit price deflator rose at an annual rate of 3 percent, substantially below the increases in 1970 and 1971. As for interest rates, they were relatively stable over the year. Long term rates dropped somewhat while short term rates increased moderately.

Based upon the evidence available, we believe that the overall growth in the money supply which took place last year was appropriate. As Chairman Burns stated in his testimony before this committee last month, "If the money supply had grown at a significantly lower rate, we would probably have experienced smaller gains in real output and employment last year, and unemployment would be at a higher level now." Nonetheless, the growth in the money supply last year was the second highest of the post-World War II era. In our opinion, and in the opinion of most economic analysts, including the Council of Economic Advisers and Dr. Burns, a less expansive monetary policy during 1973 will be desirable. Precisely what percentage increase in the money supply over the year will be appropriate is now impossible to say, given the requirements of financing economic growth while restraining inflation. The history of monetary growth last year is an example of this.

The Fed has acted recently to moderate monetary growth, having within recent months raised margin requirements to curtail excessive credit usage in the stock market and by increasing the discount rate in order to bring it into better alignment with interest rates in the market. We are confident that the Fed, under Dr. Burns' leadership, will during 1973 act to effectuate appropriate monetary growth, balancing, as Chairman Burns said in his testimony before this Committee, the need to keep from losing the "hard-won gains our nation has made in our struggle against inflation", against the Fed's "responsibility to support further gains in real output and employment."

Employment and Unemployment

The vigorous economic expansion which we experienced during 1972 and which is continuing into 1973 caused a sharp increase in total employment in the United States. During 1972 total civilian employment increased by 2.3 million people, the largest one-year increase in the last 25 years. Participation rates in the labor force rose for a number of groups as the recovery accelerated. These groups included workers of both sexes aged 16 to 19 years, men aged 20 to 24, women aged 20 to 24, and women aged 25 to 54.

The unemployment rate for Vietnam veterans aged 20 to 29 dropped from the 8.8 percent level which had obtained during 1971 to 6.1 percent in the last quarter of 1972. The high unemployment rate which we had been seeing in connection with veterans had of course been a matter of great concern. The reduction from 8.8 percent in 1971 to 6.1 percent at the end of 1972, a reduction of 30 percent in the rate, is attributable to a number of factors, as the Council of Economic Advisers points out in its 1973 Annual Report. In addition to the general economic improvement, there were a number of specific steps taken by the Administration aimed at aiding veterans in finding jobs. Also, the reduction in the flow of discharged veterans from the armed services from a rate of 100,000 a month in early 1972 to about 50,000 a month at the end of the year helped in bringing the unemployment rate of veterans down substantially.

That the strong expansion last year caused a number of better job opportunities to develop is indicated by a number of statistics regarding labor turnover, i.e., an increased rate of new hires, a rising quit rate in manufacturing, which reflects location of better job opportunities by many workers, a sharp decrease in layoffs, an increase in manufacturing job opportunities, and an increase in average weekly hours of production workers in manufacturing. The development of better job opportunities is also apparent from an examination of the civilian unemployment figures for the last quarter of 1972. In fourth quarter 1972, seasonally adjusted civilian unemployment averaged 4.6 million persons, down from the 5 million average of 1971 and the first half of 1972. As a consequence of our strong expansion, unemployment dropped from 6 percent in December 1971, to 5.1 percent, seasonally adjusted, by December 1972. This drop in one year from a level of 6 percent to the "neighborhood of 5 percent" took place as predicted by the Council of Economic Advisers in early 1972, which prediction was greeted incredulously by a number of private economic forecasters—and by some members of this Committee.

The present 5.1-percent rate of unemployment is, of course, still too high as a long-range goal. However, it is instructive to note that 60 percent of those presently unemployed either left their last jobs voluntarily, are first-time job seekers or are re-entering the job market after having been out of it for some period of time. Additionally, almost half of the unemployed have been unemployed less than 5 weeks.

Most forecasters expect a further reduction in the unemployment rate during 1973, as a consequence of our continuing expansion. The important question is, what further reduction in the unemployment rate during 1973 is realistically achievable and consistent with long-term healthy economic expansion in a condition of price stability? Finding the right combination of policies for 1973 will be especially difficult, inasmuch as most economists agree that the economy will be approaching the zone of its potential output by the middle to the end of the year. When the economy reaches this point, there is a danger of rekindling inflationary growth. Additionally, the manner in which we approach the zone of our potential output has important inflationary consequences. Too sudden growth and irresponsible fiscal policy have a grave potential for setting off a new wave of inflation.

The problems which we will face and the policy alternatives among which we must choose in 1973 are ably and comprehensively analyzed in the Council of Economic Advisers 1973 Annual Report, on pages 71 through 74. Based upon its analysis, with which we are in substantial agreement, the Council of Economic Advisers is of the opinion that with reasonable price and wage behavior, our economy should be aimed towards an expansion in 1973 which would reduce the rate of unemployment by year-end to the "neighborhood of 4½ percent."

We would like to make several points with regard to this analysis and projection. First, it is interesting that many of the commentators who claimed that the Council's prediction at the beginning of 1972 that with then current projected monetary and fiscal policies unemployment could be reduced to the "neighborhood of 5 percent" by year-end was an over-optimistic and unrealistic projection are now stating that the 4½ percent projection made by the Council for yearend 1973 is overly cautious and, indeed, inhumane. In our opinion, many of the statements are politically motivated and economically irresponsible. Neither the Council nor others who have suggested an increase in output which would reduce the unemployment rate to about 4½ percent by yearend have put forth such a reduction as a final goal; they have merely suggested that given the present state of our economy—the rate of expansion, inflationary behavior, the composition of our work force—such growth and the expected accompanying reduction in unemployment are on the path which is most consistent with a healthy long-term sustainable rate of economic expansion and increasing employment. Contrary to what has been said by some media-hungry political figures, neither the President nor his economic advisers have suggested that the achievement of a 4½ percent unemployment rate would place us at a point beyond which no further reduction would be desirable or acceptable. Indeed, as the Council of Economic Advisers pointed out, "If, with 4½ percent unemployment, there is pressure of an excess supply of labor the average rate of wage and price increase would be lower and the rise in employment relative to the labor force would be higher, leading to a further reduction of the unemployment rate." Finally, it is also clear to most responsible analysts that further reductions of the unemployment rate below 4½ percent, if those reductions are to take place in an atmosphere of continued price stability, will be greatly assisted by programs, especially manpower programs, designed to reduce the fairly high frictional and structural unemployment which has been typical in the United States.

Economic Stabilization Program

Phase II

Phase II was in effect for the entire year 1972. As noted in last year's Report, its purpose was to provide the stabilization program with more flexibility and equity than could be exercised under the "freeze" with which the program was begun. It was also important that the system not impede our national goals of expanded output and employment. The success we achieved in these areas has been mentioned. It was also clear that Phase II was to be a temporary period during which the economy would be allowed to expand under the new controls, but that like Phase I it, too, would end as the economy was headed forward on a course towards full employment without inflation. Chairman Grayson of the Price Commission stated throughout the year that his ultimate job was to put himself out of work. He has succeeded.

The phaseout of Phase II began as soon as the program itself was initiated. When Phase II was implemented in November of 1971, a long list of items which would not be controlled was announced concurrently. Raw agricultural products, raw seafood, sales of real estate, life insurance premiums, custom-made goods, exports, imports, used products, Government property, gold transactions, securities and financial instruments, royalties, dues, art objects, handicrafts, etc., were never controlled after the freeze. Later the Cost of Living Council exempted other types of insurance, rental units of more than $500, rental property of four units or less, brokerage fees charged on securities exchanges, retail firms with annual sales of less than $100,000, small businesses with 60 employees or less (except construction and health), and silver.

The Price Commission and the Pay Board administered the standards established by the Cost of Living Council during 1972 for that part of the economy which was controlled. Tier I firms, with annual sales of $100 million and over, had to prenotify the Price Commission of impending price increases, and also had to report price, sales and profits information quarterly. Tier I wage units were those with 5,000 or more employees, and they were required to prenotify the Pay Board of pending wage increases.

Tier II firms, with annual sales of $50 million to $100 million, also filed quarterly reports and reported price increases to the Price Commission, although they did not have to prenotify. Wage units of 1,000 to 5,000 workers also reported salary increases to the Pay Board, though they, too, did not have to prenotify.

In Tier III were firms with annual sales of less than $50 million and wage units of fewer than 1,000 employees. While they did not have to report to the regulatory bodies, these firms and bargaining units were subject to the Economic Stabilization guidelines—wage increases of 5.5 percent and price increases of 2.5 percent—and were subject to monitoring by the Internal Revenue Service, which acted as the compliance unit of the program. However, the success of the program, to which most people adhered, was based on voluntary compliance. The controls machinery remained very small, with 3,000 IRS personnel assigned to the Economic Stabilization Program during 1972, compared to the 60,000 people involved in controls following World War II and the 15,000 used for the post-Korean systems.

The direct rules of Phase II covered only 15.4 percent of the firms of this country, but these firms accounted for 67.5 percent of annual sales. Fifty-six percent of all workers were under direct controls of the stabilization program.

The goal of the stabilization program, namely to contain inflation without inhibiting output or the diminution of unemployment, was met in 1972. The Consumer Price Index rose 3.3 percent in 1972, as compared with a 4.3 percent increase in 1971. The GNP Deflator, the widest measure of inflation, rose only 3 percent in 1972, against a rise of 4.7 percent in 1971, and 5.5 percent in 1970. Wholesale price figures, of course, are not as satisfactory, since the Wholesale Price Index gives much greater weight to farm products, which were the major area of difficulty as far as the stabilization effort was concerned.

Increases in food prices plagued the Administration's efforts to reduce inflation during 1972. Agricultural products at the farm level have been exempted from controls since the "freeze" went into effect. The Council of Economic Advisers (CEA) Report states that controls on food were considered repeatedly during this past year but rejected because it was feared that such controls would cause shortages and black markets very soon, and would discourage the expansion of supplies for the future. Also, administrators were aware of the problems involved in rationing that occurred during the World War II controls.

The large fluctuation in food prices was caused by a high world demand for food, coupled with adverse weather conditions, which made for a shortfall in supply. Controls on food would have had no impact on either the demand or supply factors.

The food price increases that received the most attention were those for red meat. Probably the main factor affecting the large increase in demand for meat in the United States was the large increase in personal disposable income. With the terrific economic expansion, personal disposable income in the United States increased over $50 billion during 1972. As a result, consumers bid up the price of the most desirable foods, especially beef.

It is important to remember that food prices represent a short-term view of the total price picture. Over the past twenty years they have not increased more than all other items in the Consumer Price Index. However, there have been wide fluctuations in the price of food during this time. At the height of the inflation, in 1970, food prices, for example, remained relatively stable. In order to get a long-range perspective on present inflationary pressures, we must look to the All Items Less Food component of the CPI. Such an examination shows that during Phase II inflation increased at a rate of 2.8 percent, well within the target guidelines.

The Administration is aware of the hardships which rising food costs place on the American family. It is not sitting idly by. Important measures have been taken to reverse the upward spiral of food prices and stabilize the cost of food to the consumer. The limitations on the import of meat, were suspended in June of 1972. The suspension was extended in December to cover 1973. Farmers have been encouraged to put more acreage in the production of both crops and livestock. More dried milk is being allowed to come into the country from abroad. Subsidies for agricultural exports have been ended. The Administration is reducing the Government's agricultural stockpiles and encouraging farmers to sell the stock they own. There is, of course, a time lag factor in the measures which the President has taken. Therefore we hope to see food prices ease off starting around mid-year 1973.

Phase III

The President announced the beginning of Phase III in January of this year. At that time he set a goal of reducing inflation to a rate of 2½ percent by the end of 1973, and asked that Congress extend the Economic Stabilization Act, which expires April 30, 1973, for another year.

Phase III has not changed the rules for responsible price and wage behavior very significantly, but the enforcement procedures have been altered to put most of the economy on a self-administered basis. However, in three sectors of the economy where inflation has been highly visible, food, health and construction, the rules laid out under Phase II remain in effect.

From the very beginning, we have known that wage and price controls were to be a temporary policy, used to steer our economy on the course towards full employment without inflation. We have always maintained that we cannot depend on controls to keep us in economic good health. Over long periods of time we must rely on the competition of the free market to keep inflation in check. Monetary and fiscal policy are still the primary weapons we have against inflation. Now that the economy has expanded so greatly—and is continuing to expand—it is important that these two vital tools are judiciously applied so that a new round of inflation is not generated.

Phase III is a step in the direction of abandoning wage and price controls. Phase II was beginning to create distortions in productivity and costs. The basic difference between Phase II and Phase III is that the latter is self-administered. However, large firms and employee units must report price and wage increases on a regular basis to the Cost of Living Council. Guidelines are very much in effect. According to the initial announcement of Phase III, the pay standard remains at 5.5 percent. In addition, a Labor-Management Advisory Committee was established to advise the CLC as to reasonable standards during the coming year. The general guideline for price increases is that they reflect only increased costs. As we have said, during Phase III wage and price standards will be self-administered. But the CLC retains authority to impose mandatory controls on wage and price transactions which are inconsistent with our national inflation goals. Secretary of the Treasury Shultz, who heads the CLC, has made it quite clear that the Administration will not hesitate to use "the stick in the closet," which he has by authority of the Economic Stabilization Act, on those firms or bargaining units which abuse the voluntary, self-administering standards established by Phase III. It is important to note that Phase III depends on the voluntary spirit required in Phase II. However, due to the winding down of administrative overhead, we can now concentrate in the areas where the real problems exist.

In conclusion, we are aware that there are problems which the stabilization program has not fully solved. But it is appropriate to point out here that in 1972 the United States had the lowest rate of inflation of any advanced country in the Free World. Also, other countries have looked to the U.S. as a model for implementing their own stabilization programs. The second phase of Great Britain's stabilization effort closely parallels that of our own Phase II.

We believe that Phase III is a step in the right direction of getting away from artificial controls to manage our economy. As the President stated in his message to the Congress on January 11, 1973, "In short, 1972 was a very good year for the American economy. I expect 1973 and 1974 to be even better. They can, in fact, be the best years our economy has ever experienced—provided we have the will and wisdom, in both the public and private sectors, to follow appropriate economic policies." The Administration has done its part in setting forth responsible public fiscal policy in a budget that is consistent with economic stability and growth. Dr. Burns, Chairman of the Federal Reserve, has promised that monetary policy in 1973 will be in the spirit of resisting inflation while allowing growth to continue and expand. That leaves to the private sector—firms and bargaining units alike—the responsibility of maintaining prudent price and wage policies so that we can obviate the need for another "phase" of economic control.

III. HOUSING [1]

On March 5, 1972, the Subcommittee on Priorities and Economy in Government of the Joint Economic Committee published a controversial and important report entitled "Housing Subsidies and Housing Policy" (the "Housing Report"). For reasons which were set forth at that time, the Minority Members of the Subcommittee did not present views. The following comments about housing, and the Housing Report in particular, represent the views of the Minority Members of the full Committee.

The Housing Report makes a number of worthwhile points. However, a desire to set the record straight compels us to point out certain discrepancies and errors of analysis in the Report, as well as to explain important facts which the Report did not properly analyze.

In 1969 the Administration took over a mandate, passed by a Democratically-controlled Congress and a Democratic Administration, to pursue an ambitious, production-oriented housing goal which averaged out to 2.6 million new units per year. The peak housing production up until that time was posted in 1963, with 1.6 million housing starts, or less than two-thirds the goal set in the Housing Act of 1968. The 1960–1968 average was 1.4 million units per year, which meant that an increase of 85 percent over the record of the two previous Democratic Administrations would be required to meet these production-oriented goals.

The programs set forth in the 1968 Housing Act were brand new. The Nixon Administration was forced to take over these programs before any experience could be established as to the administrative problems involved, the market for these programs, or their ability actually to solve the nation's housing needs. **Most unfortunately, no pilot programs had been conducted prior to enactment.**

In 1971, the third year of the Housing Act, total housing production (which here includes mobile homes shipments and subsidized rehabilitations) totalled 2.6 million. The figure for 1972 was 2.9 million. In other words, the Administration acted successfully to meet the Congressional mandate, while providing a valid test, for the first time, of Sections 235- and 236-type programs. Even at that early stage. President Nixon stated in the Third Annual Report on National Housing Goals, "Serious questions have arisen with respect to the effects of these programs on housing costs, distribution of income, and social and physical environment. Such questions will be a matter of intensive consideration by the Administration over the coming year.

[1] Senator Percy agrees with the exceptions which the Minority takes to some of the material included in the report entitled "Housing Subsidies and Housing Policy." However, Senator Percy wants to emphasize that he agrees with and supports the Report's major conclusions with respect to the continuing need for decent housing. the essential soundness of the existing housing subsidy legislation, and the need for management and other reforms to improve the administration of these programs.

It is hoped that others will join openmindedly in the rethinking" (p. 3).

The experiment of pushing these new programs, along with demands for increased production, was not without costs. The results of four years of practical experience are best summed up by the following passage in the President's Fourth Annual Report on Housing Goals (1972): "The present high level of housing production has placed the nation comfortably ahead of the goal path. The real question is whether a strategy which focuses narrowly on housing production alone will bring the nation to the *qualitative* goal of a decent home and a suitable living environment for every American family" (p. 27).

This passage sets the tone for Administration housing policy: housing policy in the coming years should be oriented towards constructing quality housing as well as meeting our numerical goals, in line with the Congressional mandate to provide decent housing. Rather than abandoning the Federal responsibility for housing, the Administration's new direction in housing policies, such as we have seen, starts from the position that there is no serious question whether we have the productive capacity to meet the quantitative goal; and, furthermore, that Federal responsibility clearly rests in developing fail-safe means for ensuring quality, which a simple pursuit of numbers will not accomplish.

A change in housing policies does not come easily, or without justification. The Administration has taken a candid, self-critical look at the housing situation and the President stated, in his fifth Report to Congress in the State of the Union on March 8 of this year, that new proposals would be submitted within the next six months. Many factors obviously need to be taken into account, such as the effect of new policies on the prices and availability of building materials, the incentives to produce housing efficiently, how to develop effective safeguards against shoddy construction, and how to avoid all the pitfalls of previous housing policy. We understand that the Administration is consulting with interested parties, so that its final proposal will result in an economically viable program. We support this approach.

We agree with the recommendation in the Housing Report that the Congress exercise a more active and firm oversight of the operations of the Department of Housing and Urban Development. In fashioning a housing program which is going to be fair to the taxpayer and the homeowner—both of whom deserve their money's worth—Congress must provide a substantial evaluation function.

We would also recommend—contingent upon Congressional acceptance or rejection of the new housing proposals promised by the Administration—that a more serious effort be given to passing legislation in this session to consolidate housing programs. Such legislation was proposed in 1970 by the Administration, and would be a needed and relatively non-controversial step towards imparting more effective federal management to our housing programs, as well as some evidence to the taxpayer that Congress is serious about simplifying and tightening up Federal management in the housing area.

92-659 O - 73 - 8

We believe it is necessary to question fully all aspects of housing legislation: is it doing the proper job? are the people who are supposed to benefit from the program actually benefitting? does any provision create undesirable side effects even though accomplishing some goals? is there a more equitable or efficient way of doing things? We believe that no cows should be sacred during this process of reform, and we believe that the following guidelines should form the basis of new housing legislation.

The most important aspect of any housing effort is to ensure an adequate flow of funds at all times into the housing sector. A house is the largest investment most people make, and this investment depends more often than not upon a financial system which can supply adequate mortgage funds to the average consumer. It is clear that Federal Government efforts to develop a secondary mortgage market, while successfully managed and necessary, cannot support the entire market. Savings and loan associations, mutual savings banks, life insurance companies and other financial intermediaries will continue to play a vital financing role, much like the role they have played in the past. However, Congress clearly needs to develop ways to prevent the "end of the see-saw" situation which housing perpetually finds itself in during contractions in the business cycle. **In this regard we agree with the Housing Report that Congress ought to consider what further credit allocation mechanisms could be developed to ease fluctuations in housing finance while causing minimum distortions in the money markets.**

Second, we agree with the Report that any new, broad national housing subsidy program not be initiated without a thorough test such as is presently being undertaken by the Administration relative to housing allowances. This is a lesson we learned from the 1968 experience.

Third, we agree with the implication of the Report that any system of incentives be an incentive to responsible behavior as well as profit. We are concerned lest incentives for investment in housing be thought of as a means for quick profits in, and quick abandonment of, housing property.

Fourth, we insist that a rigid system of quality controls be built into any new housing program. Poor quality housing constitutes a blight on a community and a devastating financial drain on any conscientious homeowner.

The following paragraphs set forth specific criticisms of the Housing Report, which we believe should be made in order to correct some erroneous impressions which emerge from some of the one-sided explanations therein. We feel that national housing policy would suffer grievously if based wholly upon the arguments and analyses contained in the Housing Report.

In the first place, the Housing Report does not adequately discuss the complexities of a production-oriented national housing goal; it ignores the conclusions based upon experience which are set forth in the President's Annual Reports on National Housing Goals of 1971 and 1972 ("President's Report"). It bases the arguments for housing goals in the seventies upon the now unreliable data of the 1960 Census. As indicated in the President's 1972 Report:

Since the goal was adopted in 1968, many experts in the housing field have examined the methodology used to calculate the 26 million figure. Some experts argue that the goal is too high, others question the underlying assumption that housing production alone will necessarily eliminate substandard housing. Most agree, nevertheless, that improved estimates are difficult at present to develop given the inherent limitations of dealing primarily with 1940 census data, the ambiguity of the term housing, and our limited ability to project losses from the housing stock and new family formations with precision.

Until detailed data from the 1970 Census become available, there is little point in taking sides in the debate over the validity of the original goal. When such data are available and analyzed, a clearer picture should emerge as to general housing conditions and the changes which have occurred in the housing stock (p. 27).

Detailed data from the 1970 Census, such as second homes, year built, the components of inventory changes, and estimates of "substandard" housing, are either still not available for analysis or have been available for too short a time to permit a full reassessment.

In discussing the national goal of 6 million low- and moderate-income housing units, the Housing Report makes a number of technical errors. Its initial discussion of the subject, on page one of the Housing Report, addresses statistical factors such as housing conditions and overcrowding which are germane for assessing the statutory 26 million unit overall production target, not the statutory reference to a production target of 6 million units for low- and moderate-income housing.

In reassessing the statistical basis for the initial production, which the Administration is continuing to do, one point should be clearly understood, The Congress in 1968 stated in Section 1601 of the Housing and Urban Development Act:

> The Congress reaffirms the national housing goal and determines that it can be substantially achieved within the next decade by the construction or rehabilitation of twenty-six million housing units, *six million of these for low and moderate income families* (italics added).

Contrary to the statement made in the House Report, the Congress did *not* state that these 6 million units should necessarily all be federally subsidized under any particular categorical program.

The Housing Report also refers to the Second Annual Report on Housing Goals (1970), which adopted a production schedule for approximately 600,000 subsidized low- and moderate-income units yearly through fiscal year 1978. However in the President's 1971 and 1972 Reports—unlike the 1970 Report—the Administration specifically refrained from projecting the levels of the subsidy programs for more than one year in advance. This cautious approach was taken as the Department assessed the accumulating experiences—often bad experiences—with these programs. Moreover, the President's 1971 Report challenged the simplistic housing production strategy:

> Given the kind of economics now prevailing in the housing market and the structure of present housing subsidy programs, it appears unlikely that the housing needs of the Nation's poorest families would be fully met, even if the numerical goal in producing 26 million new units during the 1969–78 decade is achieved.
>
> Rather than clinging to the illusion that a simplistic housing production/finance strategy will necessarily meet the Nation's housing needs completely, we must, therefore face up squarely to the problems of cost and social equity inherent in this strategy. Such an inquiry must surely include a greater effort than in the past to focus on the Nation's existing housing stock—its condition, its maintenance and improvement, its rehabilitation, its management, and its market dynamics (pp. 24–25).

The following year, the President's Report again expressed the concern that the production of subsidized units was too narrow a goal to pursue if the ultimate objective of a "decent home and a suitable living environment for every American family" was to be achieved. The President asked in the 1972 Report: "What should be the balance between new housing production and the preservation of existing housing? How should assistance in new housing units be balanced against assistance in existing units (p. 28)?"

The Congress also questioned the adequacy of the production-oriented goal. The Housing and Urban Development Act of 1972, as passed by the Senate (S. 3248), added a finding that the achievement of the national housing goal would require a more efficient use of the Nation's existing housing stock through such measures as preservation, rehabilitation, and improvement in management and maintenance policies. The House Banking and Currency Committee's bill (H.R. 16704) contained the same provision.

The Housing Report also accuses the Administration of acting with a lack of "analytical substantiation." A reading of the President's 1971 and 1972 Reports reveal components of the evolving framework of "analytical substantiation" concerning the subsidized housing programs. The Administration spelled out early that fundamental deficiencies were becoming increasingly apparent as its evaluation proceeded. The 1971 Report stressed that the examination of developments since the mid-1960's uncovered three major categories of reasons for concern—cost, equity and environment—and spelled out these concerns in detail. The call for widespread participation in the analysis was sounded:

> * * * [T]here is clearly a need to assure that these funds are spent as effectively as possible. That may well require a major overhaul of the financially oriented housing policies of the past. It is vitally important that all concerned with meeting the Nation's housing needs begin focusing on these issues [cost, equity, environment] so that necessary reforms in basic policy can be identified, developed, and implemented as quickly as possible (p. 21).

The 1972 Report continued to highlight apparent inherent deficiencies:

> * * * [T]he programs involve a relatively expensive method of adding new units to the housing stock * * * relatively few families in relation to the eligible population actually receiving the direct, special income assistance provided by these programs, and furthermore, the families which benefit most are usually not among the Nation's most needy (p. 31).

The January 15, 1973, letter from the Director of the Domestic Council, Mr. Kenneth R. Cole, to Senator John Sparkman, which is referred to in the Housing Report, stressed many of the same points that had been presented to the Congress in the President's Reports. That letter did not, as the Housing Report suggests, indicate "that the Administration has already condemned these programs as inherently unworkable." The letter did state that:

> This temporary halt is not intended to spell the termination of the programs, but instead to provide an opportunity for a thorough, serious joint effort by the Congress, the Administration, and the public to reevaluate the current programs, to define clearly the Federal role in housing, and to design better ways of fulfilling that role. The object is to have better programs; not to abandon the Federal responsibility in housing.

Mr. Cole's letter, like the President's 1971 and 1972 Reports, called for "a joint effort by all of us to reevaluate and to seek solutions to our housing problems."

While the Housing Report presents a number of findings which will be of use as the Administration and Congress pursue this reevaluation, unfortunately those Views do *not* address the major concerns expressed in the President's Reports to the Congress in 1971 and 1972.

IV. AGRICULTURE: REVIEW AND OUTLOOK

This has been a record year for the American farmer. The agricultural situation is closely related to changes in the general economy. This is especially true for changes in the level of personal disposable income. In 1972, as the economy recovered, disposable personal income of farmers rose 6.8 percent over 1971. In 1973, with disposable income expected to increase at an even faster rate than in 1972, food consumption is expected to reach a record high. At the same time, increasing standards of living abroad have created a growing demand for U.S. farm products.[1]

During 1972, the value of farm assets rose 9.2 percent ($31.4 billion) compared with 7.7 percent ($24.3 billion) in the preceding year. Farm real estate assets led the way, rising by $22.8 billion. Farm real estate is the most important asset on the balance sheet of the farming sector, as it makes up about two-thirds of all farm assets. Farm liabilities (including CCC loans) totaled $72.0 billion, an increase of 7.6 percent over 1972.

The debt-to-asset ratio was 19.4 percent in 1972, compared with 19.7 percent a year earlier. The ratio had increased yearly, except for a slight drop in 1957, for the last 25 years—from 7.2 percent in 1947. The decline reflects a smaller percentage increase in liabilities and a large increase in farmland values. Farm real estate values increased 10 percent in the year ending November 1, 1972, reflecting 2 years of high farm income, readily available credit, less land offered for sale, and continuing non-farm demand.

Farmers set all-time records in 1972 for cash receipts, gross and net farm income, income per farm from farming, and per capita income of farm people from all sources. The excellent farm income situation of 1972 reflected strong domestic demand and foreign demand for farm products which accelerated in the second half.

Cash receipts in 1972 rose sharply, to $58.5 billion. This reflected 15 percent higher prices for livestock and 8 percent higher prices for crops. As total marketing volume changed little from 1971, higher prices and larger government payments[2] were responsible for the increase. In 1973, cash receipts should continue to rise and may be nearly $5 billion above the record level of 1972.

With cash receipts from marketing and direct government payments higher than in 1971, realized gross farm income in 1972 increased $6.3 billion to a record $66.4 billion. As production expenses rose only about one-half as much as realized gross, realized net farm

[1] Representative Blackburn adds: "However, although farmers will continue to realize high nominal returns from the market, the real value of their income will suffer so long as inflationary pressures persist, and consumers will have no increased real income to spend for food products."

[2] Representative Blackburn wishes to emphasize that these government payments and price increases will come out of the pockets of taxpayers and consumers.

income increased to an all-time high of $19.2 billion. The previous record, $17.1 billion was established in 1947. In 1973, farm prices will average higher than in 1972. So, although direct government payments will be lower in accordance with the new approach proposed by the Administration, realized gross income will still be up—more than $3½ billion. However, while production expenses will likely rise at approximately the same rate as prices, net farm income in 1973 will likely be held to approximately the 1972 level.

Realized net farm income on a per farm basis was $6,797 in 1972, compared with $5,581 in 1971. Realized net farm income per farm in 1973 should approximately match the level of 1972.[3]

The total personal income of farm people reached $33.2 billion in 1972, up $3.7 billion from 1971. Income from farm and nonfarm sources rose $2.1 billion and $1.6 billion, respectively. After taxes, the disposable personal income per capita of farm residents from all sources was a record $3,179, up nearly $350 from 1971. The per capita disposable income of nonfarm people also rose last year to a level of $3,837, up about $200. Thus, the ratio of incomes of farm people to nonfarm people increased from 78.0 percent in 1971 to 82.9 percent in 1972. Back in 1960, this ratio stood at nearly 55 percent.

Agricultural Trade Policy

Trade With Europe

The enlargement of the Common Market means a formidable nine-country trading bloc accounting for more than one-fifth of world agricultural imports and almost one-third of U.S. farm exports. Its enlargement greatly increases the threat of declining U.S. farm exports to Western Europe, due to the protectionist agricultural policy practiced by the EEC which will be extended to its three new countries, the United Kingdom, Denmark and Ireland.

For example, U.S. agricultural exports to the United Kingdom of about $500 million represented our fifth largest country market in 1972. U.S. grain shipments to the United Kingdom totaled more than $150 million last year. This market could shrink as the result of increased United Kingdom production, a shift to lower-priced grain substitutes, and larger imports from EEC and other preferential suppliers. Tobacco and other U.S. farm exports to the United Kingdom could also decline for similar reasons.

We have been participating since last fall in a GATT examination of enlargement trade effects. In the GATT negotiations in Geneva on enlargement, scheduled to begin this month, we will seek trade concessions from the EEF to offset greater impairments of our trade. If we are unable to obtain adequate compensation, we are entitled under GATT to withdraw equivalent U.S. trade concessions previously extended to the EEC. Successful conclusion of these GATT negotiations is fundamental to achieving our farm policy objective of producing for the world market based on the principles of comparative advantage and freer trade.

---

[3] Representative Blackburn adds: "This means that real farm incomes will go down."

So far as agriculture is concerned, the primary U.S. objective in the negotiations scheduled to start in the fall of 1973 will be the reduction of the artificial levies imposed by Common Market countries, which hamper our ability to bring reasonable priced farm products to the European consumer.

1972 and Future Prospects

Overseas developments had heavy impact on demand for U.S. farm products in 1972. Bad weather caused crop shortages in the Soviet Union, India, and Australia which will help push our farm exports to well over $10 billion in fiscal 1973. Thus, agriculture may contribute as much as $3.5 billion to the U.S. trade balance, up from $2.0 billion in fiscal 1972.[4]

While bad weather abroad cannot be relied upon to maintain export gains recorded over the past year, export prospects still appear to be favorable. World demand for grain should remain strong through next year. A prime reason for expecting favorable trends to continue is the long-term growth in demand for feed grain and protein feeds, primarily reflecting increased emphasis on livestock production in developed countries, as rising levels of living stimulate demands for higher protein diets. The United States enjoys a particularly favorable competitive edge in feed grain and oil seed production.

Communist Countries[5]

The Soviet Union, too, should continue to be a substantial market for feed grains and soybean products. Sales of these products to the U.S.S.R. during the current fiscal year will total 250 to 275 million bushels of corn and about 40 million bushels of soybeans. Soviet efforts to increase the animal protein content of their diet point to regular purchases of these products in the years ahead. The three year Trade Agreement signed last year and the establishment of a joint U.S.–U.S.S.R. commercial commission provide the framework for expanded trade on a continuing basis.

The Soviet purchase of $1 billion in U.S. agricultural products for delivery in 1972–73 was one of the major trade events last year. However, we have serious misgivings over the Administration's management of the Soviet wheat sales, and we dispute whether these sales have had the beneficial effects on the economy which the Administration claims. According to testimony given to Congress by the Comptroller General Elmer B. Staats on March 8, 1973, the Soviet wheat purchases distorted the prevailing supply-demand situation, driving

[4] Representative Blackburn adds: "Although these figures were supplied by the Department of Agriculture, they do not represent the fact that the subsidy factor in our agricultural export program reduces the real effect of these figures substantially. These subsidies will have operated to the benefit of foreign buyers and certain U.S. exporters, at the expense of the American consumer and taxpayer, at a $2 billion rate for the nine-month period ending June 1973."

[5] Senator Pearson states: "The Comptroller General's Report referred to in this subsection highlights the possibility of judgmental errors by USDA officials. But the basic fact remains that the sale was of enormous benefit to American Agriculture and was helpful in reducing our balance-of-payments deficit."

domestic prices up sharply. The Comptroller General also found that the Administration did not effectively use or disseminate information which it had on Soviet crop conditions, which had the effect of giving American farmers a "distorted picture of market conditions." Although we cannot dispute the benefit to the United States of increased exports generally, we must express considerable dismay over the Comptroller General's conclusion that the large wheat sales drove domestic prices from $1.68 per bushel in July 1972 to $2.49 per bushel in September, a rise of 48.2 percent. "With almost every increase," Mr. Staats stated further, "Agriculture raised the subsidy to fill the gap between domestic prices and the presumed export market price," culminating in a subsidy rate of 47 cents per bushel during a one-week period when 282 million bushels were registered for subsidy.

These costs to the American taxpayer, to benefit grain exporters and foreign purchasers, do not accord with our view of the nation's priorities. Our view is only reinforced when one considers that the cost of feed grains has clearly played a large role in the rise of meat prices. Related costs for our economy deriving from the Soviet wheat sales are the major traffic jams which have occurred on our railroads and at our seaports, the most acute railroad car shortage in recent history, and a shortage in the Mid-west of some rail-carried products such as fuel oil.

We do not mean to deny wheat sales to the Soviet Union, so long as the going rate is paid. Nor do we mean to ignore some of the real benefits of the sales, such as a lower level of grain storage charges and reduced set-aside subsidies.

The People's Republic of China has also become a sizable buyer of U.S. farm products following the President's initiative in 1971 to open up that market. So far this fiscal year they have taken 21.5 million bushels of wheat, 22.7 million bushels of corn, and 22 million pounds of soybean oil.

Public Law 480

Although commercial export demand is heavy and will continue so, there remains an unsatisfied need in some economically disadvantaged countries for food and fiber that the Administration believes should and can be met. We expect to have reasonable quantities of wheat and feed grains for programming under Public Law 480, just as we have had this year. The program can be useful in moving commodities such as vegetable oil and cotton where we have relatively large supplies. In addition, there are extraordinary demands for rice in certain countries strategically important to our national defense, such as Cambodia, Korea, and Vietnam, which require concessional terms. This was one of the factors in raising the national rice acreage allotment for 1973 by 10 percent.

Concern With the Environment

Undoubtedly, agriculture will have to take a closer look at its impact on environmental quality. Much can be done using existing technology, but research must continue to identify and evaluate environmental hazards and develop control practices compatible with changing agricultural patterns. These control measures carry a price tag in terms of additional financial outlay or a loss in level of production. This cost must be absorbed by the farmer, who must pass it on to the consumer in terms of higher prices if he is to continue to operate at a reasonable economic level.[6] To these ends Congress should require periodic reports from the Department of Agriculture as to progress made in developing productive, but environmentally safe, aids to farming.

Farm Bargaining

U.S. farmers have been traditionally bewildered and confused by the low return they receive for their capital and labor. Some of the reasons for this low return have been inflation, the capacity to produce more food and fiber than can generally be marketed at reasonable farmer prices, few alternative economic opportunities, and keen competition with one another in the production of crops. Thus, many farm operators see properly administered, responsible farm bargaining as a positive method they can use to arrive at a fair price for their product.

The Administration is dedicated to the goal of improving farm income. It also seeks to maximize free choice and competition in the marketing system. Thus, the Administration supported, with important amendments, legislation in the 92d Congress to improve farmer bargaining power.

A responsible cooperative bargaining association can be expected to accomplish a number of things, including providing leadership and major marketing information for its members, bringing order to the flow of product to market, and providing both producers and handlers with relatively stable prices which would be fair to all concerned. On the other hand, farmer bargaining at this time would appear to offer limited opportunities for nationally produced products, such as feed grains, wheat, soybeans and beef, which are not sold under advance contract.

Rural Development

Rural development is aimed at making the nonmetropolitan areas of the nation more satisfactory and attractive as places to live and work. It is a process combining public and private efforts that include:

(1) Helping people find improved education and job training opportunities, improved health and medical services, better nutrition, and expanded social outreach to youth, the aged, and the disadvantaged living in nonmetropolitan areas.

(2) Fostering economic development by creating jobs via expanding businesses, attracting investments, and increasing farm incomes.

(3) Developing the community facilities and services that are the basis for satisfactory community living and provide the climate for economic development.

(4) Focusing on environmental improvement by preserving and restoring the natural beauty of rural America—the soil, water and timber resources, and recreational lands.

---

[6] Senator Pearson states: "Given the market structure of family farm agriculture, there is a danger that in the short and intermediate terms, a disproportionate share of this cost would fall on the farmer. Safeguards must be taken to prevent this."

Rural-Urban Disparities

In spite of substantial increases in Federal outlays in rural areas during recent years, there continue to exist severe problems of delivering an equitable share of Federal programs to rural people, especially the rural poor. In fiscal year 1971 Federal outlays for rural areas were approximately in proportion to the rural population, i.e., one-third. Nevertheless, Federal expenditures for certain critical programs to improve the quality of life for rural people lagged considerably. For example, there were significant disparities in general health services, manpower training, and vocational education, as between rural and urban America. In fact, recent research indicates that the pattern of Federal outlays over the years has accentuated the trend of urban growth, and worked against population dispersion.

Department of Agriculture programs have been formed under the Nixon Administration to help counteract this trend, and to bring more efficient and coordinated management into rural development programs. For example, the Department has taken a lead in posing the issues of rural development to other Federal governmental agencies whose policies have a substantial impact in this area. It continues to work closely with state and local units of government. The Department of Agriculture Rural Development Committee coordinates the Federal effort in this regard, and Rural Development Committees have been organized in the 50 states and Puerto Rico. Of course, organization does not create perfect programs. However, a system which guarantees input from the outside, and the efficient operation of checks and balances, comes closer than one without such features.

Rural development is an essential ingredient in the effort to achieve balanced national growth. In this regard, we believe that Congress must take a continuing close look at the administration of the Federal rural development effort. The Joint Economic Committee can play a useful role here.

We would also like to point out that the Department of Agriculture experience suggests the need for a better allocation of responsibilities among Federal executive departments. Such an effort was made by President Nixon in his proposed Executive Branch reorganization plan. We urge that the Congress pay increased attention to better government organization for the efficient administration of rural development programs.

Food Price Outlook

Food prices in 1972 rose 4.3 percent in excess of 1971, but less than increases in 1969 and 1970. The 1972 food price increases reflected sharp advances in the prices of pork and beef. If these two items are excluded, price increases for grocery store food declined from the 1971 pace and were well below advances for non-food items.

While retail prices for food this year may rise above 1972, the increase will be largely due to sharp rises this winter. Increased economic prosperity is pushing up demand for red meat, particularly beef. Later in 1973, food prices may begin easing as meat supplies become larger, and larger 1973 crops are marketed.

Beef and veal prices in the first half will be above 1972, but may level off in the second half of 1973. Pork prices, after averaging higher this winter and spring may slow noticeably in the fall as more hogs come to market. Poultry prices will average above a year earlier, reflecting a leveling in production. Increases in fish prices will ease from 1972, but will be higher as demand outpaces a modest increase in supplies. Egg prices will be above last year and the index of fresh produce will be higher since supplies of most vegetables and deciduous fruit are smaller.

Per capita food consumption is expected to reach a new high in 1973. Food expenditures will rise above 1972, as both prices and consumption will be higher. Of greater importance, however, the proportion of disposable income spent on food will once again be down.

In an effort to reduce upward pressure on food prices, the Department of Agriculture has acted to increase supplies of meat and grain. Meat import quotas were suspended and farmers may now graze cattle on acreage set aside under the feed grain program. Also, the feed grain set-aside requirements were reduced to help assure that production meets expanding market needs. Wheat prices rose during 1972–1973, reflecting wheat export demand. To stimulate wheat production in 1973–1974, the wheat set-aside requirement was eliminated. Modified programs for wheat and feed grains should result in increased plantings of soybeans and help alleviate a tight supply situation.

The Future of Agriculture in the United States [7]

Under the Agricultural Act of 1970, commodity programs and operations are designed and operated to make American agriculture a highly competitive growth industry. The present Act is one that is market-oriented and is geared to increase farm income while at the same time removing rigid controls to the greatest extent possible and reducing the Government's role as a residual holder of artificially priced surplus commodities. This Act expires on December 31, 1973. The President in his February 15, 1973, message to the Congress made recommendations on how to make agriculture more competitive. He stated:

> Farmers must be provided with greater freedom to make production and marketing decisions. * * * Government influence in the farm commodity marketplace must be reduced. * * * We must allow farmers the opportunity to produce for expanding domestic demands and to continue our vigorous competition in export markets. We will not accomplish that goal by telling the farmer how much he can grow or the rancher how much livestock he can raise. * * * We must reduce the farmer's dependence on Government payments through increased returns from sales of farm products at home and abroad.

To effectuate farm reform practices in the spirit of the President's program to make farming a freer and more competitive industry,

[7] Senator Pearson wishes to disassociate himself from this subsection. He believes: "The Agriculture Act of 1970 has been well received by farmers and it has effectively served the national interest. Although the agriculture committees have not completed their hearings at this writing, an extension of the 1970 Act, with very few modifications, would seem to be the most desirable and appropriate action for the Congress to take in 1973."

modifications of the Agricultural Act of 1970 and Commodity Programs have been proposed. Some modifications suggested have been to:

(1) Authorize the Secretary to set loan rates, payment rates and guarantees so that he has the maximum flexibility to respond quickly to changing situations and to assure producers the opportunity both to meet market needs and to obtain fair profits.

(2) Suspend or terminate the conserving base determinations and requirements for participation in the upland cotton, wheat and feed grain programs, as the conserving base concept has proved to be an impractical and unnecessary adjunct to program administration and farming operations.

(3) Have compatibility on yield definition and applicability for the various commodities, so that equitable determinations apply and projected yields are not used in one instance and proven or actual yields in another.

(4) Continue authority to institute, as needed, a realistic and practical land adjustment program to supplement the annual commodity programs.

The President's new farm policies are designed to implement his desire to keep the Federal Government *off*, and the farmer *on*, the farm. Congress, too, desires to promote the most efficient and least costly way of putting food into the hands of the American consumer. It should act responsibly in legislating agricultural reform during this Congress.

ADDITIONAL VIEWS OF SENATOR JAVITS [1]

The American economy is certainly stronger and healthier than it was in the spring of 1969 and the President and his economic policy advisors deserve great credit for this real progress. The "price and wage freeze" decisions taken on Augst 15, 1971, were highly commendable and did much towards this healthier state; as did, too, the long deferred settlement of the U.S. role in the Vietnam War.

However, I do not feel that we do the American people a service by uttering economic rhetoric whose overriding theme is that ours is the best of all possible economic worlds—it clearly is not.

The specter of inflation is again stalking the American economy and this specter has already raised enormous havoc with our international economic relations. If it gets out of hand—and food prices are already out of hand—the implications for the well being of the average citizen in America would be enormous. In this respect, I am now inclined to believe that unless the administration of Phase III becomes considerably more specific and rigorous, history will judge Phase III to be as much of a failure as Phases I and II were successes. Taking the club out of the closet and swinging it at oil prices when the heating season is almost over, when substantial price increases have already taken place, and when a Presidential message on energy is soon coming down the road just is not enough.

The most pressing problem is food prices at the source and the institution of controls, if not a freeze on feedgrain prices, is an imperative—in addition to everything else being done—if price stability is to remain a realizable goal of this Administration. Feedgrain prices are a key determining factor of meat, dairy, poultry and egg prices.

I also regret that more attention was not paid in the Minority views to manpower training policies which have made and can continue to make a substantial contribution to reducing further the rate of unemployment and upgrading worker skills in the United States.

In my view we must work towards the enactment of comprehensive manpower reform legislation early in this Congress that will decentralize and decategorize current manpower training efforts, as well as provide for extension of the transitional public service job program now conducted under the Emergency Employment Act of 1971, which would otherwise expire this June. Moreover, we should consider the establishment of a "Full Employment Board" as I have proposed, to serve as an advocate for full employment policies within the Federal Establishment.

I also note the omission of any reference to energy problems and policies from the Report. In this regard, we all must be deeply concerned about the United States' increasing dependence on unstable foreign sources of supply and the effect of the enormous (and over the medium term unavoidable) costs of such imports on our already serious balance of payments deficit.

[1] Senator Schweiker concurs with the opinions expressed by Senator Javits in his Additional Views.

Finally, I cannot agree with the Report that present levels of defense expenditures are right. In a time of massive budget cutting affecting a wide range of domestic programs, it is my view the levels of defense expenditures remain too high given the rapidly changing world situation including the Southeast Asian settlement and the moves towards detente with the Soviet Union and the People's Republic of China. In the continuing re-adjustment of the Federal Government's spending priorities, defense expenditures must be scrutinized more carefully.

ADDITIONAL VIEWS OF SENATOR PEARSON

Recent food price increases have received a great deal of attention. This is inevitable, particularly at a time when inflation is one of the nation's most serious economic problems. However, it is essential that the food price situation be kept in proper perspective.

Historically, raw food prices have been deflationery rather than inflationery. This results from the fact that benefits of the increased productive efficiency of family farm agriculture have not been retained by the farmers but have been, for the most part, passed on to the consumer in the form of relatively stable raw food prices.

The recent increases in food prices are the result of demand temporarily outstripping supply. This increased demand flows from the increased purchasing power of the American consumer. Also adverse weather conditions abroad and changing agricultural policies in several of the Communist countries have resulted in a significant increase in foreign demand for American farm products. Thus, it is not the farmer who has engineered these price increases.

Moreover, while the farmer is getting more for his products he is paying more to produce them. He also suffers the burden of inflation. Thus, farm parity, the relationship between prices received by the farmer and prices paid by the farmer, was actually lower in 1972 (74 percent) than it was in 1963 (80 percent). The farmer is not getting rich at the expense of the housewife.

It should also be pointed out that the recent increase in the food price index is traced almost entirely to increased beef and pork prices. These price increases can be traced to the increased world wide demand for meats, the long biological cycle required to expand meat production and the high feed costs arising out of world climatic conditions. American cattlemen are increasing production as rapidly as possible. It should also be noted that although recent increases appear significant, live cattle prices today are about what they were 20 years ago.

It is also important to note that the cost of food relative to personal disposable income is decreasing rather than increasing. In 1953, 23 percent of personal disposable income went for the purchase of food. In 1963 that figure was 18.9 percent, in 1971 it was 15.8 percent, and in 1972 it was 15.7 percent.

Since World War I, except for the 1940's and early 1950's, American family farm agriculture has suffered the burden of surplus production and low prices. Historically, supply has exceeded demand.

Given the propensity of American agriculture to produce more than will yield the family farmer reasonable prices in the marketplace, we need to be very careful that efforts to stimulate supply at this time are not carried too far. We must be very careful not to bring back the great agricultural surpluses of the past, thereby triggering a new recession for the family farmer.

ADDITIONAL VIEWS OF REPRESENTATIVE BLACKBURN

I take issue with the Joint Views on International Economic Policy on several counts regarding the specific areas of international economic policy and international monetary policy.

While I agree that the military spending abroad can be and should be reduced by greater participation of our allies, and while I agree that the capital export controls have an adverse effect on the American economy and balance of payments. I find a fallacy of thinking in the statement that the monetary adjustment mechanism has not functioned effectively to eliminate U.S. payment deficits. The international monetary adjustment mechanism was never created for the purpose of elimination of anyone's deficits in the balance of payments. If the international monetary adjustment mechanism were to fulfil this purpose, it would simply eliminate the burden of responsibility from a local government to lead a responsible fiscal and monetary policy, and carry it over and make it a responsibility of an international body. According to GATT and its co-signatories, including the U.S., the only legal way of eliminating the deficit in the balance of payments is by imposition of certain temporary barriers of trade after multi-lateral consultation and negotiations with other members of the GATT agreement.

The most serious barriers to trade have not been tariffs, but non-tariff barriers to trade. The clearest example of a non-tariff barrier is an import quota: a limit on the physical amount of a product that may be imported. The import quotas have the same effect on the domestic price as the tariff of a certain amount, which makes the difference between the world wholesale price and the domestically-produced product price. The difference under the import quota system is a subsidy paid to the importers at the expense of the consumers.

The problem of the U.S. balance of trade is to be found in a growth and expansion of the Common Market. EEC, under its umbrella of discriminatory arrangements, encompasses nine members, two associate members (Turkey and Greece), and a great number of associate ex-overseas territories which placed together represent the most formidable protectionistic trading bloc. The Common Market and its new trade arrangements, plus import quotas on agricultural products, were directed primarily against the U.S. economic interests and constitute the prime source of American disequilibrium in the balance of payments. To this we can add the Japanese protectionistic policies from the onset of their economic miracle until today, which consist of import quotas and restrictions on foreign capital investments in their economy.

I strongly disagree with the formulation in the paragraph which endorses point blank the President's request from the Congress for statutory and discretionary powers to deal with other nations in economic matters. My statement is based on three facts.

92-659 O - 73 - 9

1. The granting of discretionary and statutory powers to the President would result in further erosion of Congressional power. Constitutionally, the Congress has certain powers which are best exercised by the Congress and not by the President. For instance, the question of the Most Favored Nation status is one in which the Congress should continue to have the power and authority to determine granting of status on a case-by-case basis. The Congress allows a full and open discussion on the merits of each case. The Congress has a special responsibility for determining the foreign commercial policy.

2. The President's intention to grant the Soviet Union and Communist China MFN status would introduce a tremendous distortion into the whole concept of free trade, and into GATT itself. The Most Favored Nation status is based on multi-lateralism (while the Soviet Union's and Communist China's trade policy is based on bi-lateralism), on free trade, the convertibility of currencies, non-discrimination in international economic policy, and reduction of barriers to international trade—especially, non-tariff barriers. Neither the Soviet Union nor Communist China are members of GATT; nor does either country agree with the basic presuppositions of GATT. Both Communist China and the Soviet Union have totally state-controlled economies which make the concept of free trade meaningless. The economic policy of the Soviet Union and Communist China is not based on criteria of comparative costs or economic sense, but is a political decision. As Khrushchev said, and as it has been reiterated since by various Soviet spokesmen: "We value trade least for economic reasons, and most for political reasons." Trade for the Soviet Union and for Communist China should not be confused with what we understand in the West as the benefits of foreign trade, (increase of the consumers' welfare), because they do not have the same understanding at all. In addition, there are other great difficulties in trading with Communist China or the Soviet Union which can be explained by economic reasons for not granting most favored nation status to either. For both the Soviet Union and Communist China, the price of any goods they wish to sell is not based on economic costs, but on political costs which are an integral part of their centrally planned state monopolistic economies. Therefore, the Soviet system and the Communist China system do not permit a rational cost calculation for goods or commercial practices. They have no idea about comparative cost which is a base for international trade, and especially for ideas of free trade. Both the Soviets and Red Chinese are thereby able to practice dumping and as the consequence to create economic chaos in a country without the U.S., another country, or GATT being able to prohibit this practice due to the inability to figure their costs of production. Are we, by granting them the most favored nation status, to create additional economic problems for the U.S., and add an additional attack on the economic welfare of the American citizens?

3. I do not object to authorizing the President to negotiate with other countries for the mutual reduction of all types of barriers to trade, but if the same negotiations are carried in consultation and with the approval of Congress. A display of U.S. leadership in resolving commercial issues outstanding among nations is overdue. However, in our eagerness to resolve the international trade and monetary problems, especially those hurting the U.S. economic interests, the balance

between Congress and the Presidency should not be further tipped to the side of the Presidency.

A necessity for replacement of Bretton Woods agreement is absolutely congenital. This system was bound to break down because it tried to achieve incompatible objectives: freedom of countries to pursue an independent international monetary policy; fixed exchange rates; and relatively free international movement of goods and capital. The incompatibility of these objectives was brilliantly demonstrated by John Maynard Keynes in one of his earliest and, in my opinion, best books, "A Tract on Monetary Reform" (1923).. As one of the architects of Bretton Woods, Keynes tried to resolve the incompatibility by providing for flexibility of exchange rates through what he intended to be frequent and fairly easily achieved changes in official parities. In practice, this hope was doomed because maintaining the announced parity became a matter of prestige and political controversy. Countries, therefore, held on to a parity as long as they could, in the process letting minor problems grow into major crises, and then making large changes. In practice, the system was a system of rigid parities rather than of rates fixed at any point in time, but was subject to frequent change.

No artificial and institutional adjustments of exchange rates is to eliminate disequilibrium in the U.S. balance of payments. The only answer to the current balance of trade problems and monetary crises is in setting the dollar free, and at the same time by following responsible fiscal and monetary policies. In addition to it, using tariffs instead of quotas we stand to benefit more, and move the world trading patterns closer to the ideal of free trade, under which we and the world would flourish best. While quotas are illegal according to GATT, tariffs are certainly the lesser of two evils. At least, the government gets some revenue, and foreign producers have some incentive to offer U.S. consumers better terms. If they can cut their prices, they can gain a larger share of the U.S. market. Under a quota, a lower foreign price means simply a larger subsidy to domestic importers. Politically, also, a quota is more difficult to eliminate than a tariff. Both importers and domestic producers lobby in favor of a quota—whereas importers oppose a tariff. Summarizing my presentation, I would recommend the following major directions in American foreign economic policy.

1. Set the dollar free. Many another country would be well advised to link its currency with ours. This would promote not only our domestic objectives, but also a healthy development of international trade. That is the right way to make a dollar a truly international currency—not behaving like a banana republic.

2. Concentrated policy to eliminate the basic cause of U.S. balance of payments disequilibrium, namely discriminatory economic policies of other governments and trading blocs, which manifest themselves in the imposition of quotas on U.S. goods and restrictions on U.S. capital investments in their domains.

COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

The Joint Economic Committee is directed by law (Public Law 304, 79th Cong.) to report to the Congress by March 1 on the main recommendations of the President's Economic Report. In view of the late filing of the President's 1973 Economic Report, the Joint Economic Committee's filing date was extended to March 30. The Committee is also required by the law to make a "continuing study" of the economy.

The work of the Full Committee and the Subcommittees for the past year is summarized below:

FULL COMMITTEE

Current Labor Market Developments

The January 7, 1972, hearing was the tenth in a series of Committee hearings begun in April 1971 on the employment-unemployment situation. These hearings, which were held through December 1972, were instituted as a result of the Administration's action in eliminating the briefing by technical experts on unemployment figures and labor market conditions. Entitled "Current Labor Market Developments," the hearings included testimony from the Commissioner of the Bureau of Labor Statistics, who appeared at each of the twelve hearings. Among others, the Committee received advice and counsel from such experts as a former member of the White House Conference on Aging; the Secretary of Labor of the Commonwealth of Puerto Rico; a member of the Population Research Center at the University of Chicago, and a former research director for the AFL-CIO.

January 1972 Economic Report of the President

The Committee, on February 7, began 13 days of hearings on the Economic Report of the President. Testimony was received from the Council of Economic Advisers, the Director of the Office of Management and Budget, the Chairman and a Member of the Board of Governors of the Federal Reserve System, the Secretaries of Treasury, Agriculture, and Labor, and the Secretary of Commerce (Designate), in addition to labor leaders, academicians, private economists, and a representative of the National Farmers Union.

The 1972 Joint Economic Report

The Annual Report of the Joint Economic Committee (S. Rep. 708) was filed with the Congress on March 23, 1972, the March 1 deadline having been extended. The report also contains a statement of agreement, joint views on international issues, minority, and other views. Part 5 of the printed hearings contains statements from leaders of banking, business, labor, agriculture, and private research groups commenting on the President's Report.

The Inflation Process in the United States

In February the Committee released a study prepared by Otto Eckstein and Roger Brinner of Harvard University, in association with Data Resources, Inc., stressing the need for effective wage-price guideposts and vigorous manpower policies to reduce unemployment rates, and achieve a satisfactory degree of price stability. Release of the study was followed by hearings in late February at which the authors of the study testified, along with other academicians who presented their views on the relationship between inflation and unemployment.

The Value Added Tax

Four days of hearings were held in March, three days of which were devoted to proposals for a value-added tax, widely circulated as a possible means of raising additional Federal revenues.

The fourth day of hearings was based on a study entitled "The American Distribution of Income; a Structural Problem," prepared for the Committee by Lester C. Thurow and Robert E. G. Lucas of the Massachusetts Institute of Technology, which was released prior to the hearings. Witnesses included a former Commissioner of the Internal Revenue Service, the president of a large retail organization, private economists and consultants.

Review of Phase II of the New Economic Program

As a follow-up to the hearings held in November of 1971, the Committee held hearings in April to review economic developments in Phase II of the President's "New Economic Program." Appearing were a member of Congress, the Chairman and a member of the Council of Economic Advisers; the Chairmen of the Price Commission and the Pay Board; and manufacturing, consumer, tenant, communication worker, farmer, and union representatives.

A separate day of hearings at which officials of the Pay Board testified was held to discuss regulations governing executive salaries. The hearing was based on a survey showing large increases in executive compensation during 1971.

People's Republic of China: An Economic Assessment

A staff study released in May made available to the public recent government information regarding economic developments in China. The Committee is indebted to the CIA and other government civilian agencies for their cooperation in making this assessment possible.

Economic Developments in Mainland China

During hearings in mid-June, academic experts testified and expanded on the Committee's previous report on China. Senators Mansfield and Scott led off the hearings with observations on their recent trip to China.

Price and Wage Control: An Interim Report

A report released in May, highly critical of the Phase II price-wage controls, stressed the inequities involved in the control program and the excessive secrecy of its operation, as well as the apparent ineffectiveness in controlling inflation. Emphasis was placed on the desirability of limiting controls to those sectors of the economy characterized by monopoly power and to areas of supply shortage, such as health care.

Natural Gas Regulation and the Trans-Alaska Pipeline

Four days of hearings in June centered on an analysis of the Nation's energy supplies, how we are presently using those supplies, and the development of comprehensive policies to close the gap between energy supply and demand. The first two days of the hearings focused on means of improving the domestic supply of natural gas, with special attention given to the regulatory processes. The remaining two days investigated the evidence supporting the decision of the Interior Department to approve the Trans-Alaska pipeline right-of-way. Witnesses included the Secretary and a former Secretary of the Interior Department; a Member of the Canadian Parliament; the Chairman and a former Chairman of the Federal Power Commission; a public utility consultant; and environmental experts.

At an additional day of hearings in late June, the Committee heard from the Governor, a Senator, and a Congressman from Alaska.

Midyear Review of the Economy

An assessment of the economy's performance included examination of employment, inflation, the Federal budget, international trade, and international monetary reform during five days of hearings in July. Represented at the hearings were the Council of Economic Advisers, the Department of the Treasury, the Office of Management and Budget, the Federal Reserve Board, and private economists.

A report based on the mid-year hearings was released in August. The Committee indicated that it found no cause for complacency or self-congratulations regarding the state of the economy and cautioned that the Administration must not allow economic policy to turn toward restraint. Restricting output, and keeping unemployment high would be neither a just nor an effective means of controlling inflation. The report spelled out future policies needed to maintain reasonable price stability.

Measuring and Enhancing Productivity in the Federal Sector

In August a study prepared for the Committee by the General Accounting Office on productivity in the Federal sector stressed that improving productivity is crucial to a better understanding of the performance of our economy. A joint project conducted by the GAO, the Office of Management and Budget, the Civil Service Commission, and seventeen government agencies, the study recommends that one more year of evaluation would be necessary to improve the initial productivity indices.

Reducing Unemployment to 2 Percent

In October the Committee held hearings to examine the possibility of reducing unemployment to 2 percent. The hearings followed release of a report prepared for the Committee by Dr. Martin Feldstein under contract with Data, Resources, Inc. The study examined possible combinations of fiscal, monetary, price-wage, and manpower policies which would bring about this unemployment rate; and the budgetary effects of a 2 percent rate in terms of tax receipts and of savings in such transfer programs as public assistance and unemployment compensation. The Committee hopes to sponsor further, more detailed studies of various aspects of this fundamental question of what constitutes genuinely full employment. Commenting on this question were the Chairman of the Council of Economic Advisers, the author of the study, Professor Martin Feldstein, and private economists as well as a representative of labor.

Price and Wage Control: An Evaluation of Current Policies

Hearings were held in November on the future of price-wage controls and whether Phase II should be extended through April 30, 1973. The Chairmen of the Price Commission and the Pay Board testified along with an economics professor.

Following the hearings, the Committee released a report recommending continuance and strengthening controls on those industries and labor unions which exercise significant market power.

Observations on East-West Economic Relations: U.S.S.R. and Poland

A report was released in February of 1973 by Senator Hubert H. Humphrey and Representative Henry S. Reuss on their trip with Senator Bellmon to the Soviet Union and Poland in November and December 1972. The Members suggest that many broad questions arising from the visit might be appropriate for future hearings by the Committee.

SUBCOMMITTEE ON PRIORITIES AND ECONOMY IN GOVERNMENT

The Acquisition of Weapons Systems, Part 6

Continuing the Subcommittee's examination of weapons systems acquisition, hearings were held in March, centering on Naval shipbuilding practices, shipbuilders' claims against the Navy, and the production of the C-5A aircraft being constructed by Lockheed. The General Accounting Office, Navy Officials, and the president of a government contracting firm testified.

Improving National Productivity

Government and private witnesses testified in April in an assessment of the potential and performance of the National Commission on Productivity and the role of productivity in the administration of wage and price controls.

The Economics of Federal Subsidy Programs

Part 1. General Study Papers.—A compendium of eight papers prepared for the Joint Economic Committee by noted experts was released in May. This volume analyzed and evaluated the multi-billion dollar Federal subsidy system and sought to provide the Congress and the public with guidelines to help evaluate special benefit programs and to determine whether the programs achieve the goals they were originally designed to achieve.

Part 2. International Subsidies.—This compendium volume, released in June, analyzed and evaluated Federal subsidies affecting international economic activity. The studies should provide Congress and the Administration with the information necessary to improve the performance of these programs or lead to their elimination.

Part 3. Tax Subsidies.—This volume was released in July, prior to three days of hearings evaluating $23 billion worth of Federal individual and corporate tax subsidies. The hearings also focused on general revenue and reform issues.

Part 4. Higher Education and Manpower.—Released in August, this compendium volume contains four papers which should assist Congress and the Administration in considering more carefully the costs and effectiveness of existing and proposed subsidies in these areas.

Part 5. Housing Subsidies.—Six studies, released in November, examined housing subsidies and stressed that reform of housing programs was long overdue. The Subcommittee pointed out that this area should be one of the top priorities facing the next Congress.

Transportation, agriculture, and other areas of Federal tax subsidies will be added to the compendium volumes in the near future.

Hearings entitled "Housing Subsidies and Housing Policies were held in early December. Although the Secretary of HUD declined to appear, the Committee heard the views of the Chairman of the Federal Reserve Board, the Comptroller General of the United States, a former director of FHA, a former commissioner of FHA, an executive director of the National Federation of Settlements and Neighborhood Centers, the Mayor of Detroit, the President of the National Association of Home Builders, and others.

National Priorities—The Next Five Years

As a continuation of the Subcommittee's annual hearings on priorities, three days of hearings were held in late May and early June focusing on the need for longer term planning on the part of both the Executive Branch and the Congress so that the full significance of requests for new spending is understood when the requests are made. Former Administration officials, academic experts, representatives from the Defense Department and former military officers testified. Senator George McGovern discussed his defense, welfare, tax, and other proposals at an additional hearing day in mid-June. In late June the Director of the Office of Management and Budget testified.

American Productivity: Key to Economic Strength and National Survival

In July the Subcommittee released a report making public its findings on productivity. It was pointed out that a major barrier to increased productivity is high unemployment. The report was the result of hearings held in April entitled Improving National Productivity.

Benefit-Cost Analyses of Federal Programs

In early January 1973, the Subcommittee released a compendium of surveys and studies evaluating the effectiveness of benefit-cost analyses on various Federal programs. The volume illustrates the usefulness of benefit-cost analysis in evaluating public programs, the current lack of adequate analysis, failure of the bureaucracy to use the analysis, and ways in which current analytical methods might be improved.

Federal Transportation Policy: The SST Again

Hearings in late December investigated the justification for additional Federal funding of the SST program and questioned the amount of government participation that should be involved in such a commercial type venture. A report on these hearings was published in March 1973.

Members of the Subcommittee on Priorities and Economy in Government in the 92d Congress were Senator William Proxmire, Chairman; Senators John Sparkman, Hubert H. Humphrey, Charles H. Percy, and James B. Pearson; Representatives Wright Patman, Martha W. Griffiths, William S. Moorhead, Barber B. Conable, Jr., and Clarence J. Brown.

SUBCOMMITTEE ON ECONOMIC PROGRESS

The Subcommittee conducted a continuing review into the energy needs of the U.S. both short and long term, and examined the financing needs of those sectors of the economy which are disproportionately affected by changes in the business cycle.

Members of the Subcommittee on Economic Progress in the 92d Congress were Representative Wright Patman, Chairman; Representatives Martha W. Griffiths, William S. Moorhead, Clarence J. Brown, and Ben B. Blackburn; Senators William Proxmire, J. W. Fulbright, Lloyd M. Bentsen, Jr., James B. Pearson, and Charles H. Percy.

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

The Subcommittee continued to study the effect of economic conditions and developments in South America on U.S. policy towards the Latin American countries.

Members of the Subcommittee on Inter-American Economic Relationships in the 92d Congress were Senator John Sparkman, Chairman; Senators J. W. Fulbright, Abraham Ribicoff, Lloyd M. Bentsen, Jr., Jacob K. Javits, and James B. Pearson; Representatives Hale Boggs, Martha W. Griffiths, Barber B. Conable, Jr., and Ben B. Blackburn.

SUBCOMMITTEE ON URBAN AFFAIRS

As part of its study of regional and urban economic problems, the Subcommittee conducted a staff review of the relationship between effective regional planning and the various Federal aids available to localities.

Members of the Subcommittee on Urban Affairs in the 92d Congress were Representative Richard Bolling, Chairman; Representatives Henry S. Reuss, Martha W. Griffiths, William S. Moorhead, William B. Widnall, Clarence J. Brown, and Ben B. Blackburn; Senators Abraham Ribicoff, William Proxmire, Hubert H. Humphrey, Jacob K. Javits, and Charles H. Percy.

SUBCOMMITTEE ON ECONOMIC STATISTICS

The Subcommittee continued to review the adequacy of Federal Statistical Programs with special attention given to employment data, and price and wage statistics. The Subcommittee participated in the Full Committee's hearings which were held each month on the employment situation.

Members of the Subcommittee on Economic Statistics in the 92d Congress were Senator Abraham Ribicoff, Chairman; Senators J. W. Fulbright and Jack Miller; Representatives Richard Bolling, Martha W. Griffiths, Clarence J. Brown, and Ben B. Blackburn.

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

The Subcommittee reviewed testimony it had received during two years of hearings on formulation of foreign economic policies in the 1970's and prepared a report on international trade which was issued in March, 1973, titled "A New Initiative To Liberalize International Trade."

Members of the Subcommittee on Foreign Economic Policy in the 92d Congress were Representative Hale Boggs, Chairman; Representatives Henry S. Reuss, William S. Moorhead, William B. Widnall, Barber B. Conable, Jr., and Clarence J. Brown; Senators John Sparkman, J. W. Fulbright, Abraham Ribicoff, Hubert H. Humphrey, Lloyd M. Bentsen, Jr., Jacob K. Javits, Jack Miller, and Charles H. Percy.

SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS

Gold and the Central Bank Swap Network

September hearings were held on gold and the Federal Reserve intervention to support the dollar. Among others, the following areas were investigated: whether the March 1968 two-tier agreements had outlived their usefulness; the need to continue IMF practice of requiring gold payments as part of the quota subscriptions: to what extent gold would need to be replaced by special drawing rights under a reformed international monetary system; whether the statute prohibiting purchases and ownership of gold by private American citizens should be repealed; and how gold could be phased out as international money in an orderly way. The swap network among central banks was also considered. The Committee heard from members of Congress, the Board of Governors of the Federal Reserve, Treasury officials, private consultants, academicians, a renowned London economist and a French professor who had formerly been Deputy Governor of the Bank of France.

The Subcommittee's report resulting from hearings was released in November, containing recommendations on gold, SDRs, and central bank swaps.

Members of the Subcommittee on International Exchange and Payments in the 92d Congress were Representative Henry S. Reuss, Chairman; Representatives Hale Boggs, William S. Moorhead, William B. Widnall, and Barber B. Conable, Jr.; Senators William Proxmire, Hubert H. Humphrey, Lloyd M. Bentsen, Jr., Jacob K. Javits, and Charles H. Percy.

SUBCOMMITTEE ON FISCAL POLICY

In 1971 the Subcommittee was granted a special appropriation to conduct a two-year review of the Nation's public welfare programs which cost well over $100 billion annually. Eight volumes of studies and four volumes of hearings have been published to date.

Overlapping Benefits

The Subcommittee's first study estimated the number of people receiving benefits under more than one public welfare program and discussed the policy implications of benefit combinations. This study was entitled, "Public Income Transfer Programs: The Incidence of Multiple Benefits and the Issues Raised by Their Receipt."

Handbook of Public Welfare Programs

This volume, published in October 1972, listed the major rules and features of over 40 programs. Systematically, all the major features relating to eligibility, how income and assets are defined and treated, how benefits are calculated, whether there are work requirements, and the like are detailed, revealing the diversity and inconsistencies among programs.

The Effectiveness of Manpower Training Programs

Paper No. 3 reviewed the effectiveness of manpower training programs, with emphasis on their impact on low-income persons. This study is an exhaustive review of research and evaluations conducted on these programs for which the Federal Government has obligated $6.8 billion between 1963 and 1971 for training 6.1 million people. The programs covered are the Manpower Development and Training Act, Neighborhood Youth Corps, Job Corps, Job Opportunities in the Business Sector, and the Work Incentive Program.

Work Incentives

The fourth study, "Income Transfer Programs: How They Tax the Poor," examined whether public welfare programs—singly and in combination with others—offer their beneficiaries a financial incentive to work. Many programs base benefit amounts on recipients' income. When earnings rise, benefits are reduced, whether the benefit is an AFDC grant, a veteran's pension, a food stamp bonus, subsidized day care, a public housing unit, or even a social security or unemployment compensation check. This study documents the extreme variation in the gain from work which public welfare recipients can achieve, depending on the state in which they live, what programs they participate in, and on what they spend their money.

Welfare—An Administrative Nightmare

Paper No. 5, Part 1, documents the disorder in the administration of public assistance programs. The study concluded that current law and regulations are so complicated that applications are not handled promptly, eligibility is not reviewed frequently enough or thoroughly enough, and agency error and client fraud are uncontrolled. Hearings in Washington and in three local areas on welfare administration provided much of the background material for this report.

Paper No. 5, Parts 2 and 3

Parts 2 and 3 of Paper No. 5 contain seven papers discussing intergovernmental relationships in the administration of public assistance and social services today, and administrative findings from the income maintenance experiments funded by HEW and OEO. These volumes are entitled "Intergovernmental Relationships" and "Implications of the Income Maintenance Experiments."

Hearings

The Subcommittee traveled to New York City, Detroit, and Atlanta, to hold hearings on welfare administration in addition to holding hearings in Washington, D.C. Representatives of public assistance, general assistance, medicaid, food stamps and commodities, veterans pensions, public housing, other HUD housing programs, WIN, the state employment services, and unemployment insurance programs were heard. In Washington, representatives of the Department of Health, Education and Welfare and the General Accounting Office were heard. There were 10 days of Washington and local area hearings. The proceedings are published in three volumes under the general title of "Problems in Administration of Public Welfare Programs."

In September of 1972, the Subcommittee held three days of hearings on the open-ended social services funded under the Social Security Act, in an attempt to provide Congress with additional information on whether and in what way these appropriations should be limited.

The Distribution of Public Welfare Benefits

The Subcommittee requested the assistance of the General Accounting Office in collecting data for a study which examines the distribution of public welfare benefits. Six low-income areas of the country were selected as study sites. The Subcommittee staff analyzed these data in a report entitled "How Public Welfare Benefits are Distributed in Low Income Areas." The staff analysis emphasized the number of households benefiting, the number of benefits and the total amounts received, and the implications of the findings for evaluating benefit adequacy and equity, work incentives, and administrative efficiency.

> Members of the Subcommittee on Fiscal Policy in the 92d Congress were Representative Martha W. Griffiths, Chairman; Representatives Hale Boggs, William S. Moorhead, Richard Bolling, William B. Widnall, and Barber B. Conable, Jr.; Senators William Proxmire, Abraham Ribicoff, Hubert H. Humphrey, Jacob K. Javits, Jack Miller, and Charles H. Percy.

STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

The staff, in addition to conducting formal studies and arranging hearings for the Committee and Subcommittees, participated in discussions of economic problems and research techniques with outside groups. The following list illustrates the nature of these activities in which the staff took part in 1972:

Arlie House Conference on Worker Alienation (Department of Labor.

Brookings Institution.

Data Resources, Inc.

Discover America Travel Organizations Annual Conference.

Federal Statistical Users Conference.

Library of Congress, Congressional Research Service, Tax Seminar.

National Bureau of Economic Research.

National Growth Policy Seminar, The Academy for Contemporary Problems, Ohio.
University of California, Berkeley, Calif.
University of Michigan—Conference on the Economic Outlook.

The Executive Director and other professional staff members addressed or presented papers to the following:

American Economic Association.
American University Seminar on Economic Policy.
Brookings Institution.
Congressional Conference on National Security Affairs.
Cooperative League of the United States, Kansas City, Mo.
Federal Executive Seminar, Kings Point, N.Y., and Oak Ridge, Tenn. (Civil Service Commission).
General Accounting Office Seminar, Quantico, Va.
George Washington University Law School.
Health Manpower Training Conference on the U.S. Congress Research Allocation.
League of Women Voters.
National War College.
North Carolina State University.
Society of Government Economists.
State Department Foreign Service Institute Senior Seminar in Foreign Relations.
U.S. Air Force Academy.
University of Missouri.
University of Wisconsin.

A member of the staff participated in a Senate staff trip to Japan in early 1972 in response to an invitation by the Japanese Foreign Office. In late 1972, the Director and one member each from the majority and minority staffs participated in a staff trip to Japan.

Student Interns

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

CHANGES IN COMMITTEE MEMBERSHIP

The new Members of the Committee in the 93d Congress are Representative Hugh L. Carey of New York and Senator Richard S. Schweiker of Pennsylvania. Two distinguished Members are no longer with the Committee—the late Representative Hale Boggs of Louisiana and former Senator Jack Miller of Iowa.

CHANGES IN COMMITTEE STAFF

After many years of service to the Joint Economic Committee, James W. Knowles, Director of Research, and Hamilton D. Gewehr, Administrative Clerk, retired in mid-year. Esther S. Hickey, Patricia King, Jean Reynolds, Betty L. Noyes, administrative staff, and Ross Hamachek, staff economist, left the staff to pursue other careers. Additions to the staff included William A. Cox, staff economist, and Mark Borchelt and Anne D. Annette, administrative staff.

Additions to the Fiscal Policy Subcommittee staff were Robert Lerman, staff economist; and Mary Beth Curry and Vivian Lewis, research assistants. Marian Troyer, research assistant, left the Subcommittee staff in 1972.

DISTRIBUTION OF COMMITTEE PUBLICATIONS

During the year of 1972 the Joint Economic Committee distributed approximately 275,000 copies of current and previous years' publications. A total of 53 publications were issued during the year—the largest number in the Committee's history.

Sales of the publications by the Superintendent of Documents, Government Printing Office, increased to well over 125,000 copies. This figure does not include approximately 50,000 copies distributed to Departments of the Government throughout the country.

Economic Indicators, which are sold by monthly subscription through the Superintendent of Documents, were received by 12,000 subscribers in 1972.

SUBCOMMITTEE MEMBERSHIP, NINETY-THIRD CONGRESS

When the Committee organized for the 93d Congress, several Subcommittee changes were made. The responsibilities of the Subcommittee on Economic Statistics were given to the Subcommittee on Priorities and Economy in Government. The Subcommittees on Foreign Economic Policy and International Exchange and Payments were combined to create a Subcommittee on International Economics. In light of the Committee's continuing concern about how economic policy affects the consumer, a Subcommittee on Consumer Economics was established.

The Subcommittees of the Joint Economic Committee for the 93d Congress are:

Economic Progress

REPRESENTATIVES	SENATORS
Wright Patman, Texas, *Chairman*	William Proxmire, Wisconsin
Henry S. Reuss, Wisconsin	J. W. Fulbright, Arkansas
Martha W. Griffiths, Michigan	Lloyd M. Bentsen, Jr., Texas
Clarence J. Brown, Ohio	James B. Pearson, Kansas
Ben B. Blackburn, Georgia	Richard S. Schweiker, Pennsylvania

Priorities and Economy in Government

SENATORS	REPRESENTATIVES
William Proxmire, Wisconsin *Chairman*	Wright Patman, Texas
John Sparkman, Alabama	Martha W. Griffiths, Michigan
J. W. Fulbright, Arkansas	William S. Moorhead, Pennsylvania
Hubert H. Humphrey, Minnesota	Hugh L. Carey, New York
Charles H. Percy, Illinois	Barber B. Conable, Jr., New York
James B. Pearson, Kansas	Clarence J. Brown, Ohio
Richard S. Schweiker, Pennsylvania	Ben B. Blackburn, Georgia

Inter-American Economic Relationships

SENATORS	REPRESENTATIVES
John Sparkman, Alabama, *Chairman*	Martha W. Griffiths, Michigan
J. W. Fulbright, Arkansas	William S. Moorhead, Pennsylvania
Abraham Ribicoff, Connecticut	Barber B. Conable, Jr., New York
Lloyd M. Bentsen, Jr., Texas	Ben B. Blackburn, Georgia
James B. Pearson, Kansas	
Richard S. Schweiker, Pennsylvania	

International Economics

REPRESENTATIVES

Henry S. Reuss, Wisconsin, *Chairman*
William S. Moorhead, Pennsylvania
Hugh L. Carey, New York
William B. Widnall, New Jersey
Barber B. Conable, Jr., New York
Clarence J. Brown, Ohio

SENATORS

John Sparkman, Alabama
J. W. Fulbright, Arkansas
Abraham Ribicoff, Connecticut
Hubert H. Humphrey, Minnesota
Lloyd M. Bentsen, Jr., Texas
Jacob K. Javits, New York
Charles H. Percy, Illinois
James B. Pearson, Kansas

Fiscal Policy

REPRESENTATIVES

Martha W. Griffiths, Michigan, *Chairman*
Richard Bolling, Missouri
Hugh L. Carey, New York
William B. Widnall, New Jersey
Barber B. Conable, Jr., New York

SENATORS

William Proxmire, Wisconsin
Abraham Ribicoff, Connecticut
Lloyd M. Bentsen, Jr., Texas
Jacob K. Javits, New York
Richard S. Schweiker, Pennsylvania

Urban Affairs

REPRESENTATIVES

William S. Moorhead, Pennsylvania, *Chairman*
Richard Bolling, Missouri
Martha W. Griffiths, Michigan
Hugh L. Carey, New York
William B. Widnall, New Jersey
Clarence J. Brown, Ohio
Ben B. Blackburn, Georgia

SENATORS

Abraham Ribicoff, Connecticut
Hubert H. Humphrey, Minnesota
Lloyd M. Bentsen, Jr., Texas
Jacob K. Javits, New York
Charles H. Percy, Illinois

Consumer Economics

SENATORS

Hubert H. Humphrey, Minnesota, *Chairman*
William Proxmire, Wisconsin
Abraham Ribicoff, Connecticut
Jacob K. Javits, New York
Charles H. Percy, Illinois

REPRESENTATIVES

William S. Moorhead Pennsylvania
Martha W. Griffiths, Michigan
Henry S. Reuss, Wisconsin
Hugh L. Carey, New York
William B. Widnall, New Jersey
Clarence J. Brown, Ohio

O