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# THE 1975 JOINT ECONOMIC REPORT

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## REPORT

OF THE

## JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ON THE

## FEBRUARY 1975 ECONOMIC REPORT OF THE PRESIDENT

TOGETHER WITH

**AN INTERNATIONAL SECTION IN WHICH MAJORITY AND MINORITY CONCUR, A STATEMENT OF EMERGENCY PROGRAMS IN WHICH BOTH MAJORITY AND MINORITY CONCUR, AND MINORITY AND OTHER VIEWS**

March 26 (Legislative day March 12), 1975

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

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94TH CONGRESS
*1st Session*

SENATE

REPORT
No. 94-61

# REPORT ON THE FEBRUARY 1975 ECONOMIC REPORT OF THE PRESIDENT

MARCH 26 (legislative day, MARCH 12), 1975.—Ordered to be printed with illustrations

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

## REPORT

together with

## AN INTERNATIONAL SECTION IN WHICH MAJORITY AND MINORITY CONCUR, A STATEMENT OF EMERGENCY PROGRAMS IN WHICH BOTH MAJORITY AND MINORITY CONCUR, AND MINORITY AND OTHER 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.

## STATEMENT OF AGREEMENT BY MAJORITY AND MINORITY MEMBERS

The Members of the Committee agree on certain recommendations with respect to economic policy in the period ahead. These are:

(1) Congress should swiftly enact temporary tax cuts to individuals and corporations to stimulate the economy.

(2) As part of the economic recovery program, the Federal Government should establish a major program to provide transitional public sector jobs.

(3) A major priority of current economic policy is to provide relief to those persons who suffer most from the current economic slowdown. Therefore, we strongly support extended unemployment compensation benefits.

(4) Monetary policy should attempt to compensate for the severe slump in housing starts.

The Majority and Minority Members of the Committee also agree on international economic policy recommendations, as outlined in Chapter VIII.

# Report of the Joint Economic Committee on the February 1975 Economic Report of the President

# I. INTRODUCTION AND SUMMARY

The United States economy is in worse condition today than it has been at any time since the Employment Act was passed in 1946. During 1974 real GNP declined by 5 percent. The level of production in the fourth quarter of 1974 was actually lower than in the fourth quarter of 1972.

Real consumer spending dropped 12 percent at an annual rate in the fourth quarter of last year. Business fixed investment, which had held up during most of the year, dropped at a 15 percent rate in the third and fourth quarters, while business inventories piled up. By December housing starts were below 900,000 units and auto sales in the last quarter of 1974 were 2.3 million below the level of the previous year.

The unemployment rate has risen drastically for the past 4 months to the present level of 8.2 percent. This is the highest rate in the postwar period. Seven and one-half million workers were without jobs in February 1975.

Unfortunately, unemployment is still rising. By the end of February the official rate was still 8.2 percent, but growing numbers had ceased looking for work. In the Budget the Administration forecast that unemployment will average 8.1 percent for 1975 and that it will drop very slightly in 1976. In fact, unemployment could rise above 10 percent unless strong measures are taken.

There is little solace in the fact that this Committee has warned repeatedly that the economy was in a troubled state and that rising unemployment posed a serious threat to national growth and stability. In its concern with inflation, the Administration has consistently ignored this threat. Now, belatedly, it is proposing inadequate remedies.

There is virtually no disagreement among economists as to the need for strong stimulus to the economy. Inflation fears are no longer credible reasons for inadequate counter-recession policies. The unprecedented price increases that have occurred in the past two years are abating. During the past year, the Consumer Price Index rose by more than 12 percent and the wholesale index by more than 20 percent. But, in the last several months, wholesale price increases have slowed substantially and there have been price declines in a number of commodities. As explained later in this report, a substantial abatement in inflationary pressures is in prospect.

The Administration forecasts a slow economic recovery beginning in mid-year. Specifically, they predict that consumer spending will begin to improve by mid-year and that housing will start a recovery. They estimate that the overall decline in real GNP for the year will be 2.3 percent and that average unemployment for the year will be 8.1 percent. They forecast a rate of inflation of 11.3 percent, as measured by the Consumer Price Index.

The Administration's expectations are based on the assumption that Congress will enact their proposed program. This consists primarily of a one-time tax rebate equivalent to 12 percent of total income tax liabilities, up to a limit of $1,000 per person, and a one-year increase to 12 percent in the investment tax credit available to industry.

These tax proposals would be combined with a complex energy package involving large increases in energy prices and an extensive redistribution of revenues resulting from proposed increases in oil import fees, excise taxes, and windfall profits.

In the Committee's view, the Administration's proposed income tax reduction is inadequate and the energy proposals ill-conceived. The latter would dangerously rekindle inflation and add seriously to the burden of unemployment.

If the Administration's proposals were followed, lost output would be staggering. As measured by the difference between actual and potential, the loss in output would total $1.5 trillion by the end of the decade.

Adoption of the Administration's program means that unemployment rates between 9 and 10 percent would be likely in the second half of 1975 and into 1976. At the end of 1976, real output would not have regained its 1973 level.

The emergency problem is recession. It requires immediate, vigorous action. Beyond that is the longer-run need for a balanced and workable solution to our energy needs; development of a national food policy; enhanced capability to manage our national economy; tax reform; and improvement of programs for health care, reducing poverty, and meeting essential national needs.

## Emergency Economic Recovery Program

To stop the deterioration of the economy and get the Nation back on the growth path, we propose the measures listed below. These and other proposals of the Committee are discussed more fully in the chapters that follow:

**Quick enactment of personal and business tax reductions totaling $32 to $35 billion.**

**An expansion of the present emergency public service employment program operated through State and local governments, the size of the program to vary with the rate of unemployment from 500,000 jobs when unemployment averages 6 percent, to a maximum of 1 million jobs at unemployment rates of 8 percent or above.**

**A direct Federally administered public service employment program to be triggered at an 8 percent unemployment rate. This program should be designed to provide about 500,000 jobs at an 8 percent unemployment rate and an additional 500,000 jobs for each percentage point by which the unemployment rate exceeds 8 percent.**[1]

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[1] Senator Proxmire states: "This proposal for public service jobs goes too far. While I support a public service job program, there is a limit to the number of useful jobs that can be provided. I believe that the same employment effect can be achieved more efficiently in other ways. In particular, programs designed to

**Conduct of monetary policy by the Federal Reserve to meet the following objectives:**

**Reduce both short- and long-term interest rates and keep them low throughout 1975.[2]**

**Accommodate Federal borrowing requirements.**

**Provide direct support to the residential mortgage market.**

**As proposed in a resolution passed by the Senate, Federal officials should consult with Congress at semi-annual hearings before the Commitees on Banking about the Federal Reserve Board of Governors' and Open Market Committee's objectives and plans with respect to the growth of monetary and credit aggregates in the upcoming 12 months.**

**Congress should enact a mortgage subsidy program for low- and middle-income families to reduce interest payments to a level not to exceed 6 percent a year. The program should be designed in such a way that the subsidy is reduced or eliminated as the homeowner's income rises above the levels of eligibility.[3]**

**The Administration should immediately reactivate and accelerate all existing low and moderate-income subsidized housing programs.**

**The Administration should release the $264 million in funds appropriated by Congress last year for the construction of low-income homes under Section 235 of the Housing Act and the $145 million appropriated for rental assistance. Congress should appropriate the additional $75 million authorized for rental assistance.**

**Congress should appropriate the $700 million authorized last year for direct long-term loans to finance housing construction for the elderly.**

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stimulate housing production would be among the quickest and most efficient ways to reduce unemployment. What we should seek to do is to provide a stimulus to the private economy where the response can be quick and decisive. A tax reduction provides such stimulus. Housing assistance provides it also. Very small government outlays produce tremendous private outlays. But highway spending—where most of the money comes from the government itself—public works, and public service jobs cost the Federal Government far more than should be the case."

[2] Representative Reuss states: "The Federal Reserve should target its policy on reducing long-term interest rates, both by adequate expansion of the monetary aggregates and by lengthening the maturity of its portfolio. In light of the fact that the 90-day Treasury bill rate has already fallen from above 9 percent late last August to around 5.6 percent in early March, further lowering of short-term rates does not seem an immediate priority."

[3] Chairman Humphrey and Senator Proxmire state: "Under the proposed Emergency Housing bill in the Senate, one million housing units could be assisted for about $300 million. The Government would borrow funds at about 7 percent. A subsidy of an additional percent, bringing mortgage interest rates down to 6 percent, would provide a tremendous stimulus. For an average $30,000 house the cost is only $300 a unit. As each new unit of housing provides two man-years of work, one million new units and up to two million jobs can be created for a very small outlay."

**Cost-of-living adjustments in Federal income support programs, such as social security and food stamps, should continue to operate fully as currently provided by law.**

**Maximum weekly unemployment benefit should be increased to two-thirds the average wage in each State, with individuals to receive at least 50 percent of their previous weekly wage, up to the maximum.**

**Additional emergency Federally funded unemployment benefits should be provided for persons with demonstrated current labor force attachment but not covered by present programs, including the self-employed.**

**Antirecession grants to State and local governments should be enacted, the total size of the program to vary in accordance with the national unemployment rate.[4]**

### *Need To Restore Confidence*

In making these proposals the Joint Economic Committee is fully confident that they will arrest the continuing deterioration of the economy and return the Nation to the path of economic growth and full employment. We are likewise convinced that this in turn will restore vitally needed confidence in our economy to the American people. As these measures take hold they will reinvigorate national faith in our economic progress which in itself is a necessary element in our progress towards full employment.

The remedies are available. Congress has the will to take the necessary action. It will do so.

### Other Recommendations

Other recommendations contained in the Committee Report appear below, covering Federal budget priorities, energy, agriculture, regions, States, cities, and international among others:

**An emergency health benefits program to provide some form of continued medical coverage during the period of unemployment should be enacted.**

### *Incomes Policy*

While we do not support comprehensive wage-price controls now or in the foreseeable future, the following measures are required:

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[4] Senator Proxmire states: "I do not agree with any antirecession grants to State and local governments. I oppose this on the same grounds I oppose general revenue sharing; i.e., it severs the responsibility for taxing from the opportunity to spend. States should be assisted by providing them with tax sources they can tap."

An enlarged staff and the provision of subpoena power for the Council on Wage and Price Stability so that it can more adequately carry out its responsibilities.

Provision of authority to the Council on Wage and Price Stability to delay for a limited period wage or price actions which threaten to undermine progress toward price stability.

### *Federal Budget Priorities*

Congress should authorize action, appropriate funds, and adjust taxes in a manner that will best promote orderly and balanced economic growth in the public and private sectors. Congress should also reduce appropriations and take other steps necessary to eliminate wasteful spending and inefficient activities, particularly in the area of defense, space, and foreign aid.

Arbitrary ceilings on spending programs which cannot be justified by the facts relating to individual programs and restrictions on starting new programs should be rejected.

### *Tax Reform*

Tax reform focused on eliminating Domestic International Sales Corporation (DISC) provisions, strengthening the minimum tax, limiting the foreign tax credit, and ending percentage depletion,[5, 6] and other special preferences for oil and gas producers should begin immediately after tax relief legislation recommended above has been passed by the Congress. As the economy shows definite signs of recovery, comprehensive tax reform focused on all facets of tax expenditures should proceed.

### *Small Business*

A system should be established to collect, compile, and distribute coherent data permitting consistent comparisons of the large and small business sectors, and to report the consequences of proposed government actions for large and small businesses. As part of a much-needed expansion of Federal assistance to small business, the corporate surtax exemption should be increased to $50,000 immediately.

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[5] Representative Long states: "I oppose an across-the-board repeal of the oil depletion allowance. Such a change would lead to the further concentration of oil production in the hands of the major oil companies. Without percentage depletion, independent oil producers would find it financially advantageous to sell their operations to the major producers and pay capital gains rather than continue to explore for oil and develop reserves. Since these independent operators now do an overwhelming majority of the drilling and find most of the new oil, a repeal of depletion would result in less exploration and decreased domestic production. Arbitrary termination of the depletion allowance to independent producers will have the most dire consequences in terms of even less competition in the industry and instead lead to even further reliance on foreign production."

[6] Senator Bentsen states: "I support the position stated in the Congressional Democratic Program of Economic Recovery and Energy Sufficiency recommending the retaining of the depletion allowance only for small, independent, domestic explorers who do not operate retail outlets."

### *Poverty*

In recognition of the tragic failure to reduce poverty since 1970, the following steps should be taken:

**To assist those who cannot help themselves, and who are most hurt by inflation and recession, Congress and the Administration should act immediately to assure that all children in low-income families have nutritionally adequate diets and that the income levels of elderly persons are raised to at least the poverty threshold.**

**To accomplish these objectives, Congress should: (1) act promptly on the proposal introduced by Senator McGovern, S. 850, which strengthens the School Lunch Program, the School Breakfast Program, the Special Food Service Program for Children, and other child nutrition programs; and (2) adopt legislation to strengthen the Supplemental Security Income Program which provides assistance to the elderly poor.**

**Above all, it must be recognized that a substantial tax cut and additional efforts to insure full employment are the major requisites for aiding the poor.**

**The Bureau of the Census should accelerate its procedures for publishing statistics on proverty so that they are available to Congress and the public on a timely basis. The possibility of providing quarterly poverty statistics should be explored.**

### *Health*

**Congress and the Administration should work toward the early establishment of a comprehensive national health program. This program should include heath insurance to ensure that all persons have access to medical care, methods for reducing financial hardships that result from major medical illnesses, incentives for more efficient and less costly practices within the medical profession, improved delivery of health services, and increased supply of health care manpower and facilities wherever needed.**

### *Economic Planning*

**Congress should enact legislation to establish within the Executive and Legislative Branches an economic planning agency to improve our capability to assess emerging trends in the economy, to develop long-range policies for economic growth and development to assess current progress in the light of long-term objectives, and to recommend goals for the efficient and equitabe allocation of resources and the distribution of income.**

### *Energy*

**The President's proposals for tariff and excise taxes on oil and gas and the decontrol of energy prices would aggravate inflation**

and unemployment without necessarily achieving its stated conservation goals. They therefore should be rejected.

Congress should avoid indiscriminate constraints on energy consumption that would cause further job loses at this time. Instead, selective measures to curb energy waste and to employ idle resources for conservation projects should be emphasized. More comprehensive measures should be phased in on a predetermined multiyear schedule so as to initiate conservation now while avoiding disruption of the economy.

In addition to renewed emphasis on conservation, the Nation must proceed with measures to expand production of oil and gas and with steps to facilitate substitution of coal, nuclear, and solar energy both through technology development and through resolution of environmental controversies.

Oil and gas prices should not be decontrolled. However, a review of fuel pricing policies is needed to encourage domestic production of natural gas. Closer coordination of domestic oil and gas price regulation is needed.

The Congress should move immediately to establish stockpiles to insure against future supply interruptions. In developing these stockpiles, it should consider (1) a requirement for importers to maintain increased stocks sufficient to continue supplies to customers for a stipulated period, and (2) the establishment of a Federal funded civilian strategic petroleum reserve.

The United States should not support international guarantees or an effort to set a common price floor under the world petroleum market. Domestic subsidies for certain types of experimental projects may be warranted on an individual basis. We should, however, join other consuming nations in promoting research and technological development of all forms of energy.

### *Agriculture*

A national food policy must be established to provide a fair income to grain, soybean, and cotton producers, price protection to animal producers, reasonable retail prices, food aid to needy nations, and a continuing competitive agricultural industry.

A domestic and international early warning food information system should be developed to provide private export dealers and governments with information on emerging supply and demand relationships to prevent the misallocation of food resources.

As a component of the national food policy, short-supply domestic use and export management rules must be established which are designed to prevent exploitation of commodity shortages.

The Congress should continue its current policy, expressed in the Foreign Assistance Act passed in December 1974, to target a large portion of foreign food aid to nations suffering famine.

The Federal Trade Commission, as soon as practicable, should continue with all deliberate speed to investigate market concentrations, profits, and pricing practices in the retail food industry.

*Regional and Local Economies*

Major executive and legislative proposals should be accompanied by an analysis of their impact on employment, output, prices, and profits in regions and areas within regions, as well as a commitment to provide adjustment assistance to areas, businesses, and individuals that suffer particularly adverse consequences.

Federal Government efforts to restore economic growth should be accompanied by specific programs to encourage private and public sector investment in regions and areas within regions that experience chronic high unemployment.

The real value of existing Federal assistance to State and local governments should not be allowed to decline as long as the economy operates significantly below full utilization of resources.

The counter-cyclical revenue assistance grant to State and local governments recommended above should be enacted.

Congress should give careful consideration to the enactment of a Federally financed program of property tax relief as part of any effort to relieve the total tax burden imposed upon low and moderate-income households and families. Any Federal property tax relief program should require significant participation by State governments and meaningful reform of local government revenue systems.[7]

A task force for regional and local economic statistics should be established to provide Congress, the Executive, and the public with meaningful and timely statistical information essential for more effective regional economic policies.

*International Economic Issues*

Neither the International Monetary Fund nor any of its members should maintain a minimum price in the private gold market.

The dollar should continue to float in exchange markets and the trend of this float should not be significantly influenced in either direction by official intervention. The amended IMF Articles of Agreement should make adoption of either floating or fixed exchange rates equally acceptable options.

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[7] Senator Proxmire states: "This proposal is far too open-ended and potentially extremely expensive. Property taxes are the province of the States and I see no reason at all for the Federal Government to subsidize them."

The United States should seek renewal, in May 1975, of the one-year pledge by the nations of the Organization of Economic Co-operation and Development not to take unilateral, restrictive measures that would shift oil deficits to other member countries.

With the authority granted under the Trade Act of 1974, the President should aggressively seek on a reciprocal basis the elimination of nontariff barriers to trade and the removal of statutory tariff barriers between industrialized nations.

The President should also attempt to reach multilateral understandings regarding the availability of commodities and raw materials. He should report to Congress periodically on the progress of these discussions. We should seek assured availability of essential materials imports. In exchange, the United States should offer potential recipients of food aid and our regular export customers assured access—given prior satisfaction of minimum domestic needs—to supplies of U.S. agricultural products and raw materials.

If Congress authorizes U.S. participation in the proposed $25 billion oil financing agreement, whether by extending loans or by offering guarantees, it should insure that there are adequate safeguards to assure future repayment. Moreover the fund's authority should be limited to two years.[8]

The United States should continue to encourage OPEC nations to place their funds in longer term investments to facilitate the recycling process. In order to provide adequate national security safeguards over the inflow of capital into the United States, the Congress and the Executive should review reporting requirements and procedures for screening investments. We must carefully monitor the activities of all firms to insure that they do not discriminate on the grounds of race, creed, color, or sex or otherwise violate U.S. law. The outcome of this review should be a coherent national investment policy.

In continuing its commitment to assist poor countries, the United States should support the International Monetary Fund's special account to subsidize loans from the expanded oil facility to those developing countries most seriously affected by higher oil prices. The United States should also encourage the oil producers to support this account and to assume an expanded role in financing the international development banks—particularly the concessional lending activities.

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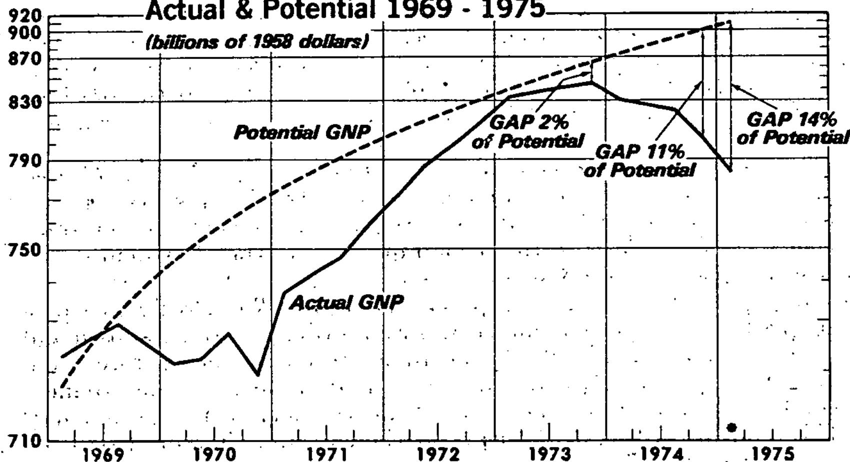
[8] Senator Proxmire states: "I would oppose a program under which the United States would put up or assume liabilities of $7 to $8 billion. Secretary Kissinger should understand that Congress would most likely reject such a massive commitment on top of the outrageous increase in the price of oil already assumed by the American people."

## II. ECONOMIC SITUATION AND OUTLOOK

The United States today is experiencing an economic crisis. After declining gradually during the first three quarters of 1974, real output plummeted at an annual rate of 9.1 percent in the fourth quarter. There is every indication that a decline of similar magnitude—or even larger—is occurring in the present quarter. The implications of this decline can be assessed by comparing actual output with "potential output," that is, the output which would be produced if the economy were operating at a 4 percent level of unemployment. As shown in Chart I, the economy, which as recently as the fourth quarter of 1973 was operating within about 2 percent of this potential level of output, had fallen 11 percent below its potential by the fourth quarter of 1974. In the present quarter the gap between actual and potential has probably widened to around 14 percent.[1]




The decline in output has resulted in sharp reductions in employment and in a rapidly rising unemployment rate. In February, nonfarm payroll employment was 2.3 million below its October peak, and the unemployment rate, at 8.2 percent, had reached its highest level in 34 years.

[1] These calculations are based on the official "Potential Gross National Product" series published by the Department of Commerce. Use of this concept is not meant to imply that the Joint Economic Committee regards a 4 percent unemployment rate as "full employment." The Committee has long been on record in favor of ultimately reducing the unemployment rate to 3 percent or less.

Real incomes have fallen with the decline in output. Disposable personal income in the fourth quarter of 1974 was 4.5 percent below year-earlier levels. Various alternative measures of real wages show a similar decline. A further decline of 1.2 percent in real average weekly earnings occurred in January, bringing the cumulative decline since July 1973 to nearly 8 percent.

The decline in output has also been reflected in declining productivity. Output per man-hour in the private nonfarm sector declined throughout 1973 and 1974, and by the fourth quarter of 1974 was 4.2 percent below its first quarter 1973 level. This in turn has helped produce the sharpest rise in unit labor costs on record. Unit labor costs in the fourth quarter of 1974 were 14 percent above year-earlier levels.

The rise in unit labor costs has contributed to continued inflationary pressure despite the weak level of demand. However, industrial raw material prices have been falling for the past five months, and recent slowing of the rate of increase in prices of finished goods at wholesale indicates that consumer prices should rise much more slowly in the months ahead than in the recent past. During the most recent three months for which data are available (November–January), consumer prices rose at an annual rate of 9.2 percent, compared to a peak rate of 15 percent during the August to October period.

The Joint Economic Committee has received extensive testimony on the economic outlook and has had the Committee staff prepare its own assessment. Economic prediction always carries risks, and the risks are especially great when the economy is in a situation of such rapid change as at present. However, it is necessary that economic policy be formulated in terms of judgments relating to the outlook. Therefore, we summarize below our best estimates of the economic outlook.

As already noted, it seems apparent that a large decline in real output is occurring in the current quarter. In the absence of new policies which go beyond what the President has recommended, some further decline is likely in the second quarter. If the President's program is adopted, the economy will receive a modest temporary lift in the third quarter due to the proposed tax rebate. The President's program provides no permanent stimulus, however, and in subsequent quarters, output would grow very little. With the labor force continuing to grow, unemployment would rise further. Unemployment rates of between 9 and 10 percent would be likely in the second half of 1975 and into 1976. Real output at the end of 1976 would still not have regained its 1973 level.

The above assessment, pessimistic though it may sound, is not the worst possible case. It assumes a moderately easy monetary policy, some recovery in housing starts, and some pickup in automobile sales. Should the Federal Reserve pursue a restrictive monetary policy this, together with the restrictive impact which the President's energy proposals would have in 1976, could well serve to make 1976 the third successive year of declining output. Unemployment could rise above 10 percent.

Some reduction in the rate of inflation is in prospect for 1975. However, the outlook described above, which assumes adoption of the President's program, would produce only limited progress toward price stability. Production costs are high in a stagnant economy. Labor costs and overhead costs must be spread over too few units of output

for cost-efficient operation. In addition, the President's energy proposals themselves would add at least 2, and perhaps 4, percentage points to the rate of price increase. Thus consumer prices could be expected still to be rising at an annual rate of 7 to 9 percent in the latter part of 1976.

It is the firm conviction of the Joint Economic Committee that the outlook described above, which is obviously highly unsatisfactorily, does not have to materialize. Policies are available which will greatly improve the prospects for economic recovery. We are hopeful that Congress will adopt such policies. Below we describe what we believe to be attainable output, employment, and price targets for 1975 and 1976. Chapter III describes policies which we believe will bring us to these goals.

No one can be certain what the precise effect of changes in economic policy will be. There is no recent historical experience which provides a good basis of comparison with current conditions. Thus, while it is our present best judgment that the policies we recommend would attain the goals we suggest, we will not hesitate to make additional recommendations if the economy fails to respond satisfactorily to the policies we propose.

## The Goals of Economic Policy

With the economy currently operating 14 percent below its potential, there can be no quick or easy return to full employment. Underutilization of resources and high unemployment will be major concerns of economic policy for the remainder of this decade.

In this situation, it is desirable that fairly precise interim policy goals be established to provide measuring rods for satisfactory progress toward the ultimate Employment Act goals of "maximum employment, production, and purchasing power."

At a time when the overriding economic need is to restore a healthy growth of output and employment, policy goals can best be established in terms of real output levels to be achieved. Real output is usually measured in terms of constant 1958 dollars and, for convenience in comparing our recommendations with those of others, this Report conforms to that convention. Real gross national product (GNP) in the fourth quarter of 1974 was $804 billion measured in constant 1958 dollars. In the first quarter of this year, this may fall to the range of $780 to $785 billion. With prompt action on a tax cut of adequate size, there should be an upturn in real GNP beginning in the second quarter, and by the fourth quarter of this year, it should be possible to restore real output to a level of $820 to $830 billion. From the fourth quarter of 1975 to the fourth quarter of 1976, policy should be directed toward achieving a growth of real output of at least 8 to 9 percent. This would bring real GNP in the fourth quarter of next year to a range of $890 to $900 billion.[2] These are ambitious targets,

[2] If measured in constant prices based on price levels prevailing in the fourth quarter of 1974, our output estimates and targets would be as follows:

| | |
|---|---|
| 1974: IV | $1430 bilion. |
| 1975: I | $1388 to $1397 billion. |
| 1975: IV | $1459 to $1477 billion. |
| 1976: IV | $1584 to $1601 billion. |

given the weak state of the economy at the present moment. However, the present emergency situation demands that we set and achieve ambitious targets.

For any given level of real output, an associated trend rate of unemployment can be estimated. Because growth of the labor force is often erratic in the short run, and because hiring and firing of workers lags behind changes in production levels, the actual measured unemployment rate in any given quarter often departs from the trend, sometimes by a considerable amount. For this reason, the data on real output provide a more reliable guide to where the economy is headed.

The table below gives the trend unemployment rates associated with the output targets we propose. During the recovery phase of the business cycle, new hiring may lag well behind the rise in production. Hence these unemployment rates may in fact be more likely to be reached in the quarter following the one shown in the table. For comparison, the table also gives the output levels and associated trend unemployment rates which we estimate would result from adoption of the President's program.[3]

TABLE 1.—OUTPUT TARGETS AND ASSOCIATED UNEMPLOYMENT TRENDS

| | Joint Economic Committee proposal | | Administration program | |
|---|---|---|---|---|
| | GNP (billions of 1958 dollars) | Trend unemployment rate | GNP (billions of 1958 dollars) | Trend unemployment rate |
| 1974: IV | [1] 804 | [1] 6.6 | [1] 804 | [1] 6.6 |
| 1975: I | [2] 780–785 | 8.6 | [2] 780–785 | 8.6 |
| 1975: IV | 820–830 | 7.8–8.1 | 780–790 | 9.2–9.5 |
| 1976: IV | 890–900 | 6.5–6.8 | 810–820 | 9.2–9.5 |

[1] Actual.
[2] Estimate.

Sources: Department of Commerce, Department of Labor, Joint Economic Committee.

As shown in the Table 1, the growth targets we propose would bring the trend unemployment rate below 7 percent by the end of 1976. Of course, we would like to see even greater progress toward full employment. However, it would be a great disservice to propose targets which are not realistic. No recent historical experience is fully comparable to the situation we confront today, but the evidence which is available from past recessions indicates that the targets we propose would require the economy to grow at a rate slightly exceeding the strongest previous recovery of the past 20 years. If the targets we propose are achieved, an estimated 2 to 2.5 million more people will be at work at the end of next year than under the Administration's program, and output will be growing at a rate which will produce continued steady progress toward full employment in subsequent years.

A strong recovery this year and next should have a favorable impact on prices because productivity gains will help hold down cost increases. As shown in Table 2, inflation rates historically have been lower in

[3] Our estimates differ from those presented by the Administration in early February because the additional information now available makes it clear that the Administration forecast underestimated the drop in output in the first half of this year.

the recovery phase of the business cycle than during the decline. If the President's proposed energy taxes and price decontrol measures are rejected, it presently appears that it should be possible to bring the rate of price increase below 6 percent by the end of 1975 and to achieve a significant further lessening of inflation in 1976. We emphasize, however, that price prediction is extremely difficult and uncertain. Unanticipated factors, such as a poor harvest next fall, could precipitate new price increases. Price increases stemming from causes unrelated to the overall level of resource utilization would not, however, form a sound reason to retreat from policies designed to promote vigorous economic recovery.

TABLE 2.—PERCENT CHANGES IN CONSUMER PRICE INDEX DURING AND FOLLOWING RECESSIONS

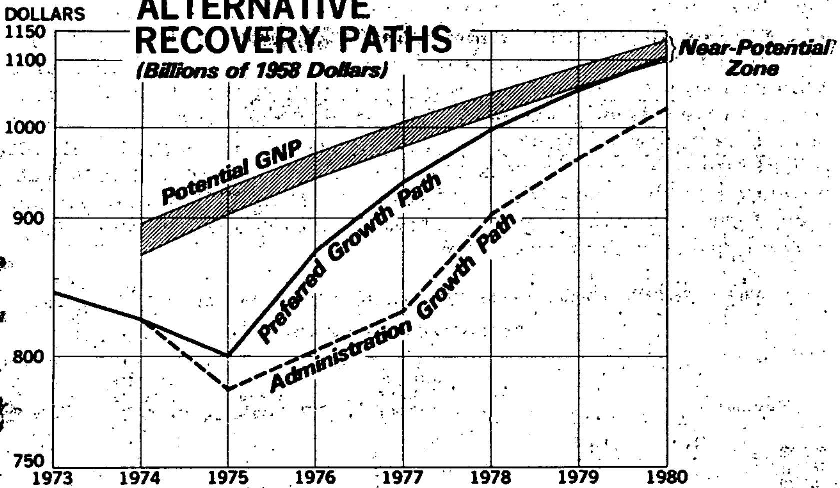
[Seasonally adjusted annual rate]

| Recessions | During the 12 months before peak | Peak to trough | During the 12 months after trough | During the 2d 12 months after trough |
|---|---|---|---|---|
| 1957–58 | 3.3 | 3.0 | 0.2 | 2.0 |
| 1960–61 | 1.8 | 1.2 | .9 | 1.2 |
| 1969–70 | 5.8 | 5.6 | 3.5 | 3.5 |

Concern has been expressed regarding the long-run inflationary implications of a stimulative economic policy. It is our judgment that so long as the economy is far below its optimum level of resource utilization, rapid recovery will not add to inflation. As fuller employment is approached, however, inflationary pressures can emerge in specific sectors even though the economy as a whole is not fully employed. Thus in future years growth rates should be gradually reduced so that full employment can be restored and sustained in an atmosphere of reasonable price stability.

The growth pattern outlined by the Administration would reverse this desired approach to full employment, with growth rates slow at first—when idle resources are abundant—and more rapid in 1979 and 1980, when the economy is expected to be closer to full employment.[4] Chart II compares the growth pattern outlined by the Administration with one which we believe represents a more responsible approach to full employment, an approach which would minimize the cumulative loss of output and improve the prospect for reasonable price stability at full employment.

[4] Details of the Administration's economic projections will be found on page 41 of "The Budget of the United States Government, Fiscal Year 1976." Our chart applies the 1977–1980 real GNP growth rates given in the Budget to the lower 1976 output level which we now estimate would be the probable result of the Administration's economic proposals.



Sources: Department of Labor, Office of Management and Budget, and Joint Economic Committee.

The growth pattern outlined by the Administration implies a cumulative loss of output of about $1,450 billion (measured in 1974 prices) from 1975 through 1980. Even under the alternative we propose, the loss of output would be about $700 billion. This tragic and enormous loss demonstrates the importance not only of a rapid recovery from the present recession, but also of building toward a sustainable situation of full employment and reasonable price stability in which the disastrous economic pattern of the past two years will not be repeated.

Chapter III of this Report describes the policies which we believe are needed in 1975 to place the economy on the road to the right kind of recovery. There is no way we can be certain that these policies will bring the economy to the targets we suggest above. The past two years have demonstrated how economic developments can take even the most knowledgeable observers by surprise. We urge the Congress to conduct a continuing review of the adequacy of economic policy and to stand ready to adopt new policies as necessary.

## III. ECONOMIC POLICY FOR 1975

Reversing the present downward course of the economy will require forceful government action. The underlying strength of the private economy is enormous, but the short-run forces which would produce a self-generated recovery of private output are undoubtedly insufficient at present.

We are confident that Congress will respond to the demands of the present emergency. Indeed, that response is already under way. Congress acted last December to broaden the coverage of unemployment compensation and to initiate an emergency program of public service employment. Legislation to reduce personal taxes and increase the investment tax credit is now well along in the legislative process. These are important actions, but more is needed. Congress, the Executive Branch, and the Federal Reserve must cooperate in taking the further steps which are so urgently needed.

As the Council of Economic Advisers has stated:

> The most pressing concern of policy is to halt the decline in production and employment so that growth of output can resume and unemployment can be reduced.

To achieve this objective quickly will require a balanced combination of tax and expenditure actions coupled with a supportive monetary policy. The fiscal actions should include:

**Quick enactment of personal and business tax reductions totaling $32 to $35 billion. These should include the $8 billion rebate on 1974 individual income tax payments, the $8 billion reduction in 1975 individual income taxes, and the $4 billion reduction in business taxes which have now passed the House of Representatives, plus further reductions of $12 to $15 billion in individual income or social security tax payments.**

**Continued full operation of cost-of-living adjustments in Federal income support programs, such as social security and food stamps, as currently provided by law.**

**An increase in the maximum weekly unemployment benefit to two-thirds the average wage in each State, with individuals to receive at least 50 percent of their previous weekly wage, up to the maximum.**

**Additional emergency Federally funded unemployment benefits for persons with demonstrated current labor force attachment but not covered by present programs, including the self-employed. Eligibility for these benefits would be limited to persons for whom neither regular public or private employment or special public**

**service employment can be provided. These benefits should remain available so long as the national unemployment rate remains at extraordinarily high levels.**

**Antirecession grants to State and local governments, the total size of the program to vary in accordance with the national unemployment rate. These grants should be on the order of $1 billion for each percentage point by which the unemployment rate exceeds 4 percent. Distribution would be determined by the relative severity of unemployment in each State and locality.**[1]

**An expansion of the present emergency public service employment program operated through State and local governments, the size of the program to vary with the rate of unemployment from 500,000 jobs when unemployment averages 6 percent, to a maximum of 1 million jobs at unemployment rates of 8 percent or above.**

**A direct Federally administered public service employment program to be triggered at an 8 percent unemployment rate. This program should be designed to provide about 500,000 jobs at an 8 percent unemployment rate and an additional 500,000 jobs for each percentage point by which the unemployment rate exceeds 8 percent. Provision should be made within this program to provide youth employment opportunities, including summer jobs for students.**[2]

In conjunction with the above fiscal policy actions, the Federal Reserve should conduct monetary policy to meet the following objectives:

**Reduce both short and long-term interest rates and keep them low throughout 1975.**[3]

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[1] Senator Proxmire states: "I do not agree with any antirecession grants to State and local governments. I oppose this on the same grounds I oppose general revenue sharing, i.e., it severs the responsibility for taxing from the opportunity to spend. States should be assisted by providing them with tax sources they can tap."

[2] Senator Proxmire states: "This proposal for public service jobs goes too far. While I support a public service job program, there is a limit to the number of useful jobs that can be provided. I believe that the same employment effect can be achieved more efficiently in other ways. In particular, programs designed to stimulate housing production would be among the quickest and most efficient ways to reduce unemployment. What we should seek to do is to provide a stimulus to the private economy where the response can be quick and decisive. A tax reduction provides such stimulus. Housing assistance provides it also. Very small government outlays produce tremendous private outlays. But highway spending—where most of the money comes from the government itself—public works, and public service jobs cost the Federal Government far more than should be the case."

[3] Representative Reuss states: "The Federal Reserve should direct its policy toward reducing long-term interest rates, both by adequate expansion of the monetary aggregates and by lengthening the maturity of its portfolio. In light of the fact that the 90-day Treasury bill rate has already fallen from above 9 percent late last August to around 5.6 percent in early March, further lowering of short-term rates does not seem an immediate priority."

**Accommodate Federal borrowing requirements.**

**Provide direct support to the residential mortgage market.**

In order to insure that monetary policy is conducted in a manner consistent with the overall policy objectives established by Congress, the Congress should more actively exercise its responsibility to oversee the activities of the Federal Reserve System.

**As proposed in a resolution now passed the Senate, Federal Reserve officials should consult with Congress at semi-annual hearings before the Committees on Banking about the Federal Reserve Board of Governor's and Open Market Committee's objectives and plans with respect to the growth of monetary and credit aggregates in the upcoming 12 months.**

In order that the objectives of monetary and fiscal policy not be frustrated by continued rapid increases in the overall price level, an active, largely voluntary price and incomes policy should be pursued. This should include:

**An enlarged staff and the provision of subpoena power for the Council on Wage and Price Stability so that it can more adequately carry out its responsibilities.**

**Provision of authority to the Council on Wage and Price Stability to delay for a limited period wage or price actions which threaten to undermine progress toward price stability.**

## Fiscal Policy

Fiscal policy should be adjusted quickly to provide increased support for the economy. To do so will improve the outlook for both employment and price stability. To fail to do so will invite the continuation of recession and rising unemployment into 1976.

### *The Administration's Recommendations*

The President has asked the Congress to enact a number of major tax measures, including a rebate on 1974 individual income taxes, a temporary increase in the investment tax credit, an excise tax on oil and natural gas, a windfall profits tax, a reduction in the corporate income tax rate, and permanent reductions in individual income tax liabilities. The merits of these proposals as a part of a program for reducing our dependence on imported oil are discussed in Chapter V. Here they are analyzed with respect to their impact on output, employment, and prices.

Taken by themselves, the proposals for a rebate on 1974 individual income taxes and a temporary increase in the investment tax credit would have a temporary stimulative impact on the economy. However, these proposals cannot be considered in isolation from the President's other recommendations, including his recommendations for exercising restraint on Federal outlays. The Administration recommends reducing the growth of budget outlays by $15.3 billion through hold-

ing the increase in social security, food stamps, and other price-indexed programs to 5 percent over the 18 month period January 1975 through June 1976, and by reductions in other ongoing programs. This represents a partial interruption of the workings of the budget's automatic stabilizers and, therefore, an offset against the stimulative impact of the proposed temporary tax reductions.

Taken as a whole, the President's recommendations provide very little support for the economy in 1975 beyond what would be provided by the Budget's "automatic stabilizers" in the absence of any new policies. As shown in Table 3, the net stimulative impact in calendar 1975 is only about $8 billion, or barely more than one-half of one percent of GNP, and this impact is concentrated entirely in the third quarter. In 1976 the Administration proposals would have a net restrictive impact.

TABLE 3.—BUDGETARY IMPACT OF THE ADMINISTRATION'S TAX AND EXPENDITURE RECOMMENDATIONS

[National income account basis, billions of dollars, seasonally adjusted quarterly totals]

| | 1975 | | | | 1976 | |
|---|---|---|---|---|---|---|
| | I | II | III | IV | I | II |
| Total revenue effect | −0.1 | −1.6 | −9.7 | −3.0 | 0.4 | 0 |
| Temporary tax reductions | −.8 | −5.9 | −8.1 | −.8 | −1.1 | −1.1 |
| Net energy tax changes | .8 | 4.3 | −1.5 | −2.2 | 1.4 | 1.0 |
| Total expenditure effect | −1.4 | −1.2 | −1.7 | −2.5 | −2.7 | −3.0 |
| Energy offsets | 0 | .5 | 1.8 | 1.8 | 1.8 | 1.8 |
| Proposed outlay reductions | −1.4 | −1.7 | −3.5 | −4.3 | −4.5 | −4.8 |
| Increase in surplus (+) or deficit (−) | 1.3 | −.4 | −8.0 | −.5 | 3.1 | 3.0 |

Note: Details may not add to totals because of rounding.

Sources: Department of Commerce (Bureau of Economic Analysis) and Council of Economic Advisers.

This analysis still does not reflect the full restrictive impact of the Administration's energy proposals, because not all of the impact operates through the Federal budget. The proposed windfall profits tax on domestically produced crude oil would not affect the extra profits stemming from higher prices of gas and coal. The amount of these extra profits to coal and gas producers is difficult to measure precisely, but could be in the order of $9 billion in 1975 and as much as $18 billion in 1976. It is unlikely that these additions to profits will be quickly and fully returned to the spending stream. Since the proposed tax reductions are insufficient to offset these increased profits, this transfer of income from consumers to producers will have a restrictive effect on the economy.

Expert private witnesses appearing before the Joint Economic Committee have been virtually unanimous in their conclusion that the Administration's fiscal proposals, judged as antirecession measures, are totally inadequate. They also stressed the great risks associated with the massive changes in the tax structure contained in the President's energy proposals. At a time when the need to support output and employment is paramount, the risks contained in a program with an unquantified, but possibly large, restrictive impact are simply unacceptable. Furthermore, the Administration's proposals would add substantially to the inflation rate and are far from the most effective means available for conserving energy. By the Administration's own estimate, the energy proposals would add about 2 per-

centage points to the increase in the Consumer Price Index over the next two years. Others estimate that the total price impact could be as much as 4 percentage points.

In our judgment, the major elements of the Administration's recommendations should be rejected in favor of a fiscal program which will stimulate output and employment and a fuel conservation program which will achieve the long-run objective of lessening dependence on imports without adding suddenly to the overall rate of price increase.

### *The Need for Fiscal Stimulus*

The rapidity of the decline in output in the past few months has taken observers by surprise. Policies which seemed adequate a few months ago must now be recognized as far from adequate to the changed situation. The Committee has examined a number of policy alternatives in an effort to develop a program which will achieve the output targets suggested in Chapter II of this Report.

At our request, the Council of Economic Advisers, Wharton Econometric Forecasting Associates, and Chase Econometrics have used their econometric models to estimate the impact of a set of policy assumptions supplied by this Committee. These assumptions included a $10 billion rebate on 1974 individual income tax liabilities; a $20 billion reduction in 1975 and 1976 income taxes, effective through a change in the withholding schedule; a permanent increase in the investment tax credit to 10 percent, effective January 1, 1975; and an $8 billion increase in fiscal 1976 outlays, primarily to finance public service jobs. The results of these studies indicated that the proposed policies would have a substantial favorable impact on the economy. By the fourth quarter of 1976, the number of unemployed would be an estimated 850 thousand less than if the President's program were adopted, real output would be about 3 percent higher, and the price level about 2 percent lower. Even so, the results are not good enough. The real growth rate from late 1975 to late 1976 is estimated at only about 4.5 to 6 percent. This is not sufficient to produce a rapid reduction in unemployment and, therefore, these policies do not represent a fully adequate response to the present economic situation.

The recommendations presented in this Report would provide greater fiscal stimulus than was assumed in the studies described above. This additional stimulus appears required if the desired rate of recovery from the recession is to be achieved. It should be stressed that the additional expenditures recommended are tied to the unemployment rate. They will automatically phase out as full employment is regained.

### *Tax Policy*

Personal and business tax reductions totaling $32 to $35 billion are needed in 1975. Some, but not all, of these reductions should be continued in 1976 and subsequent years to offset part of the effect of inflation in raising tax rates. Legislation which has now passed the House of Representatives would provide an $8 billion rebate on 1974 individual income tax payments, an $8 billion reduction in 1975 individual tax liabilities, and between $4 and $5 billion of business tax relief, including an increase in the investment tax credit to 10 percent

and an increase in the corporate surtax exemption from $25,000 to $50,000. These provisions should be enacted without delay.

Virtually all the expert witnesses who testified before the Committee urged that there be some tax reduction of a permanent nature. While the tax legislation which the House has enacted covers 1974 and 1975 only, there is a widespread presumption that subsequent legislation will make the reductions permanent. This further legislation should proceed quickly. Past experience shows that family income changes which are perceived as permanent have a larger impact on consumer spending than those which are seen as only temporary.

The legislation discussed above falls $12 to $15 billion short of the total personal tax reduction which is needed in 1975. There are a number of ways in which this further reduction might be achieved. One which seems especially worthy of consideration is the adoption of an income tax credit against social security tax payments.

In 1975 workers covered by the social security system will pay a tax of 5.85 percent of the first $14,100 earned. An individual income tax credit for each worker equal to 1½ percent of earned income up to $14,100 would reduce personal income tax collections by $10 billion, including the cost of cash refunds to those lower income persons unable to claim the credit. The maximum benefit per individual would be $212 for a worker earning $14,100 or above. This proposal would reduce the tax burden for those middle-income workers who have seen their taxes rise especially sharply in the past two years because of increases in the social security wage base. This tax relief would be accomplished through the income tax system, leaving the financing of the social security system intact.

An alternative would be to couple a smaller individual income tax credit with an equivalent credit to employers based on the number of covered employees. This tax change would have the advantage of reducing business costs and stimulating additional hiring. A credit of $150 per employee ($75 to the employee and $75 to the employer) would achieve a $12 billion tax reduction, $6 billion to business and $6 billion to workers, including cash payments to lower income individuals who do not pay taxes.

Another alternative would be the substitution at the option of the taxpayer of a credit of $250 for each personal exemption to which the taxpayer is otherwise entitled. This would provide a total annual tax reduction of $12 billion. This change would also increase the progressivity of the tax system, since the credit is of progressively greater value to taxpayers in lower income brackets. Assuming a family of four, this change would provide some tax relief for families with incomes up to $30,000. This change would benefit families with incomes so low that they presently pay no tax only if it were extended to provide actual cash payments to these families.

Whatever method of tax reduction is chosen, the lower liability should be immediately reflected in reduced tax withholding so that the stimulative impact is felt in 1975 when it is most needed. The first credit proposals could initially be for 1975 and 1976 only and could be renewed in later years if required by economic conditions at that time. The adoption of a tax credit in lieu of the personal exemption would presumably be a permanent change in the tax code.

### *Expenditure Policy*

The tax reductions discussed above and the easier monetary policy which we support are essential elements in a program to achieve recovery. By themselves, however, they are not sufficient. The economic decline has by now been allowed to become so severe that consumer and business confidence is eroded. Surveys of consumer attitudes indicate that an unusually high percentage of any disposable income gains resulting from tax reduction may be used for savings or debt retirement. These higher individual savings and an easier monetary policy will make funds available for private investment. However, the recent fall-off in private demands for credit suggests that, in the short run, private business may be slow to utilize the available funds.

Had tax reduction and accommodative monetary policy come sooner, they might have provided sufficient support for the economy. Now that the decline has become so deep, Federal expenditure actions are also required. Government spending is the surest and most direct method of supporting the economy.

At the same time, permanent new expenditure programs which will involve large outlays in future years when stimulus is no longer required should be initiated only if these programs are fully justifiable on their intrinsic merits. A time when otherwise-idle resources are available is a good time to initiate needed new programs, such as national health insurance and improvements in public transportation. It may also be a good time to speed up completion of previously authorized public works, provided the economic impact of the speedup can be achieved rapidly and then phased down as full employment is restored. However, new public works with long lead times are not suitable as countercyclical programs. Previous experience has shown that such programs often produced more spending after high employment had been regained than during the recession years in which it was needed.

The need to stimulate the economy does not justify spending in excess of essential national needs in such areas as defense, highways, or public construction. To foster economic recovery through military expenditures in excess of true needs would simply lay the foundation for the next recession when these expenditures were later cut back.

The expenditure programs which we recommend are largely of a temporary nature, designed to take effect quickly and to phase out as full employment is regained.

### *Cost-of-Living Adjustments*

The Administration has proposed that increases in social security benefits, food stamps, and other Federal income support programs be held to 5 percent over the 18 month period from January 1975 through June 1976, although by the Administration's own estimate, prices are expected to rise 15 percent over that period. This would result in estimated budget savings of $3.8 billion in fiscal 1976. Due to price increases which have already taken place, the entire 5 percent increase in some programs would go into effect by June 1975. For these programs, there would be *no cost-of-living adjustments whatsoever in fiscal 1976.* Not only would this be a great injustice to the individuals affected, but it would partially negate the effect of the tax proposals intended to stimulate recovery. Little net economic impact can be expected from using the tax system to raise the real disposable income

of some families while using expenditure ceilings to reduce the real income of others. The proposed ceilings on income support payments should be rejected.

***Public Service Employment***

With the unemployment rate now expected to exceed 9 percent before the end of this year, a greatly expanded program of emergency public service employment appears to be the quickest way to reduce unemployment to more bearable levels.

Present emergency legislation passed in December 1974 authorizes funds for approximately 300,000 jobs, all administered through State and local governments. This authorization is temporary, expiring at the end of 1975, and the full authorization is not yet funded. This authorization should be fully funded, and a further authorization should be provided with the size of the funding designed to vary automatically with the quarterly average of the unemployment rate. We are pleased to note that the President has recently recommended an extension of the public service employment program into 1976. His proposals are still inadequate, however, in light of the current high level of unemployment.

We recommend that at a 6 percent unemployment rate, a total of 500,000 public service jobs should be provided through State and local governments. Funds to provide additional jobs should be made available at higher levels of unemployment up to a maximum of one million jobs at unemployment rates of 8 percent or above. The program should be reduced in similar stages as unemployment declines.

At unemployment rates of 8 percent and higher, a Federally administered public service employment program is also needed. This should provide for 500,000 jobs at an 8 percent unemployment rate and an additional 500,000 jobs for each percentage point by which the unemployment rate exceeds 8 percent. Federal administration of this program is desirable for the following reasons:

(1) A number of appropriate work projects are primarily or exclusively Federal in nature. These include work on a national transportation system, work in the national parks, forests, and recreation areas, work on Federal demonstration projects, and work of many other types.

(2) The Federal Government, more readily than State and local governments, can provide work on temporary projects of one to two years' duration, avoiding the problem of displacement of regular employees by special public service workers.

(3) Unemployment is especially severe among persons between the ages of 16 and 25. In February the unemployment rate was 20 percent for those age 16 to 19 and 13 percent for those age 20 to 24. While the Federal component of the public service employment program should be open to persons of all ages, it would be especially suitable for these younger persons who are more mobile and better able to accept employment of a temporary nature and who would benefit from the job experience provided by this program.

***Antirecession Grant to State and Local Governments***

This proposal is discussed in greater detail in Chapter VII. The size of the grant we recommend would be equal to approximately $1 billion for each 1 percentage point rise in the unemployment rate

above 4 percent. In one sense this program would be a partial substitute for a larger program of public service employment. It would have the advantage of providing State and local governments with greater flexibility, allowing them to maintain their regular work force at times of budgetary stringency rather than, as is sometimes the case now, laying off regular employees and replacing them with special public service employees. It would also provide State and local governments with the funds they need to purchase equipment and supplies without which their public service employees cannot be utilized efficiently.

### *Unemployment Compensation*

Congress acted in December to expand the coverage of the unemployment compensation system and to provide extended benefits at times of high unemployment. Action has not yet been taken to provide greater uniformity among State programs by increasing the maximum weekly benefit to two-thirds the average wage in each State, and providing that individuals receive at least 50 percent of their previous weekly wage, up to the maximum. This should be done.

An additional Federally funded emergency program is also needed as long as the national rate of unemployment remains at extraordinarily high levels. This program should provide benefits to any adult, including the self-employed—

(1) Who can demonstrate current labor force attachment;

(2) Who is not otherwise entitled to benefits due either to exhaustion of benefits or to lack of sufficient covered employment, nor to income support under other programs; and

(3) For whom no employment of any kind, including public service employment, can be made available.

This program would be of special benefit to younger adults among whom unemployment is widespread and who often have limited, if any, entitlement to unemployment compensation benefits.

### *The Budget Deficit*

The spending programs we have recommended would add about $2 billion to outlays in fiscal 1975. In fiscal 1976 the cost would be as follows, assuming an 8 percent rate of unemployment:

$4 billion for antirecession grants to State and local governments.

$4 billion for continued full operation of cost-of-living escalators in income support programs.

$9 billion for the two public service employment programs (assuming they reach full operation by the middle of the fiscal year).

$3 billion for the recommended improvements in unemployment compensation.

The $7 billion proposed by the Administration for "energy offset" payments would not be needed under our program. Hence, the net effect of our proposals would be to increase fiscal 1976 outlays by about $13 billion.

The tax changes we support would reduce receipts by $10 to $12 billion more in fiscal 1975 and by $21 to $25 billion more in fiscal 1976 than would the Administration proposals. However, the higher level of economic activity generated by our program should result in an increase in tax receipts and a saving on unemployment compensation

and other income support programs of about $18 to $20 billion in fiscal 1976. Hence, the net impact of our program would be to enlarge the deficit by $12 to $14 billion in fiscal 1975, and about $16 to $18 billion in fiscal 1976.[4] In making these estimates, it is assumed that Congress will make various other changes from the specific outlay totals proposed by the President for individual programs, but that the outlay effect of these changes will be roughly offsetting. As discussed in Chapter IV, our own recommendations are that outlays for defense be reduced, that outlays for housing programs be increased, and that initial outlays for a national health insurance program and for anti-poverty efforts be added to the budget.

A temporarily larger deficit is a necessary step toward restoring the health of the U.S. economy. The alternative is to allow the economy to continue indefinitely in a state of recession and rising unemployment. Not only is this alternative unthinkable in terms of the human suffering implied, but it would mean enormous budget deficits many years into the future. The policies we support will mean larger deficits temporarily, but they are essential to bringing the budget into balance in future years. Indeed, looking at the budget deficit in fiscal 1976 by quarters, the deficit under our program begins to narrow significantly during the course of the year due to the favorable impact on tax receipts of increased income and employment.

Our recommendations are designed to produce a budget surplus once the economy regains high employment levels. The permanent tax cut we recommend would serve only to offset part of the rise in the full employment surplus in the past two years due to the impact of inflation on effective tax rates. The expenditures we recommend automatically phase out as high employment is regained. The full employment budget "margin" in 1980 (the difference between full employment receipts and expenditures on present programs, including those recommended in this Report) would be in excess of $50 billion. This, of course, does not mean that the actual surplus will be that large, but rather that this amount will be available to be divided among new programs, tax reduction, and a Federal surplus to help finance private investment.

## Monetary Policy

The fiscal policies discussed above will be effective in restoring economic growth only if they are accompanied by an accommodative monetary policy. With the proper monetary policies, Federal borrowing can be financed and needed credit made available to the private sector. If monetary policy is restrictive, however, interest rates will be driven up, funds will be switched from savings institutions to higher-yielding market instruments, and the inability of savings institutions to make mortgage loans will block the recovery of the housing industry.

In the last three months business and consumer demand for loans has dropped dramatically. After rising at an annual rate of nearly

[4] Representative Long states: "While I fully support the recommendations embodied in this report, I am concerned over the huge deficit in the Federal budgets for 1975 and 1976 that these policies would create. I also have concern that the private financial market would have difficulty financing this deficit."

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20 percent in the first 10 months of 1974, business loans outstanding at commercial banks actually declined at an annual rate of 4 percent from November 1974 to January 1975. Consumer credit outstanding fell by $1.9 billion during the November to January period. These declines have contributed to the rapid reduction in short-term interest rates illustrated in Table 4. The demand for longer-term funds has remained strong, however, and long-term rates have fallen very little.

TABLE 4.—SELECTED INTEREST RATES

| | July 1974 | October 1974 | February 1975 |
|---|---|---|---|
| Federal Reserve discount rate | 8.0 | 8.0 | [1] 6.75 |
| Federal funds rate | 13.0 | 10.0 | 6.3 |
| 90 day Treasury bill rate | 7.7 | 7.2 | 5.5 |
| Prime bank rate | 12.0 | 11.5 | [2] 8.75 |
| Corporate Aaa bonds | 8.7 | 9.3 | 8.6 |
| Municipal bonds | 6.5 | 6.5 | 6.4 |
| FHA new home mortgage yields | 9.5 | 10.4 | 9.0 |

[1] Reduced to 6.25 percent Mar. 7.
[2] 8 percent in early March.

Source: Board of Governors of the Federal Reserve system, Department of Housing and Urban Development, Moody's Investors Service, Standard & Poor's Corp.

As the seriousness of the recession has become apparent, the monetary authorities have moved to make more credit available. The discount rate has been lowered, and reserve requirements have been reduced. However, because of the evaporation of the demand for loans, these easier policies have produced no growth of the money supply as conventionally defined (demand deposits and currency). Total commercial bank reserves also remained unchanged from December through February as banks used the increase in their nonborrowed reserves to repay borrowings from the Federal Reserve.

The present situation of very weak credit demand and worsening recession is one in which further moves toward monetary ease are urgently required. As discussed elsewhere in this report, we believe the objective of economic policy should be to build as quickly as possible to a rate of growth of real output of 8 to 9 percent and to sustain that rate throughout 1976. Realization of this objective will require sufficient monetary expansion to hold down interest rates so that private investment, including, most importantly, investment in housing, can proceed vigorously. Monetary policy should be directed toward keeping short-term market rates below the yield available at savings institutions and toward narrowing the spread between short and long-term rates. The latter can be accomplished through increased Federal Reserve purchases of securities with longer maturities.

Concern has been expressed that the large Federal demand for credit will swamp the financial system in 1975, leaving insufficient funds available for private borrowers. Witnesses before this Committee have testified, however, that this concern is misplaced. Private credit demands will be off markedly because of the recession. One respected estimate by a private expert is that the total 1975 demand for credit, including government borrowing, will be 5 percent below last year

and 12 percent below the 1973 peak. If heavy government borrowing does drive up interest rates, it will be because the Federal Reserve has failed to make sufficient credit available, not because the financial system cannot handle the flows.

A brief period of monetary ease will not be sufficient. Interest rates must not only be reduced further but must be held at low levels for the remainder of 1975 and for as long after that as is necessary to insure that a vigorous economic recovery has been firmly established. At times in the past, economic recovery has been aborted by premature imposition of a restrictive monetary policy. For example, in late 1958 and early 1959, the economy was experiencing a good recovery from the 1957 recession, with real output growing 9 percent from the second quarter of 1958 to the second quarter of 1959. Restrictive monetary policies contributed to the interruption of this recovery, however, and a new recession was precipitated. The result was that it was not until late 1965 that the economy regained the relatively full employment situation which had prevailed in 1956.

A number of witnesses before this Committee expressed concern that the Federal Reserve might act similarly to choke off recovery in late 1975 or early 1976. With the unemployment rate likely to still be in the 8 percent range or above at that time, any such moves toward restrictive policy would be totally inappropriate. It is the responsibility of the Congress to see that monetary policy supports rapid economic recovery.

It is the Congress, acting with the advice of the Executive Branch, which has the responsibility to determine the output, price, and employment targets toward which economic policy should be directed. At times in the past Congress has permitted the Federal Reserve to make independent judgments with respect, for example, to the degree of inflationary risk posed by the pursuit of certain output and employment targets. While the advice of the Federal Reserve Governors is of great value to the Congress on questions of this type, the power of decision is entrusted to the Congress. The power and the responsibility of the Federal Reserve is limited to the execution of monetary policies which will contribute to achievement of the basic goals established by Congress.

In the critical months ahead, Congress should exercise close oversight over the Federal Reserve. In semi-annual testimony before the Banking Committees, Federal Reserve officials should be required to discuss Federal Reserve objectives with respect to the growth of monetary and credit aggregates in the upcoming 12 months. We are pleased to note that a resolution presently before the Senate expresses the sense of Congress that this procedure should be required.

## Price and Incomes Policy

Far too often, economic policy decisions are made on the assumption that there is at all times some simple and immediate "trade-off" between inflation and unemployment—that is, that as unemployment falls, inflation will increase. There is an abundance of recent evidence to illustrate that this is by no means always the case. Indeed, as shown in Table 2 (page 18), price increases are typically less in the recovery stages of the business cycle than during the period when output is declining. There is every reason to believe that if the fiscal and mone-

tary policies necessary to restore the growth of real output are adopted in 1975, these same policies will also slow the rate of inflation. Most industries are presently operating far below their optimum level of capacity utilization. Overhead costs must be spread over too few units of output, and workers are not always fully employed. As output rises, cost per unit will diminish. This will be of great importance in helping to overcome the cost pressures which have been created by the money wage gains needed to keep pace with past price increases.

With most raw material costs now level or declining and with the demand for final output very weak, inflationary pressures are stemming primarily from operating costs. The single most important anti-inflationary action to be taken in 1975 is to restore the growth of real output so that productivity gains will hold down these costs.

In addition to the above, policy tools must be available to deal with possible price increases in those concentrated industries in which prices sometimes appear to rise regardless of either market conditions or production costs. The slowing of wholesale industrial price increases in the last few months is encouraging. However, as shown in Table 5, price increases in certain industrial categories, especially chemicals, machinery and equipment, and transportation equipment, are in sharp contrast to this trend.

One possible explanation of this puzzling price behavior is that businessmen fear the reimposition of price and wage controls and wish to enter any possible future round of controls with a high base price. If considerations of this type are in fact influencing business judgments, then businessmen certainly are pursuing a self-defeating course. The one thing which would insure their safety from the reimposition of controls would be clear evidence that prices are being voluntarily reduced. Similarly, the one thing which might lead to the reimposition of controls would be persistent price increases which cannot be justified by either market conditions or cost pressures.

TABLE 5.—WHOLESALE INDUSTRIAL PRICES

[Percent change, seasonally adjusted[1] annual rates]

| | February–August 1974 | August 1974–February 1975 |
|---|---|---|
| All industrials | 36.9 | 8.4 |
| By stage of processing: | | |
| Crude materials, excluding foods and feeds | 32.7 | −10.4 |
| Intermediate materials, excluding foods and feeds | 45.4 | 7.6 |
| Producer finished goods | 27.4 | 17.6 |
| Consumer nonfood finished goods | 24.3 | 9.6 |
| Textile products and apparel | 10.5 | −7.7 |
| Fuels related products and power | 64.2 | 4.4 |
| Chemicals and allied products | 72.6 | 27.3 |
| Lumber and wood products | −2.3 | −13.5 |
| Pulp, paper and allied products | 50.9 | 8.3 |
| Machinery and equipment | 29.3 | 19.1 |
| Metals and metal products | 58.1 | .3 |
| Transportation equipment (NSA)[3] | 13.6 | 19.0 |
| Other industrial products[2] (NSA)[3] | 21.6 | 12.6 |

[1] Except where otherwise noted.
[2] Includes: Hides, skins, leather, rubber and plastic products, furniture and household durables, nonmetallic mineral products and miscellaneous.
[3] NSA—Not seasonally adjusted.

Source: Bureau of Labor Statistics.

In order to provide more adequate supervision of business price behavior, especially in concentrated industries, the staff capability

of the Council on Wage and Price Stability should be enlarged and the Council should be given the authority to subpoena data on prices, wages, costs, profits, and productivity. The Director of the Council indicated in his testimony to this Committee that the limited size of the Council staff requires them "to be selective in choosing industries for study." Appropriations requested by the Administration for fiscal 1976 would allow the Council to maintain its present total staff level of 40 persons, but would permit no enlargement. In view of the fact that the President has now assigned the Council a major role in helping Federal agencies assess the inflationary impact of new rules and regulations, it would seem imperative that the Council's staff capability be enlarged sufficiently to enable them to handle this new function and also adequately monitor private wage and price behavior.

With respect to subpoena power, the Director of the Council indicated to the Committee that the Council "sometime experiences difficulty in getting profit margin data for particular activities or lines of business" and that "in some of these cases it might be helpful to have subpoena power though we would hope to use it sparingly and as a last resort." Subpoena powers should be given to the Council to deal with those situations in which necessary information cannot be obtained voluntarily.

In addition to the above, the Council should be given the authority to delay price increases for a limited period—say, 60 to 90 days—in cases important to the overall achievement of price stability. This period of delay will provide time for the Council to fully examine the justification for the price increases, to determine their impact on the economy, and to seek to achieve such adjustment in the proposed increase as the facts may warrant. The delay period would also give Congress the opportunity to enact selective price control authority or to take such other legislative action as might be required in cases where voluntary business cooperation with the national interest is not forthcoming.

We are aware that the Director of the Council on Wage and Price Stability has indicated his opposition to the provision of this authority, partly on the grounds that he fears it would be interpreted as a step toward reimposition of price and wage controls. We are emphatically opposed to the reimposition of wage and price controls either now or in the foreseeable future. The provision of this carefully limited authority for the Council on Wage and Price Stability would be a good method of establishing a workable, largely voluntary, prices and incomes policy which will insure that the inflationary conditions which might precipitate the reimposition of price and wage controls will not recur.

**While we do not support comprehensive wage-price controls either now or in the foreseeable future, the following measures are required:**

**An enlarged staff and the provision of subpoena power for the Council on Wage and Price Stability so that it can more adequately carry out its responsibilities.**

**Provision of authority to the Council on Wage and Price Stability to delay for a limited period wage or price actions which threaten to undermine progress toward price stability.**

## IV. FEDERAL BUDGET PRIORITIES

The President's Budget estimates a modest increase in outlays for fiscal 1976 but proposes a reduction in budget authority compared with fiscal 1975. In his message to Congress the President states that he is requesting a moratorium on new Federal spending programs other than energy programs.

The budget document is a unique reflection of the Administration's priorities. In terms of budget authority, the largest dollar increases are proposed for defense, followed by energy (included in the International Affairs category) Federal pay raises (included in the category Allowances), interest on the national debt, and health. However, the increases for Federal pay, interest, and health result from existing legal requirements rather than Administration initiatives. Moreover, the health increase is about $2 billion less than it was expected to be due to cuts in the Medicare and Medicaid programs recommended by the President.

Table 6 compares the fiscal 1976 budget with the fiscal 1975 budget. It will be seen that the President is asking for $16.39 billion more in budget authority for defense in fiscal 1976 than in 1975 and $7.76 billion more for International Affairs (most of which is for the special energy financing facility). Those two items represent the great bulk of the requests for authority and spending increases among the programs where the Administration has discretionary authority. Relatively smaller increases for several other programs, ranging from $90 million for Community and Regional Development, to $610 million for General Government.

TABLE 6.—BUDGET OUTLAYS AND AUTHORITY, FISCAL YEAR 1976

| | Outlay increases over fiscal year 1975 | | Authority increases over fiscal year 1975 | |
|---|---|---|---|---|
| | Billions | Percent | Billions | Percent |
| National defense | 8.75 | 10.26 | 16.39 | 17.94 |
| International affairs | 1.44 | 29.69 | 7.76 | 159.23 |
| General Science, Space and Technology | .40 | 9.51 | .39 | 9.0 |
| Natural Resources, Environment, and Energy | .62 | 6.54 | .76 | 6.65 |
| Agriculture | .04 | 2.43 | −1.60 | −27.24 |
| Commerce and Transportation | 1.93 | 16.34 | −22.34 | −77.19 |
| Community and Regional Development | 1.03 | 21.14 | .09 | 1.75 |
| Education, manpower, and Social Services | −.09 | −.62 | −.89 | −6.11 |
| Health | 1.56 | 5.91 | 2.57 | 9.05 |
| Income Security | 12.02 | 11.27 | −20.79 | −13.31 |
| Veterans Benefits and Services | .13 | .81 | .18 | 1.11 |
| Law Enforcement and Justice | .26 | 8.66 | .10 | 3.09 |
| General Government | .53 | 20.18 | .61 | 22.39 |
| Revenue Sharing and General Purpose Fiscal Assistance | .22 | 3.07 | .24 | 3.44 |
| Interest | 3.09 | 9.86 | 3.09 | 9.86 |
| Allowances | 7.35 | | 7.58 | (1) |
| Undistributed [2] | −3.35 | 19.9 | −3.35 | 19.9 |
| Total | 35.93 | 11.46 | −9.23 | −2.34 |

[1] Comparisons not meaningful.
[2] Includes sales of off-shore oil leases.

Source: Office of Management and Budget and Joint Economic Committee staff.

Reductions in budget authority are recommended for Commerce and Transportation, Income Security, Agriculture, and Education, Manpower and Social Services. The large reduction in Commerce and Transportation results from sales of mortgages by several agencies, a technical adjustment in the Urban Mass Transit fund, and a reduced request to use monies in the Highway Trust Fund. The reduced request for the Highway Trust Fund represents a policy change which may bring about lower spending for highways in future years although outlays will not decline in fiscal 1976.

A portion of the $20.79 billion reduction in Income Security is caused by the proposal to place a 5-percent ceiling on cost-of-living increases for social security, coal miners benefits, supplementary security income, civil service and railroad retirement, and other programs (the outlay impact of this reduction is about $4 billion). As in the case of Federal employees' pay, increases in these areas are tied to changes in the cost of living. The 5 percent ceiling means a cut in benefits to many millions of elderly people who can least afford it because the cost of living rose by considerably more than 5 percent last year and undoubtedly will rise by considerably more than 5 percent in the coming year. Most of the remainder of the reduced authority for Income Security is the result of technical adjustments in the Unemployment Trust Fund and similar transactions.

The Committee strongly disagrees with the order of priorities contained in this year's budget. It emphasizes large increases for defense and an International Energy Fund, while de-emphasizing income security, health, education, and social services. Proposals have been made to increase the cost of food stamps, and to eliminate the School Breakfast Program, the Nonschool Food Program, and the Special Milk Program. Congress has already rejected the proposed increase in costs and the 5 percent cap on food stamp benefits.

The long-term projections of Federal spending are even more discomforting than the figures for the coming year. The budget document contains tables showing estimates for the next five years in outlays and authority. The projections are based on the assumption that defense purchases will rise by 4 percent annually in real terms while civilian controllable spending remains constant.

Thus, the Administration projects defense spending to rise from $94 billion in fiscal 1976 to $141.4 billion in 1980, but expenditures for many civilian activities go down. Outlays for General Science, Space, and Technology decline from $4.6 billion to $3.8 billion; Natural Resources, Environment, and Energy from $10 billion to $9.5 billion; Community and Regional Development from $5.9 to $5.3 billion; Education, Manpower, and Social Services from $14.6 billion to $13.6 billion; and Veterans Benefits and Services from $14.6 billion to $14.3 billion. These declines would be greater if inflation were taken into account. Similarly, the rise in defense would not be as large as the figures suggest if they were converted into real terms.

The President's recommendation that there shall be no new programs except in the area of energy is particularly unfortunate. Such a rule, if adopted, would have no basis in reason or fact. One of the purposes of the Federal Government, as described by the Constitution, is to "promote the general welfare." To lay down an edict against new programs undermines the fundamental principle that the Government will respond to the needs of the people in a manner and

to a degree consistent with the nature and capabilities of our system. If there are national needs to be met, the Federal Government should try to meet them, if it has the capability, and it should not be blocked by arbitrary restrictions.

**Congress should authorize action, appropriate funds, and adjust taxes in a manner that will best promote orderly and balanced economic growth in the public and private sectors. Congress should also reduce appropriations and take other steps necessary to eliminate wasteful spending and inefficient activities particularly in the area of defense, space and foreign aid.**

**Arbitrary ceilings on spending programs which cannot be justified by the facts relating to individual programs and restrictions on starting new programs should be rejected.**

## Tax Reform

Although tax relief measures are of the utmost priority at this time, tax reform measures must be considered on a continuing basis. Tax expenditures which reduce tax liabilities for particular groups of taxpayers have increased 18 percent over the last year. As reported in Special Analysis F of the Budget, their order of magnitude is approaching $100 billion per year. Expenditures which reach such a level simply cannot be left unexamined each year as they continue their upward climb. It is time for the Congress to review many of these provisions just as it carefully reviews the actual budget expenditures each year.

Tax expenditure subsidies were analyzed in a Joint Economic Committee staff study published last October. A major conclusion of this study, which examined all Federal subsidy programs, was: "On the whole, these studies showed that many subsidies do not work well economically, they are often directed at outmoded or nonexistent objectives, they redistribute income to the affluent, and in too many cases their costs far exceed their benefits to society as a whole."[1]

There are several tax expenditures which are well-recognized major loopholes in the tax law that benefit large corporations and specific industries. Action to repeal the following provisions should be taken as soon as tax relief legislation and energy legislation have been passed.

First, the Domestic International Sales Corporation (DISC) tax incentives for exports should be terminated. This tax law was intended to encourage exports. Available evidence indicates that the DISC provisions have provided little if any extra stimulus to exports.

Second, the minimum tax should be reformed. This should be strengthened by eliminating two important deductions that prevent it from being truly effective in achieving its objective of ensuring that all wealthy individuals pay some reasonable level of taxes. The changes would be to reduce the current income exclusion from $30,000 to $10,000 and to eliminate the current deduction for taxes paid.

Third, the use of the foreign tax credit by petroleum companies must be limited. One alternative would be to limit credits for foreign

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[1] "Federal Subsidy Programs," a Staff study prepared for the use of the Subcommittee on Priorities and Economy in Government, October 18, 1974.

taxes as an offset to U.S. corporate income taxes to a reasonable percentage of the foreign income. A fraction in the range of 50 percent would appear to be reasonable.

Finally, the percentage depletion allowance for domestic and foreign oil and gas should be ended this year. Current expensing of so-called "intangible" drilling expenses likewise should be eliminated. These energy tax measures could most appropriately be considered as part of the energy legislation the Congress will pass in the first half of 1975.

These four provisions are the prime candidates for tax reform. The economic arguments for their repeal are quite familiar and strong. More comprehensive tax reform should be considered after action has been taken on these measures.

**Tax reform focused on eliminating Domestic International Sales Corporation (DISC) provisions, strengthening the minimum tax, limiting the foreign tax credit, and ending percentage depletion,[2] and other special preferences for oil and gas producers should begin immediately after tax relief legislation recommended above has been passed by the Congress.[3] As the economy shows definite signs of recovery, comprehensive tax reform focused on all facets of tax expenditures should proceed.**

## Unemployment

The fact that nearly 8 million persons are unemployed is only one of many indications that the economy is in an unhealthy state of imbalance, with prospects of a deepening recession, and that critical national problems are being neglected. Although the President's own Economic Report recognizes the decline in employment as a "pressing concern of policy," there are insufficient funds in the Budget to translate that concern into expanded production and an increased number of jobs.

The Budget contains no proposal to continue or increase funding for public service jobs beyond the first six months of fiscal 1976, and it shows a $1 billion reduction in authority for Temporary Employment Assistance next year. The Administration originally planned to decide whether to continue this program beyond December 31, 1975, after an evaluation of its success. But State and local officials with the responsibility for administering the public service job program have

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[2] Representative Long states: "I oppose an across-the-board repeal of the oil depletion allowance. Such a change would lead to the further concentration of oil production in the hands of the major oil companies. Without percentage depletion independent oil producers would find it financially advantageous to sell their operations to the major producers and pay capital gains rather than continue to explore for oil and develop reserves. Since these independent operators now do an overwhelming majority of the drilling and find most of the new oil, a repeal of depletion would result in less exploration and decreased domestic production. Arbitrary termination of the depletion allowance to independent producers will have the most dire consequences in terms of even less competition in the industry and instead lead to even further reliance on foreign production."

[3] Senator Bentsen states: "I support the position stated in the congressional Democratic Program of Economic Recovery and Energy Sufficiency recommending the retaining of the depletion allowance only for small, independent domestic explorers who do not operate retail outlets."

already recommended that it be substantially increased. Recently, the Administration has indicated its intention to request additional funding of $1.5 billion under the Comprehensive Employment and Training Act (CETA) and $400 million under Title II for fiscal year 1976. America needs jobs and the Federal Government needs to act quickly on making more money available for public service employment.

Unemployment rates for minority groups are substantially higher than the aggregate figures. Probably the worst case is that of the American Indian. Although statistics about the original native Americans have never been adequate, the most recent available figures show that unemployment for all Indians in 1970 was about 29 percent, and for those living on reservations the figure exceeded 40 percent. Undoubtedly, those unemployment rates are substantially higher today.

Unemployment among teenagers and young adults is generally much higher than the national unemployment rate. In February 1975, unemployment for all teenagers 16 years of age and over was 19.9 percent, up 4.9 percentage points over the rate of the year before. Unemployment for white teenagers rose from 13.1 percent in February 1974 to 17.5 percent in February 1975. For nonwhite teenagers, the February 1975 rate was an unbelievable 36.7 percent, compared to the 28.7 percent rate of January 1974. The jobless rate for young workers aged 20 to 24 was 13.3 percent in February, compared to 8.5 percent a year ago.

National unemployment is now expected to go to 9 percent or above in the third and fourth quarters of 1975. The outlook is even bleaker if we consider that in June of this year almost 4½ million young men and women will graduate from high school, college, and professional schools. Most of these spring graduates will be seeking temporary or permanent full-time jobs at a time of exceedingly loose labor market conditions. While these young workers may be well-trained, mobile, and enthusiastic, they lack experience, and it is unlikely that a sufficient number of them will find employment. And yet most of them need and want to work. Young people have little personal savings, and a rebate on tax liabilities does not help them.

The problem is heightened for these young people seeking work but unable to find it by the fact that most of them are ineligible for unemployment compensation.

A worker's unemployment benefit rights are determined on the basis of his employment in covered or insured work over a prior period, called the base period. All States require that an individual must have earned a specified amount of wages or must have worked for a certain period of time within the base period, or both, to qualify for benefits. The intent of such qualifying requirements is to make eligible for benefits only those individuals who are genuinely attached to the labor force of covered workers.

**Appropriations should be substantially increased to support an emergency public service job program for at least two million persons annually for the next two years, phased to change in accordance with changes in the unemployment rate.**

**The maximum weekly unemployment benefit should be increased to two-thirds the average wage in each State.**

**Individuals should receive at least 50 percent of their previous weekly wage, up to the maximum.**

**Additional emergency Federally funded unemployment benefits are needed for persons with demonstrated current labor force attachment but not covered by present programs, including the self-employed. Eligibility for these benefits would be limited to persons for whom neither regular public, private, nor special public service employment can be provided. These benefits should remain available so long as the national unemployment rate remains at extraordinarily high levels.**

## Small Business

Once more in this recession as in the other five we have had since World War II, Federal policymaking has been quite insensitive to the role of the small business sector of the economy which provides at least 50 percent of this Nation's jobs. Capital and credit constraints produced downturns in the small business sector long before other evidences of recession appeared. Anti-inflationary steps which were not working for large companies and large unions often worked well for small businesses.

We have not yet devised restorative measures which distinguish adequately between the capabilities and the needs of large and small companies. As a result we keep providing the same kinds and levels of legislative treatment to both. It is not surprising that small business is hurt first by recession, suffers longest, has a lower survival rate and recovers much later.

*Federal assistance is clearly needed by small business, but Federal agencies have not been nearly responsive enough to its problems. The Small Business Administration apparently has not been fulfilling its mandate. The Joint Economic Committee, therefore, will look into its operations to determine the changes that are needed to steer the SBA on to a positive course.*

Unless Federal policy on taxes, credit, employment stimulation and procurement is consciously aimed at small business, we will continue inadvertently and unintentionally to foster industrial concentration in the economy. Taxing all businesses equally actually discriminates against small companies because it has the effect of causing small businesses to pay a higher rate of taxes.[4] An increase in the surtax exemption for small business to $50,000 would help correct this problem. In addition, the large number of small business failures that will surely occur during this deep recession has made the program recommended above for unemployment compensation for the self-employed absolutely necessary.

**A system should be established to collect, compile, and distribute coherent data permitting consistent comparisons of the large and small business sectors, and to report the consequences of proposed government actions for**

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[4] For example, the level at which the corporate income surtax begins, $25,000, was established 35 years ago and has never been increased. The failure to raise this limit has contributed to the fact that the small business' share of the total corporate tax burden has increased over time.

**large and small businesses. As part of a much needed expansion of Federal assistance to small business, the corporate surtax exemption should be increased to $50,000 immediately.**

## Housing

The increasing shortage of good housing, the depressed state of the housing industry, and the high incidence of poverty are further indications that national economic problems are not receiving adequate attention.

In the 1968 Housing Act Congress reaffirmed the long-standing national housing goal of a decent home and a suitable living environment for every American family and set a specific target of building 26 million housing units by 1978, or 2.6 million units a year. There was a significant shortfall in meeting this goal in fiscal 1974, and it can be reasonably anticipated that there will be larger shortfalls in fiscal 1975 and 1976.

In fiscal 1974 there were 1.71 million housing starts. In calendar 1974 housing starts fell to 1.35 million units and for December 1974 the seasonally adjusted annual rate was only 868,000 units, the lowest level in nine years and far below the level necessary to achieve the 2.6 million rate called for in the 1968 Act.

High interest rates, rising purchase costs, and soaring operating costs have combined with declining real incomes to price most American families out of the homeownership market. Conservative estimates suggest that last year an annual household income in excess of $23,000 was required to meet total expenditures on the median priced new home. Fewer than one-fifth of all American households can afford the median priced new or used home.

The Committee believes direct assistance must be initiated immediately to stimulate housing production and to make homeownership affordable for a larger percentage of families. One approach would be to create a Federal interest rate subsidy for low, moderate, and middle-income purchasers. In addition, a mortgage credit program, activated during periods of tight money, could help avoid the periodic credit crunches and collapses of the housing industry witnessed in recent years. The Committee made a recommendation along these lines in its report, "Achieving Price Stability Through Economic Growth."[5] These measures would lessen hardships for construction workers, builders, and homebuyers, and permit better planning and resource utilization in the construction industry, thereby helping to reduce unit costs.

In the 1968 Act, Congress said that 6 million new low- and moderate-income housing units should be constructed by 1978, or 600,000 units annually. The target annual rate has not been met and there is little likelihood that it will be met in future years under the present policies.

Construction of low and moderate-income housing has never been great and in recent years has slowed to a trickle. The figures for Federally subsidized units are indicative. Total subsidized production has declined from 427,000 units in calendar 1970 to 179,870 in calendar 1974. In the same period Public Housing construction went from

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[5] "Achieving Price Stability Through Economic Growth." Report, Joint Economic Committee, Congress of the United States, December 23, 1974.

95,400 to 40,240 units, Rent Supplement units went from 22,920 to 5,140, and single-family subsidized construction went from 116,070 to 11,520.

These precipitous declines reflect the decision to phase out or phase down Federal housing programs for low- and moderate-income families, a decision which has contributed to the decline in activity in the home construction industry. Homeownership for families with incomes below $10,000 per year has been effectively eliminated by this policy, and many families are being forced to live in substandard housing the costs of which make it impossible for them to afford other necessary goods and services.

**Congress should enact a mortgage subsidy program for low- and middle-income families so as to reduce interest payments to a level not to exceed 6 percent a year. The program should be designed in such a way that the subsidy is reduced or eliminated as the homeowner's income rises above the levels of eligibility.**[6]

**The Administration should immediately reactivate and accelerate all existing low and moderate-income subsidized housing programs.**

**The Administration should release the $264 million in funds appropriated by Congress last year for the construction of low-income homes under Section 235 of the Housing Act, and the $145 million appropriated for rental assistance. Congress should appropriate the additional $75 million authorized for rental assistance.**

**Congress should appropriate the $700 million authorized last year for direct long-term loans to finance housing construction for the elderly.**

## Poverty

The statistics on poverty are especially revealing. In 1973, the most recent year for which data is available from the Bureau of the Census, 23 million persons, comprising 11 percent of the Nation's population, were below the low-income level. In light of the increased amount of unemployment in 1974 and other deteriorating economic conditions, it is reasonable to assume that the amount of poverty rose last year.

The Poverty threshold was set at $4,540 for a nonfarm family of four. Who are the people officially defined as below the low-income level? Two-thirds were white and about a third were black. Of the low-income white families 37 percent were headed by women. Almost two-thirds of the black low-income families (64 percent) were headed by women. Twenty-four percent of the black mothers who headed families worked year-round, full-time.

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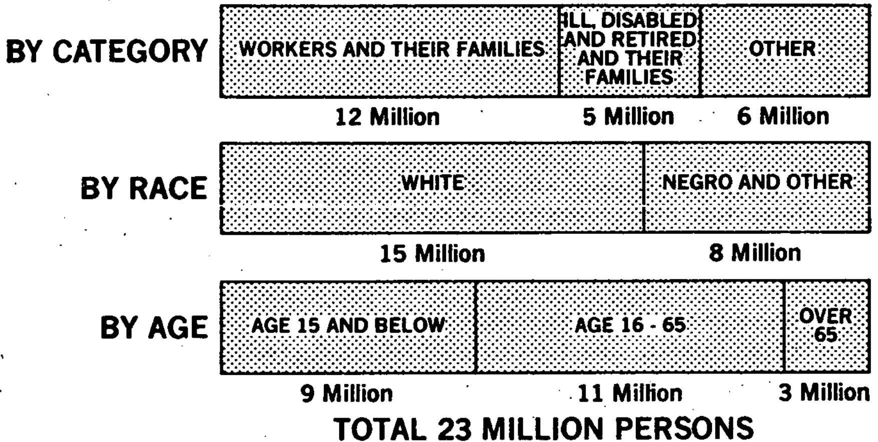
[6] Senator Proxmire states: "Under the proposed Emergency Housing bill in the Senate, one million housing units could be assisted for about $300 million. The Government would borrow funds at about 7 percent. A subsidy of an additional percent, bringing mortgage interest rates down to 6 percent, would provide a tremendous stimulus. For an average $30,000 house the cost is only $300 a unit. As each new unit of housing provides two man years of work, one million new units and up to two million jobs can be created for a very small outlay."

## Chart III

# COMPOSITION OF POVERTY, 1973




Again, the most serious problems so far as minority groups are concerned exist among the American Indians. According to U.S. Census reports, about 60 percent of reservation families were below the poverty threshold. The Committee believes that the Government has a special responsibility to alleviate the causes and effects of poverty in Indian communities, a responsibility which is not being met.

According to the Bureau of the Census, three-fifths of the low-income family heads who did not work at all in 1973 were retired persons or women who did not have outside employment because of family responsibilities. Nearly 15 percent of all persons below the poverty threshold, about 3.4 million persons, were 65 years old and over. A disproportionate number of the people in poverty are members of minority groups, female heads of families, and the elderly.

The trends are equally disturbing. In 1969 there were 24.1 million persons in poverty compared to the 23 million in 1973. This relatively small change is in marked contrast to the sharp decline of poverty prior to 1969. From 1961 to 1965 the number of persons below the low-income level went from 39.6 million to 30.4 million, a reduction of 23 percent. By 1968 the number had gone down to 25.4 million, a decline of another 17 percent. The leveling off of the decline of poverty in recent years is a fair reflection of the leveling off of efforts by the Federal Government to combat poverty.

These are shocking facts. They show that the Government is not meeting its responsibilities to the people and that it is failing to live up to the commitments it made to provide maximum employment opportunities, to provide a decent home and a suitable living environment for every American family, and to eliminate poverty.

**As minimum steps to assist those who cannot help themselves, and who are most hurt by inflation and recession, Congress and the Administration should act immediately to assure that all children in low-income families have nutritionally adequate diets and that the income levels**

**of elderly persons are raised to at least the poverty threshold.**

**To accomplish these objectives, Congress should: (1) act promptly on the proposal introduced by Senator McGovern, S. 850, which strengthens the School Lunch Program, the School Breakfast Program, the Special Food Service Program for Children, and other child nutrition programs; and (2) adopt legislation to strengthen the Supplemental Security Income Program which provides assistance to the elderly poor.**

**Above all, it must be recognized that a substantial tax cut and additional efforts to insure full employment are the major requisites for aiding the poor.**

**The Bureau of the Census needs to accelerate its procedures for publishing statistics on poverty so that they are available to Congress and the public on a timely basis. The possibility of providing quarterly poverty statistics should be explored.**

### Health

Despite the high costs of Federal programs, such as Medicare and Medicaid, millions of Americans are unable to afford adequate medical care. In this area, too, the Administration has withdrawn a prior commitment to the people.

In last year's Budget Message the President said, "I am once again proposing a comprehensive plan for national health insurance that would make adequate insurance against the costs of health care available to all Americans. This far-reaching reform is long overdue. I urge early congressional action on it. The budget proposes measures to prepare for this program." The Administration now proposes to postpone taking the steps toward the reforms which until recently were recognized as long overdue.

An estimated 9 million persons, many of them the working poor, cannot obtain adequate medical care under the present system of public programs and private health insurance. Further, many persons who have private health insurance have minimal coverage, if at all, for the large medical expenses incurred in serious illnesses and long hospitalizations. The continued rise in doctors' fees, hospital charges, and other medical costs has exacerbated these problems.

**Congress and the Administration should work toward the early establishment of a comprehensive national health program. This program should include health insurance to ensure that all persons have access to medical care, methods for reducing financial hardships that result from major medical illnesses, incentives for more efficient and less costly practices within the medical profession, improved delivery of health services, and increased supply of health care manpower and facilities wherever needed.**

### Extended Medical Coverage for the Unemployed

During the past year the number of unemployed has increased by 2.8 million to a level in February of 7.5 million without jobs. For these

individuals the loss of a job means more than the loss of earned income. It frequently results in the loss of savings, the inability to meet the mortgage payment, the loss of medical coverage, and certainly the loss of self-esteem. While the Congress has taken some significant steps to protect the unemployed, one major gap in our efforts is in the area of medical coverage.

Most health insurance policies are employment based. When a worker is separated from his job, it is only a matter of days, or at most a few short months, before his former employer stops paying the premium. Unless the unemployed person can then absorb the higher cost his health insurance lapses.

This is a desperate situation for millions of the unemployed and their families who have had to sacrifice their medical insurance because they can no longer afford it. If one of the children gets sick and has to be hospitalized, where will the parents find the money to pay the bills?

There is legislation moving through Congress at the moment which would help alleviate the plight of the unemployed by establishing an emergency health benefits program. Estimates of the one-year cost of a program of this type range from $1-to-$2 billion.

**An emergency health benefit program to provide some form of continued medical coverage during the period of unemployment should be enacted.**

## Economic Planning

The Joint Economic Committee has urged on several occasions that measures be taken to improve market efficiency. We have pointed to the fact that public programs sometimes detract from the efficiency of the economy; that Federal subsidies frequently fail to achieve their statutory objectives; that production quotas sometimes aggravate inflation; that excess stockpiling unnecessarily increases demand at times when it may be undesirable.

Moreover, regulation practices may work against the basic objectives of the Employment Act. Government procurement practices too often encourage waste and increase costs. Failure to remove barriers to employment based on age, sex, and race discrimination, among others, impairs the functioning of the economy.

Likewise in the private sector, industrial concentration, collusive practices, administered prices, and the like, make a substantial contribution to inflation and render much more difficult efforts to restore full employment.

Mindful of these elements, the Committee has recommended that a commission be appointed jointly by Congress and the President to recommend comprehensive legislation to eliminate governmental and private barriers to an efficient market economy.

We have also recommended a parallel review of the needs of the Federal Government with respect to improved management of its own economic policies. We have urged that inquiry be made into the question of new informational systems needed to understand economic trends at home and abroad; means of eliminating duplication in

economic policy formulation within the Executive Branch; and means of expanding the role of the Council of Economic Advisers to coordinate economic policy better.

The urgency of these needs is heightened by the present outlook. The United States now is faced with the most serious depression in the history of the Employment Act. This in itself suggests that something is wrong with the way that the Employment Act is being administered and with the way the economy is operating.

Over the longer term, the United States faces uncertainty about its economic future. Doubts are raised as to the extent to which economic growth can be continued in the face of resource limitations and environmental deterioration. While some of these doubts may be based on undue anxiety, there remains a need to reconcile our prospective growth with the growing problems of our society, particularly problems of the environment, shortages of critical materials, and the deterioration of the cities. Too often our economic problems seem to strike policymakers as a complete surprise. The most recent instances of this phenomenon are the food situation and the oil crisis. But there are other examples: our railroads are in a state of widespread disrepair and our public facilities are underfinanced. All this points up to a great need for a more competent evaluation of our economic course.

In the public sector, despite the massive Federal involvement in the economy, there still is no adequate machinery within the Government to coordinate and manage these involvements and to relate them to longer range goals. Nor are there any explicit guidelines for policymakers as to what priorities should govern our allocation of resources. What is needed, clearly, is a major effort to establish an improved Federal mechanism for analysis and planning in the field of economic growth policy.

**Congress should enact legislation to establish within the Executive and Legislative Branches an economic planning agency to improve our capability to assess emerging trends in the economy, to develop long-range policies for economic growth and development, to assess current progress in the light of long-term objectives, and to recommend goals for the efficient and equitable allocation of resources and the distribution of income.**

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## V. ENERGY

### Domestic Energy

In October 1974, President Ford proposed the objective of reducing U.S. imports of crude oil and oil products by one million barrels per day by the end of 1975. The derivation of this objective has never been disclosed. It appears to have been chosen without benefit of economic justification in the course of negotiation with other oil importing countries. The necessity of this objective has never been demonstrated. The consistency of this objective with the proposal for a large strategic oil stockpile is not evident.

It is ostensibly to attain an import reduction of one million barrels per day that President Ford proposed in January 1975 to increase tariffs and taxes on oil and gas and to decontrol their prices. There is great doubt concerning the effectiveness of these moves in achieving their objective.

If prices of fuels and petrochemicals should go up by the amount of new taxes, and if all upward price adjustments potentially permitted by the President's program are made, the bill to consumers for these items would rise by nearly $45 billion or 3 percent of GNP.[1] To this might be added some increase in processors' and traders' margins. Moreover, price increases for petrochemicals imply some increases for petrochemical substitutes, such as natural textiles, aluminum, natural fertilizers, etc. Additional wage claims and adjustments may be built on all of these price increases, and they in turn would have their effects on prices. All of these effects, if realized completely, could raise costs of final products by as much as $55 billion in the relatively short run, although not necessarily all in one year.

Accordingly, many private commentators estimate the total price effect of the President's program at 3 to 4 percent and project that it would sustain the rate of inflation at or above 10 percent in 1975. The Administration, however, estimates the price impact at only 2 percent in 1975, assuming that energy firms and intermediate energy users temporarily would absorb some of the new taxes and forgo some of the potential windfall profits implied by the program. The Administration's proposed offsetting energy tax rebates to consumers would be inadequate to cover even this 2 percent increase in prices. The Report of the Council of Economic Advisers indicates that additional price increases would be passed through in 1976.[2]

Whatever the extent of the proposed energy program's price impact, one must be concerned that the rate of price increase resulting

[1] This estimate is based on an oil tariff of $2 which the Administration has proposed to put into effect when the corresponding excise taxes are in force. If the temporary tariff level of $3 per barrel remained in force, the cost to consumers would be greater.

[2] It must be recognized, of course, that deregulation of new natural gas would involve increasing costs over several years as more and more gas qualifies as new. Coal prices also would increase over several years.

from this program would hamper the adoption of effective policies against recession. As indicated earlier, both Chairman Burns of the Federal Reserve Board and Secretary of the Treasury William Simon have testified to their abiding concern about the threat of renewed inflation despite the present alarmingly high unemployment rates and poor production figures. In addition to rendering more difficult the adoption of decisive antirecession policies, the energy program itself would cause additional unemployment and production losses. It would achieve conservation by increasing the costs of energy-intensive industries relative to others, causing curtailment of their output and a relocation of resources to other sectors. Several hundred thousand jobs could be lost in these sectors, offset in part by new employment in energy conservation and energy production sectors stimulated by the program. Preliminary estimates are that a net decline of 100,000 to 200,000 jobs would remain as a result of the President's energy program. With depressed economic conditions, the prompt re-employment of displaced resources cannot be assumed.

Finally, it should not be forgotten that energy prices increased very sharply during 1974, and the increases were largely passed through to consumers, but the conservation effect of those price increases has been either relatively limited or slow in coming. Additional conservation presumably will be more difficult. Moreover, no expansion in domestic oil output has yet been seen. One must therefore ask why a big new jump in energy prices would be more effective than before in obtaining quick cuts in imports. No convincing account has been presented of how the President's program would achieve the desired reduction.

**The President's proposals for tariff and excise taxes on oil and gas and the decontrol of energy prices would aggravate inflation and unemployment without necessarily achieving its stated conservation goals. They therefore should be rejected. The goals for import reduction require the most basic re-evaluation.**

## *Need for Selective Energy Conservation Measures*

It is important to recognize that oil import levels can be reduced through certain measures that do not threaten jobs and through some that indeed could re-employ constructively many people now without work. The congressional program for energy sufficiency, published in February, takes this approach.[3] For instance, many needed conservation projects would create new jobs in the building materials industries and the construction trades, which presently are underemployed. These include improvement of insulation and glazing of buildings, improvements of fuel efficiency in industrial facilities, conversion of large fuel users to coal, rehabilitation of the railways, and the like. These possibilities should be pushed vigorously with incentives and/or Federal funding where needed. Moreover, renewed emphasis must be placed on reducing excessive heating, lighting, highway speed, commuter driving and other outright waste. Many actions of

[3] "The Congressional Program of Economic Recovery," Washington, February 1975.

this type were taken during the Arab oil embargo in the winter of 1973–74, but vigilance was relaxed when the embargo was removed. New leadership is needed to educate and urge the public to adopt voluntary conservation measures. Regulatory standards or fiscal incentives should be employed to spur advances in the fuel efficiency of the Nation's automobile fleet.

Oil import reduction, important as it is, remains an objective secondary in priority to establishing a sustainable recovery from recession and reducing joblessness. All private witnesses during the Committee's Annual Hearings emphasized this point. Therefore, Congress should be very wary of adopting energy policies that would curtail supply indiscriminately, such as oil import quotas or gasoline rationing. Such policies unavoidably would threaten many jobs.

Import quotas, moreover, by creating shortages, would cause upward price pressures throughout the fuel and petrochemical sectors. If the resulting windfall gains and inflationary effects are to be suppressed, wide-ranging price controls and supply allocation programs would have to be imposed. In addition to the fuel sector, markets for textiles, plastics, rubber, fertilizers, and others would be affected.

Gasoline rationing also would damage our presently weak economy, as would a heavy gasoline conservation tax. A policy of restriction introduced gradually over several years would be better adapted to the current situation. Such an approach would put consumers on notice to consider fuel prices when replacing their cars and choosing their residences and would forewarn producers to shift toward more efficient cars. It would do this without imposing high costs on consumers now or hampering economic recovery. It should be emphasized that any amount of gasoline conservation attainable through the use of tradable ration coupons can be attained at equal money cost to consumers and much less administrative cost and inconvenience through a refundable gasoline tax.

**Congress should avoid indiscriminate constraints on energy consumption that would cause further job losses at this time. Instead, selective measures to curb energy waste and to employ idle resources for conservation projects should be emphasized, including projects to improve fuel efficiency of existing structures and industrial processes, conversion of large fuel users to coal, rehabilitation of railroads, and the like. More comprehensive measures should be phased in on a predetermined multiyear schedule so as to initiate conservation now while avoiding disruption of the economy.**

### *Increasing Production*

Obviously, it is necessary to complement conservation efforts with stronger measures to increase domestic fuel production. In this regard, oil output from the Elk Hills Naval Petroleum Reserve can be expanded immediately and can reach levels of 300,000 barrels per day or more within two to three years. Moreover, efforts must be accelerated to devise a solution to the issues impeding exploration of the Continental Shelf. Development of the potentially prodigious Naval Petroleum Reserve in Alaska also should begin.

Many authorities contend, contrary to government projections, that there is little likelihood that oil and gas production can be expanded because many U.S. fields are relatively depleted and new discoveries will be largely offset by declines in the output of older wells. These projections, if correct, imply that the United States—despite vigorous efforts to sustain its output of oil and gas—must make provision to convert a larger share of its energy demand to other energy sources at earlier dates than implied by existing government scenarios. This prospect puts a premimum on reaching agreement on legislation to regulate stripmining activities and on finding ways to permit coal, nuclear, and solar energy to assume larger roles in U.S. energy supplies. Accelerated technology development can facilitate this substitution both by improving the performance of alternate energy forms and by easing environmental controversies.

**In addition to renewed emphasis on conservation, the Nation must proceed with measures to expand production of oil and gas and with steps to facilitate substitution of coal, nuclear, and solar energy both through technology development and through resolution of environmental controversies.**

### *Regulating Energy Prices*

The Committee in its December report, "Achieving Price Stability Through Economic Growth,"[4] outlined a possible compromise on energy price regulation as an alternative to a one-sided policy of deregulation. Instead of decontrolling crude oil prices, this alternative would retain the present ceiling on "old" domestic oil and place a ceiling on "new" oil considerably below the level of world prices set by the Organization of Petroleum Exporting Countries (OPEC). This move would reduce the present inordinately high bidding for oil development equipment and thus constrain the increase in oil and gas development costs. It could save oil consumers 10 percent or more on their swollen fuel bills. It would prevent investment in extremely high-cost oil development that will become uneconomic if world prices recede. A price ceiling on new oil substantially below present world prices also would permit reduction or elimination of present disparities between prices for new domestic oil and new natural gas without requiring gas prices to rise to the present exorbitant OPEC level. Reduction of this disparity would help to bring forth more adequate gas supplies. Such a pattern of energy prices warrants further consideration in the search for a comprehensive national energy policy.

**Oil and gas prices should not be decontrolled. However, a review of fuel pricing policies is needed to encourage domestic production of natural gas. The objective of closer coordination of domestic oil and gas price regulation is needed.**

If domestic energy prices were consolidated in the range of $6 to $8 per barrel of oil or its equivalent for other fuels, it would then be possible to extend protection to U.S. producers against a potential col-

[4] "Achieving Price Stability Through Economic Growth," Report, Joint Economic Committee, Congress of the United States, December 23, 1974.

lapse of world prices by a variable tariff designed to prevent oil import prices from falling below a level in the range of $4 to $5 per barrel. A price guarantee at this level would run much less risk of being invoked for a long period than would a guarantee at higher levels and would have a less adverse effect on the cost structure of the U.S. economy.

### *Energy Tax Reform*

It should not be overlooked in the effort to meet new energy challenges that the need to reform the well-known tax subsidies to the energy industries still remains. The elimination of percentage depletion for domestic and foreign oil and gas production as well as the repeal of current expensing of so-called "intangible" drilling expenses and reduction of the foreign tax credit should be high-priority elements in any energy program. It is no longer necessary to extend general subsidies to energy producers, if indeed it ever was. Withdrawal of exceptional tax preferences at a time of unprecedented industry prosperity cannot be considered to be "punitive" taxation. The Committee presented an assessment of tax policy in this area in its report. "A Reappraisal of U.S. Energy Policy,"[5] in March 1974. Additional energy tax measures will have to be considered as part of new legislation to spur energy conservation and production.

**Elimination of the percentage depletion allowance and other special tax preferences for oil and gas producers as well as limitations of the foreign tax credit are necessary parts of a national energy policy.**[6] [7]

The maintenance of effective competition in energy industries also should comprise a central part of any energy program. In addition to enforcement of strictures against collusion, limitations are required on the power of one firm over others, such as occurs when oil producers own oil pipelines, refineries, or product distribution networks. Also needed are reasonable limitations on horizontal integration of energy raw materials under the control of a few large companies. Aspects of the tax laws that favor existing producers over potential new entrants to the industry should be reviewed.

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[5] "A Reappraisal of U.S. Energy Policy," Report, Joint Economic Committee, Congress of the United States, March 1974.

[6] Senator Bentsen states: "I support the position stated in the congressional Democratic Program of Economic Recovery and Energy Sufficiency recommending the retaining of the depletion allowance only for small, independent domestic explorers who do not operate retail outlets."

[7] Representative Long states: "I oppose an across-the-board repeal of the oil depletion allowance. Such a change would lead to the further concentration of oil production in the hands of the major oil companies. Without percentage depletion independent oil producers would find it financially advantageous to sell their operations to the major producers and pay capital gains rather than continue to explore for oil and develop reserves. Since these independent operators now do an overwhelming majority of the drilling and find most of the new oil, a repeal of depletion would result in less exploration and decrease domestic production. Arbitrary termination of the depletion allowance to independent producers will have the most dire consequences in terms of even less competition in the industry and instead lead to even further reliance on foreign production."

## International Energy Conservation and Security of Supply

The shock of higher oil prices prompted consuming nations to close ranks to forestall further supply interruptions and to prevail upon the producers to lower prices. The United States has sought to promote such solidarity among industrialized nations. In November 1974, these sixteen member nations of the International Energy Agency (IEA) took a major public step in this direction by signing an agreement to provide oil sharing in case of emergency supply interruptions. Implementing legislation (Title XIII of the Administration's proposed Energy Act of 1975) now before the Congress provides the necessary authority. Because this agreement involves an economic commitment and the delegation of sovereignty, Congress should consider this legislation before the May 1975 deadline for government ratification.

In recent months, the International Energy Agency has focused mostly on the need for an international energy conservation effort. In November 1974, Secretary of State Kissinger announced a goal of a cutback of 3 million barrels per day, or 10 percent, by the end of 1975, in an effort to put pressure on oil prices by increasing the gap between supply and demand. Reduced oil imports or reduced prices are essential if the balance-of-payment burden on consuming economies is to be curtailed. Nevertheless, Kissinger's goal is ambitious and difficult to achieve. Not only would such cutbacks lower industrial production in countries like Japan, but they could affect growth even in a country like the United States which has the most potential for conservation without cutting essential uses.

It is not clear that cutbacks of 3 million barrels a day would affect the world price. OPEC already has absorbed at least 8 million barrels per day in excess production. Although the oil market today is soft and individual producers are granting credit or rebates to poor countries, there is no guarantee that the key oil producers could not absorb further cutbacks if necessary. The stringent measures proposed by the President to achieve a 1 million barrel per day cutback by 1975, however, would threaten a speedy recovery from the present economic slump. While other consuming nations are anxious for the United States to cut energy consumption and to bring down world prices, they have no desire for a prolonged U.S. recession. The United States, unlike other countries, is not faced with an acute balance-of-payments problem. It is far more important, therefore, that it get its economy moving and decrease unemployment than to cut a few billion dollars from its import bill.

In the short run, however, the United States should seek to establish fuel stockpiles as required under the International Energy Agency. The most serious danger to this country is not continued high oil prices, or even the problem of supporting other countries that are unable to balance their payments, but rather the danger of energy supply disruption. During the Arab oil embargo, the average cutback in available supply was 1.9 million barrels below expected consumption rates. The result estimated by the Federal Energy Administration was a decline in GNP of approximately $10 to $20 billion in the first quarter of 1974 and the loss of 500,000 jobs. While a settlement in the Middle East is an essential prerequisite to security from supply interruption, stockpiles are the best insurance in the face of the continued uncertainty.

The proposed legislation provides for the establishment of Federally funded civilian national strategic petroleum reserves of up to one billion barrels of oil. This stockpile might be maintained either in the form of crude oil storage, possibly in the salt domes on the Gulf Coast or shut-in production capacity in Naval Petroleum Reserves. Because of the urgency of providing adequate protection against supply interruption, however, it is important to obtain stockpiles nearer to the areas depending on imports. One way to do this would be to require importers to maintain larger inventories. While this measure would somewhat increase the cost of the imports, it would provide immediate supplies in the areas which would most need them if there is another embargo. Clearly the buildup of stockpiles should not be sacrificed for the short-term goal of curtailing imports.

**The Congress should move immediately to establish stockpiles to insure against future supply interruptions. In developing these stockpiles, it should consider (1) a requirement for importers to maintain increased stocks sufficient to continue supplying customers for a stipulated period, and (2) the establishment of a Federally funded civilian strategic petroleum reserve.**

### *Achieving a Competitive World Oil Market*

In the longer term, there is a need to increase non-OPEC energy supplies, including domestic U.S. production. The fourfold increase in prices has spurred exploration worldwide resulting in discovery of new reserves at double the previous annual rate in the postwar period. Present prices have also stimulated research in the development of coal, unconventional oil recovery, and other alternative sources of energy. In a speech before the National Press Club on February 3, 1975, Secretary of State Kissinger proposed that the major oil-importing nations should agree not to allow imported oil to be sold domestically at prices which would make their new sources uncompetitive. Such a policy would be achieved either by a common floor price for imports or through a common IEA tariff on oil imports.

While individual countries may wish to guarantee activities of their own state oil companies so as to have greater control over their own energy resources, there seems little reason to provide guarantees for investments by the major international oil companies. Not only does an across-the-board guarantee subsidize unnecessarily energy sources which could be produced more cheaply than the floor price, but it would tend to institutionalize the current high prices. Furthermore, countries like Japan and Italy with little or no domestic energy production capacity would have little if any incentive to abide by such an arrangement if world oil prices did drop. Directed subsidies for new high-cost production would be more appropriate to assure adequate development of energy supplies.

**The United States should not support international guarantees or an effort to set a common price floor under the world petroleum market. Domestic subsidies for certain types of experimental projects may be warranted on an individual basis. We should, however, join other consuming nations in promoting research and technological development of all forms of energy.**

# VI. AGRICULTURE

Realized net farm income in 1974 fell 16 percent below 1973's record level of $33 billion.[1] This resulted from a 12-percent drop in farm prices from January 1974, to January 1975, reinforced by an 18 percent rise in farm input costs. (See Table 7.) In recent months, the decline in farm prices has accelerated.

Retail food prices rose 12.2 percent in 1974. Farmers now receive an average 40.2 cents of every retail food dollar—down from 52 cents in August 1973.

Increased planting expectations for wheat (10 percent over 1974), soybeans (8 percent), and feed grains (1 percent) and weak domestic and foreign demand should reduce farm income in 1975 below that of 1974.[2] A delayed economic recovery, a bumper harvest, or implementation of the Administration's energy proposals will emphasize the anticipated decline in farm incomes; a moderate crop or an early economic recovery will minimize the deterioration in farm incomes expected for 1975.

## A National Food Policy

A second consecutive year of falling farm incomes, sharp price fluctuations and a widening farm-retail price spread will increase the demand for revision of current food policies. Attention will be focused on increases in farm price support levels. For several reasons, this revision should be expanded to include development of a national food policy.

First, the growth in world agriculture production has stabilized at 2 percent annually with the passing of the "green revolution" and the utilization of most agricultural capacity cultivatable at present prices. Large domestic farm crops and stand-by short supply export management regulations may be necessary to avoid widespread famine and sharply rising domestic retail food prices.

Second, the agricultural industry is subject to a bewildering array of destabilizing influences which will gradually result in a concentration of productive capacity. Until Federal antitrust enforcement becomes effective, a competitive agricultural industry should be encouraged by minimizing the impact of destabilizing forces on small producers.

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[1] The decline in net farm income was concentrated in the last half of 1974. Seasonally adjusted net farm income at annual rates declined 37 percent from the fourth quarter of 1973 to the fourth quarter of 1974, "Farm Income Situation," United States Department of Agriculture, February 1975.

[2] Preliminary planting expectations from "Agriculture Letter," Federal Reserve Bank of Chicago, January 3, 1975.

TABLE 7.—FARM COMMODITY AND PRODUCTION PRICES

| | Price index | | | Price change (percent) |
|---|---|---|---|---|
| | 1967 | 1974 | 1975 | 1974–75 |
| Commodities:[1] | | | | |
| All farm products | 254 | 504 | 441 | −12 |
| All crops | 226 | 470 | 462 | −2 |
| Food grains | 177 | 620 | 471 | −24 |
| Feed grains and hay[2] | 174 | 376 | 450 | +20 |
| Cotton | 191 | 429 | 355 | −17 |
| Oil bearing crops[3] | 276 | 586 | 638 | +9 |
| Livestock and products | 277 | 534 | 423 | −21 |
| Dairy products[4] | 306 | 508 | 488 | −4 |
| Meat animals | 336 | 680 | 487 | −28 |
| Inputs:[5] | | | | |
| All production items | | 156 | 184 | +18 |
| Fertilizer | | 117 | 212 | +81 |
| Seed | | 197 | 236 | +20 |
| Taxes[6] | | 146 | 150 | +3 |
| Wage rates[7] | | 161 | 185 | +13 |
| Interest[8] | | 189 | 222 | +17 |
| Feed | | 184 | 207 | +12 |
| Farm machinery | | 150 | 185 | +23 |

[1] 1967 average; Jan. 15 reporting dates for 1974 and 1975. 1910–14=100.
[2] Includes corn, sorghum, oats, barley.
[3] Includes soybeans, cotton seed, peanuts, and copra.
[4] Seasonally adjusted.
[5] 1974 price index based on Dec. 15, 1973 prices. 1975 price index based on Dec. 15, 1974 prices. 1967=100.
[6] Farm real estate taxes payable per acre.
[7] Seasonally adjusted.
[8] Interest payable per acre on farm real estate debt.

**A national food policy must be established to provide a fair income to grain, soybean, and cotton producers, price protection to animal producers, food aid to needy nations, a continuing competitive agricultural industry, and reasonable retail prices.**

The components of this food policy must include:

Farm income maintenance provisions tied to agriculture production costs which will prevent attrition in the number of producers due to severe weather conditions. This can be achieved through an expanded program of crop insurance, direct payments, floor price mechanisms, or other techniques. A ceiling on individual income maintenance payments must be a component of this program.

Commodity reserves should be established to dampen fluctuations in farm prices, animal production, and retail food prices. Reserves should be accumulated in periods of abundant harvests and made available in times of short supply at price levels that avoid major liquidation of animal stocks. Massive commodity surplus stockpiles should not be a component of a commodity reserve program, and land retirement schemes should not be invoked, if at all, until desired national reserve levels have been achieved.

## Monitoring Agricultural Exports

American agricultural exports in 1974 were characterized by high dollar value but relatively low volume. Pushed up by high world grain prices, the 1974 agricultural trade surplus was $12 billion, $2.7 billion more than in 1973.

The 1975 agricultural export situation should not change significantly.[3] Export volumes may fall but relatively high prices could maintain large export receipts. However, bumper grain harvests in 1975 could result in lower prices and incomes for U.S. grain producers despite increased exports due to the lower prices.

The United States exports over one-half of its rice and wheat crops and just under one-half of its soybean crop. If private U.S. exporters are too generous, domestic supplies could be driven to dangerously low levels, which would exacerbate food price increases. With the international oil price increase, moreover, agricultural trade assumes additional importance as a source of revenue to finance large oil imports.

To avoid situations in which private dealers or state trading organizations monopolize short commodity supplies, an early warning food information system should be developed. Data from such a system could allow the world to forecast more accurately supply and demand relationships and help to prevent dislocations such as occurred with wheat, feed grains, and sugar in 1973 and 1974.

Participation in an international food information system is an important prerequisite to the national food policy proposed in this report. Full and cooperative participation of the Soviet Union, India, and the People's Republic of China is of particular importance if this information system is to be effective.

**A domestic and international early warning food information system should be developed to provide private export dealers and governments with information on emerging supply and demand relationships to prevent the misallocation of food resources.**

Another important requirement for a dynamic and effective national food policy is legislation to empower the Secretary of Agriculture and the President to manage agricultural exports better in advance of a severe domestic commodity shortage.

**As a component of the national food policy, short-supply domestic use and export management rules must be established which are designed to prevent exploitation of commodity shortages.**

These rules, in combination with an early warning information system, will prevent excessive export sales from disrupting U.S. agricultural markets. They can effectively insulate domestic producers and consumers from the full burden of adjusting to demand and supply shifts elsewhere in the world. The rules should include:

An export licensing system for commodities in critically short supply;

A ranking of export customers to determine (including famine nations, regular, and occasional customers) whose orders shall receive preference in times of shortages; and

More efficient and timely distribution of export orders under the present export-monitoring system.

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[3] "Agriculture Letter," Federal Reserve Bank of Chicago, December 20, 1974.

## Food Aid

A revamped food aid program is a necessary component of a government-wide food research, planning, and coordination effort to develop a national food policy.

The United States has consistently contributed more food aid abroad than other developed nations through its Food for Peace program of donations and concessional sales. However, close to one-half of this food aid has in the past been donated to countries for political considerations. In the fall of 1974, less than half the food assistance to foreign nations went to those hardest hit by the global food and fuel crisis.

**The Congress should continue its current policy, expressed in the Foreign Assistance Act passed in December 1974, to target a large portion of foreign food aid to nations suffering famine.**

In fiscal year 1975 the Administration requested some $500 million in food aid to nations based on political considerations. Close to an additional $500 million was requested for nations hard hit by famine and soaring fuel prices. In December 1974, as part of an effort to expand the share of food aid granted to famine stricken nations, Congress specified that not more than 30 percent of American concessional food aid could be allocated for political considerations alone. To maintain its desired level of food aid allocated for political considerations, the Administration was provided an additional $600 million in the fiscal year 1975 budget for food aid to nations suffering famine.

The 30 percent ceilings on food aid allocated for political considerations should be made a permanent feature of the United States food assistance program.

## Structural Rigidities

A variety of phenomena distort domestic farm and retail food prices. The most severe are quotas and excessive retail food chain profits reflected in a widening of the farm-retail food price spread during 1974.

Quotas are often an inefficient and inequitable income maintenance mechanism. A given number of producers can be retained in an industry for a lower total cost with direct income payments than through a quota. Quotas only indirectly redistribute incomes via price changes. In addition, the burden of a direct income payments scheme using Federal tax revenues will fall less on low and moderate income persons than will a quota.

**The competitive nature of a few American agricultural sectors may be threatened by government-subsidized foreign imports and, infrequently, by predatory foreign pricing. When such practices are pursued by foreign exporters and when it is in the national interest to maintain the viability of an industry, steps should be taken**

**to protect U.S. producers through either (1) the imposition of countervailing duties or (2) a system of direct income maintenance payments.**

### *Retail Food Market Spreads*

The spread between farm and retail food prices rose 20 percent in 1974. The 12.2 percent hike in retail food prices during 1974 was entirely due to price increases at the processing and retail levels.

The Joint Economic Committee's investigation of the widening farm-retail price margin culminated in 4 days of hearings in December 1974. Preliminary findings indicated that the 1974 rise in retail food prices was partially a result of excessive food chain profits; the margin spread was not entirely cost-justified. As noted in an earlier Committee publication, ". . . the return on equity in the top 14 U.S. food chains rose 115 percent from the third quarter in 1973, when companies' return on equity was comparable to historic levels, to the third quarter of 1974."[4] The Joint Economic Committee will continue its investigations of the retail food industry to determine whether undue market concentration and anticompetitive pricing exist.

**The Federal Trade Commission should continue with all deliberate speed to investigate market concentrations, profits, and pricing practices in the retail food industry.**

A review of U.S. farm credit and financial requirements, tax laws, and tax-shelter schemes will be conducted by the Joint Economic Committee to determine their impact on maintenance of the family farm.

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[4] "Achieving Price Stability Through Economic Growth," Joint Economic Committee, December 23, 1974.

# VII. REGIONS, STATES, AND CITIES

## Regional and Local Economies

Domestic economic policy deliberations in the past have focused primarily on the effect of various monetary, fiscal, and incomes policies on aggregate measures of economic activity. More recently Congress and the Executive have also begun to examine the impact of aggregate economic policies on different industries, labor markets, labor force groups, income groups, and sectors of the economy. However, little consideration has been given to the impact of macroeconomic policies on regional economies and the location of living and working opportunities within regions.

The fact that national economic policy has incorporated little discussion of the location of economic activities has in no way limited the influence of Federal tax, expenditure, and credit policies on the location of jobs and people. For example, recent evidence suggests that tax policies have tended to (*a*) give preference to new housing construction over rehabilitation, (*b*) encourage low density over high density development, and (*c*) support the rapid turnover of large real estate and investment holdings. Similarly, highway and other transportation investments have extended the commuting and trading areas in metropolitan regions, thus contributing to the relocation and decentralization of living and working opportunities. The siting of major Federal facilities has also had a significant influence on the location of other private and public investments.

Among regions, Federal Government procurement and expenditure priorities have been shown to have a significant influence on the regional distribution of economic activity. Other factors, including trade policy, transportation policies, and government construction policies, have also affected the distribution of activities among regions. In the future, Federal Government energy policies will be an overwhelmingly influential factor affecting the health of regional economies, both by stimulating development in resource-rich areas and by discouraging activity in high-priced energy regions.

Unfortunately not enough is known about the extent and magnitude of the impact of Federal Government policies on the economies of regions and areas within regions. The Committee believes that any rational economic program should include serious consideration of the impact of that program on regional and local economies, accompanied by a commitment to cushion the impact of policies that have a particularly adverse effect on specific regions and locales.

**It is essential that deliberations over national economic policies include an examination of the impact of these policies on regional and local economies, in addition to their effect on aggregate measures of economic activity. Major executive and legislative proposals should be ac-**

**companied by an analysis of their impact on employment, output, prices, and profits in regions and areas within regions, as well as a commitment to provide adjustment assistance to areas, businesses, and individuals that suffer particularly adverse consequences.**

Of particular concern to the Committee are regions and areas within regions, particularly core areas in central cities, that experience chronically depressed levels of economic activity. While the current recession has certainly exacerbated the economic problems experienced by these areas, their economies have long been characterized by high unemployment rates, deteriorated housing, vacant land, and underutilized and deteriorated public and private infrastructure. The waste of human and physical capital that persists in these areas should be corrected through the immediate implementation of programs designed to stimulate public and private investment in these depressed areas.

In the short term, public employment programs should concentrate on utilizing these idle resources in productive public sector jobs. However, in the longer run, it is more important to encourage permanent private sector employment opportunities to move into these areas. Only through the attraction of permanent private sector positions can the economies of these depressed areas be revived. There are several initiatives, in addition to the emergency public service jobs program, that could provide productive public sector job opportunities in these regions now and stimulate the development of permanent private sector jobs later:

The investment tax credit could be made geographically selective by offering slightly higher credits if an employer chooses to invest in an area that has experienced chronic high unemployment rates over a significant period of time. By adjusting the investment tax credit to reflect a conscious Federal policy to encourage investment in depressed regions and urban areas within regions, the location of employment opportunities in depressed areas would become relatively more attractive. This program could also be used to encourage business location in depressed urban areas where per capita energy utilization for personal transportation is low.

A revolving fund could be established to initiate low-interest loans to State and local governments and development agencies for the purpose of assembling, and preparing for development, vacant or underutilized land in depressed urban areas. These loans could be repaid upon sale or lease of the land or from increases in State and local revenues that will result from development.

Title III of the Emergency Jobs and Unemployment Assistance Act of 1974 could be fully implemented. This title authorized $500 million and appropriated $125 million to provide employment opportunities in depressed areas by accelerating or initiating labor-intensive public works projects. However, the fiscal year 1976 Budget transfers the $125 million appropriation into the Public Service Employment Program. While the public service jobs program certainly warrants vastly increased appropria-

tions, the Job Opportunities Program (Title III) could complement this program by providing important supportive infrastructure (i.e. utility hookups, transportation facilities, site preparation, etc.) necessary to stimulate the development of permanent private sector jobs in depressed urban areas.

The funds that have accrued in the Treasury in the Economic Development Administration's (EDA) revolving fund for business loans and grants could be released immediately. While new appropriations for EDA's business loan and grant program have been made every year, loans that have been repaid have simply been allowed to accrue. At present, approximately $150 million has accrued in this revolving fund, with no indication that the Administration intends to recommit any of these funds to new loans. The leverage that could be provided by an accelerated business loan, loan guarantee, and grant program could provide important incentives for business to locate in chronically depressed areas.

The budget for the Economic Development Administration could be expanded to provide much needed economic development assistance to depressed urban economies, similar to the assistance provided to rural areas. At present only 25 percent of EDA's appropriations are spent in Standard Metropolitan Statistical Areas where 70 percent of the population resides and where significant unemployment problems persist. These programs could be expanded to allow depressed urban economies to receive assistance comparable to that received by depressed rural areas.

A domestic development bank could be established to extend low-interest loans to local governments and development agencies to finance the construction of infrastructure essential to development in depressed regions and areas within regions. The bank could also make low-interest loans available, on a limited basis, to businesses choosing to invest in depressed areas.

**Federal Government efforts to restore economic growth should be accompanied by specific programs to encourage private and public sector investment in regions and areas within regions that experience chronic high unemployment. These programs should be designed to develop permanent private sector jobs and to eliminate the waste of human and physical capital that accompanies long periods of high regional unemployment.**

## State and Local Government Finance

As this Committee pointed out in its recent publication, "Achieving Price Stability Through Economic Growth,"[1] State and local governments have experienced a significant deterioration in their fiscal position in the past year. The aggregate State and local government deficit for 1974 was above $7.5 billion compared to a $4 billion surplus in 1972 and a balanced position in 1973 (surpluses and deficits are computed on a National Income Accounts (NIA) basis and adjusted for surpluses in retirement and other social insurance funds). This weakened finan-

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[1] "Achieving Price Stability Through Economic Growth," Report of the Joint Economic Committee, Congress of the United States, Dec. 23, 1974.

cial position of State and local governments is a result of both inflation and recession.

Inflation initially increases both revenues and expenditures. However, in much the same manner that inflation affects the Federal budget, inflation-caused increases in the cost of providing services soon exceed the inflation-induced increase in revenues. Recession, on the other hand, has had a far more devastating effect, seriously eroding the expected growth in revenues and significantly increasing expenditures for certain services, particularly public assistance and health.

Unfortunately, Federal Government assistance to State and local governments has not been sufficient to stabilize State and local finances in the present situation. In 1974, when inflation and recession were already beginning to squeeze State and local governments, the real value of Federal grants-in-aid actually declined 2 percent (NIA basis) from the level of aid offered in 1973. For 1975 and 1976, when the impact of inflation will continue and the impact of recession will be even more severe, the fiscal year 1976 Budget offers less than a 6 percent increase in Federal assistance. Furthermore, Federal aid to State and local governments will decline for the third successive fiscal year as a percentage of total Federal outlays, as a percentage of total domestic Federal outlays, and as a percentage of State and local expenditures (Table 8).

TABLE 8.—IMPACT OF FEDERAL GRANT OUTLAYS ON GOVERNMENTAL EXPENDITURES

| | Amounts (millions) | Federal aid as a percent of— | | |
|---|---|---|---|---|
| | | Total Federal outlays | Domestic Federal outlays [1] | State-local expenditures [2] |
| Fiscal year: | | | | |
| 1972 | 35,940 | 15.5 | 23.8 | 23.0 |
| 1973 | 43,963 | 17.8 | 26.1 | 25.2 |
| 1974 | 46,040 | 17.2 | 24.7 | 23.6 |
| 1975 estimate | 52,649 | 16.8 | 23.6 | 23.3 |
| 1976 estimate | 55,632 | 15.9 | 22.3 | 22.2 |

[1] Defined for this purpose as excluding national defense and international programs.
[2] As defined in the National Income Accounts.

Source: "Special Analyses, Budget of the U.S. Government," fiscal year 1976.

Thus, when combined with forecast inflation rates, the Budget for fiscal year 1976 portends a further decline in the real value of Federal grants-in-aid to State and local governments. This decline will only exacerbate the financial problems that these governments are already experiencing and will continue to experience as the recession deepens.

**The real value of existing Federal assistance to State and local governments should not be allowed to decline as long as the economy operates significantly below full utilization of resources.**

However, even if existing levels of Federal assistance are held constant in real terms, many State and local governments will experience serious financial problems in 1975. The combination of inflation-affected expenditures and recession-induced revenue shortfalls has already forced many State and local governments to cut payrolls through attrition or layoffs, to delay the construction of essential

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capital facilities, and to cut the level of service they are providing. Many State and local governments have also indicated that they will be forced to enact significant tax increases to meet State constitutional requirements that their budgets remain in balance.

The aggregate effect of these actions could undermine to a certain extent Federal Government efforts to initiate an economic recovery. In the short run, Federal efforts to stimulate the economy by returning purchasing power to consumers through tax cuts will suffer if State and local tax burdens are increased concurrently. Similarly, the net number of new jobs created by Federal Government programs to provide emergency public service jobs is less than desired when State and local governments are forced to lay off permanent employees and replace them with Federally financed public service employees.

A sensible approach to this dilemma is to provide needy State and local governments with untied Federal assistance designed to neutralize the fiscally perverse impact of their actions. The total size of this revenue assistance program should vary with the national unemployment rate, starting at $2 billion at 6 percent unemployment and increasing by $1 billion with each 1 percent increment in the national unemployment rate (i.e. at 8 percent unemployment, $4 billion would be distributed). This counter-cyclical revenue assistance program should also be designed to target assistance to the units of government experiencing the greatest recession-induced revenue shortfalls. Since the size of this shortfall is dependent primarily on the level of economic activity in the unit of government, State and local governments with the largest recession-induced increases in unemployment should receive proportionally greater assistance. Jurisdictions with unemployment rates below 5½ percent should not receive any assistance. It should be emphasized that this program should not attempt to concentrate assistance only in areas that have high structural unemployment rates but rather should pinpoint assistance toward jurisdictions experiencing the most significant cyclical increases in unemployment above a full employment base period. It is in these areas that the fiscally perverse budget adjustments are most likely to occur.

**A counter-cyclical revenue assistance grant to State and local governments should be enacted to cushion the financial hardships presently experienced by these governments and to prevent these governments from adjusting revenues and expenditures in a manner which will hinder Federal Government efforts to stimulate a recovery. The total amount of counter-cyclical revenue assistance should vary with the national unemployment rate, increasing by $1 billion with each percentage point increase above 4 percent in the national unemployment rate. The amount of assistance received by specific jurisdictions should vary with the increase in unemployment above a full employment base period and with the amount of revenue raised from their own sources.[2]**

[2] Senator Proxmire states: "I object to additional revenue sharing to the States for this or any other purposes. The funds have often been used for trivial purposes and revenue sharing offends the fundamental principle that those who spend public funds should be required to raise them."

While many local governments may well be forced to increase tax rates this year, the financial burden imposed by the property tax on most low and moderate-income families and on the elderly is already prohibitive. Studies done by the Advisory Commission on Intergovernmental Relations (ACIR) have indicated that property tax payments as a percentage of income are twice as high for the elderly as for the rest of the population. Similarly, low-income homeowners and, to the extent that the property tax is passed through, renters expend a much larger percentage of their incomes on local property tax payments. For instance, ACIR found that in 1970, households which owned homes and had annual incomes below $2,000 spent one-sixth of their income on local property tax payments.

Many States have already begun to correct this problem by providing property tax relief for households on whom the tax imposes an excessive burden. This relief is most commonly provided through a State-financed property tax circuit-breaker. The circuit-breaker provides that the State reimburse the household for property tax obligations in excess of a predetermined percentage of income. In this manner, property tax relief is extended without undermining the revenue base of the local government.

While 25 States have already enacted circuit-breakers for elderly taxpayers and four States have enacted relief programs for low-income families, the adequacy of the relief provided varies greatly from State to State. The Federal Government could play an important role in these property tax relief programs by providing incentives for improving the adequacy of property tax relief offered by States to low and moderate-income households.

**Congress should give careful consideration to the enactment of a Federally financed program of property tax relief as part of any effort to relieve the total tax burden imposed upon low and moderate-income households and families. Any Federal property tax relief program should require significant participation by State governments and meaningful reform of local government revenue systems.[8]**

## Statistical Programs

A great deal of ignorance about regional and area economies is a result of the inability of the Federal Government statistical programs to provide adequate and timely information about regional and local economies. Information is very difficult if not impossible to obtain about composition of local labor forces, composition of local industrial bases, the amount of vacant land available in a region, etc.

Several factors would seem to necessitate the improvement of Federal Government statistics about regional and local economies. First, the increasing reliance on formula allocations (block grants) as a method for distributing Federal assistance to State and local governments is dependent upon the availability of timely and accurate in-

[8] Senator Proxmire states: "This proposal is far too open-ended and potentially extremely expensive. Property taxes are the province of the States and I see no reason at all for the Federal Government to subsidize them."

formation so that proper allocations can be made. Second, specific programs that are targeted to solve specific problems (i.e. public service employment) depend on the availability of information to select regions and areas of critical need. Finally, and most important, better information is necessary to evaluate the efficacy of Federal, State, and local government programs to improve regional and local economies.

**A task force for regional and local economic statistics should be established to make recommendations for improving the information available about regional economies and State and local government finance. The recommendations of the task force should be designed to provide Congress, the Executive, and the public with meaningful and timely statistical information about local labor markets, land use, housing, industrial composition, State and local government finances, and other data that might be essential for more effective regional economic policies.**

## VIII. INTERNATIONAL ECONOMIC ISSUES [1]

The United States economy has become increasingly interdependent with that of the rest of the world. Much of the United States inflation during 1974 was the consequence of external economic forces—the falling exchange value of the dollar from 1971 to 1973, the fourfold increase in the price of imported oil, and dramatic hikes in commodity prices, including metals and grains. At the same time, the U.S. response to the present recession and continued inflation will have a profound effect on the rest of the world. The current drop in output has caused a sharp decline in America's demand for the products of other countries. Nations highly dependent on the U.S. market for their exports will be the most affected by whatever the United States does or fails to do to reflate the economy. To compound the problem, a continued economic slowdown in Europe and Japan would result in a drop in demand for U.S. exports and thus intensify the current downturn in the U.S. economy.

It is therefore important on both domestic and international grounds that the United States take steps to insure economic recovery. In doing so, it should coordinate closely with other countries in the Organization for Economic Cooperation and Development (OECD) to gain the maximum benefits of expansionary policies without triggering further inflation.

In its economic program the Administration has paid far too little attention to the interrelationships between our economy and the rest of the world. We must become increasingly aware of external effects in formulating our domestic programs.

### Monetary Reforms

The single most serious international economic problem of 1974 was the adjustment to the previous year's quadrupling of world oil prices by the Organization of Petroleum Exporting Countries (OPEC) and the financing of resultant current-account deficits. The growing use of floating exchange rates helped protect the international monetary system from the massive capital flows that could have resulted from the accumulation of enormous cash balances by the oil producers.

In recent months, the value of the dollar has declined, apparently due largely to falling domestic interest rates and uncertainty about the ability of Congress and the President to enact a suitable program for economic recovery. Moreover, Germany has fared better than had been expected in maintaining a trade surplus; Switzerland has been particularly successful in attracting capital flows.

The decline in the foreign exchange value of the dollar should not be a cause for great concern on the part of American policymakers. Studies conducted by the Joint Economic Committee indicate that

[1] These views are endorsed jointly by the majority and minority members of the Committee.

the inflationary consequences of a drop of 2 percentage points on a trade-weighted basis in the external value of the dollar would add approximately 0.4 of a percentage point to either the Consumer Price Index or the GNP deflator. Secondly, a drop in the exchange value of the dollar helps bolster the international competitive position of American industry. Finally, to the extent that American exports do expand or imports are discouraged as a result of these modest exchange rate changes, domestic economic growth is stimulated and unemployment reduced. The fundamental objective of expanding the money supply at a more rapid rate than in past months and of reducing interest rates is to produce a resumption of growth and to combat unemployment. External developments acting to achieve the same ends should cause no apprehensions.

Sometime during 1975 the member nations of the International Monetary Fund (IMF) are expected to be asked to ratify a schedule of quota increases and a set of amendments to the IMF Articles of Agreement. In January, the Interim Committee agreed to increase quotas by a total of 37 percent, including a doubling of OPEC quotas to reflect the oil producers' new wealth. The quota increase and the revision of the Articles are both essential elements of the combined package, since the future role of gold affects both. The Fund's Interim Committee agreed in January that, contrary to former practice, none of the quota increase would need to be paid in gold. The Committee also agreed to abolish the official price of gold in a revised IMF charter. Both of these changes require amendment of the existing Articles. Two unresolved questions regarding gold are whether central banks in the future will be permitted to purchase gold on the free market, and, if central banks are to use gold in the future to pay off debts from one to another, at what price should these transactions occur?

The Joint Economic Committee in its last Annual Report, published in March 1974, recommended abolition of the official price of gold as a step toward transforming the metal into a commodity like other metals. We feel this objective continues to be an appropriate long-run goal against which to evaluate interim policy decisions regarding gold.

**Under no circumstances should the International Monetary Fund or any of its individual members commit themselves explicitly or implicitly to the maintenance of a minimum price in the private gold market.**

Another unresolved issue regarding revision of the IMF Articles is whether floating should be an equally acceptable policy option as maintaining a fixed exchange rate. Since early 1973, most IMF members have either allowed their exchange rate to float independently or have pegged their rate to another currency or currencies which are in turn floating. Given this reality, redrafting the IMF Articles on the presumption that the world will at some undefined future time revert to an exchange rate system of fixed parities is a fanciful exercise. Intervention in exchange markets by monetary authorities, whenever it occurs, should be temporary and directed primarily toward preventing disorderly conditions in exchange markets.

**Given the uncertainties created by the sizable current-account deficits of the oil consuming nations, the dollar should continue to float in exchange markets, and the**

**trend of this float should not be significantly influenced in either direction by official intervention. The amended IMF Articles of Agreement should make adoption of either floating or fixed exchange rates equally acceptable options. Whichever option an IMF member chooses, it should be expected to abide by guidelines insuring that it does not manipulate its exchange rate to export domestic economic problems.**

### Avoiding Restrictive Trade Practices

The quadrupling of oil prices caused current-account deficits for the oil importing countries of approximately $60 billion in 1974; the same or somewhat smaller deficits are projected for 1975. While reliance on OPEC investment and other external financing can shift the burden of paying for oil from the present to the future, the only way the consuming countries can pay off the debt is to expand exports of goods and services. With the overwhelming shock of higher import bills, it was feared that the drive to increase exports would lead industrialized countries into unfair competition with one another through purposeful depreciation of exchange rates, export subsidies, or barter deals offering especially favorable terms. Moreover, if one industrialized country merely increases exports to its other developed partners, the collective deficit of the industrialized world with the OPEC countries is not reduced. In May 1974, the OECD countries pledged for one year not to resort unilaterally to any restrictive trade or financial practices that would shift the oil deficit to other oil consuming countries. This effort to forswear "beggar-thy-neighbor" policies has succeeded and should be continued.

In the first year of higher import costs, some countries have been more successful than others in narrowing their trade gap. Japan, for example, has mounted the most vigorous effort to increase exports. Japanese exports during 1974 were 50 percent above the previous year's level. Exports to developing countries, particularly in the Middle East, increased fastest. In fact, trade of all industrialized countries with OPEC countries, and particularly those in the Middle East, has grown more rapidly than expected. Not only have countries with large populations, more advanced infrastructure and resource development (like Iran and Venezuela), increased their imports of goods and services more rapidly than had been projected, but also those countries with large revenues relative to the size of their population and level of development (like Saudi Arabia) have also shown a growing capacity to import both capital and consumption goods. U.S. exports to OPEC countries during 1974 jumped by 87 percent, while total U.S. exports grew by only 38 percent.

Other countries have been less successful in expanding exports. Italy, Denmark, and the United Kingdom have experienced difficulties in closing the current-account gap widened by increased oil payment. Now the widespread economic slowdown in the OECD countries further threatens export prospects. While the slowdown has resulted in somewhat lower oil import requirements, it has produced an even greater drop in potential exports. Today it is important that industrialized countries do not set up trade barriers in hopes of protecting domestic industries and maintaining employment.

**The United States should seek renewal, in May 1975, of the one-year pledge by the nations of the Organization of Economic Cooperation and Development not to take unilateral, restrictive measures that would shift oil deficits to other member countries.**

By granting the President authority to negotiate the mutual reduction of tariff and nontariff barriers to trade, the Trade Act of 1974 has continued the momentum toward the gradual elimination of impediments to international trade. It has breathed new life into the General Agreement on Tariffs and Trade (GATT), even though current economic conditions of rising unemployment and declining world growth make it unlikely that major reductions in tariff barriers will occur in the immediate future. Hopefully negotiations will be fruitful at an early stage so that reductions can be phased in with economic recovery. A revitalized GATT will also provide a forum for monitoring trade practices and preventing unfair competition that might otherwise result under the pressure of increased oil deficits and the current global recession.

As a result of the mutual tariff reductions agreed to during the earlier Kennedy Round of trade negotiations, tariffs levied by all major industrial countries average 10 percent or less. While Japan still has the highest level of tariffs, the United States has greater variation in its tariff structure than either Japan or Western European countries. Even in the United States, however, few high import duties actutally make the difference betwen the survival of a domestic industry and its demise. Most tariffs have been reduced to such a low level that they are more of a nuisance in conducting international trade than they are a serious inhibition. Reducing remaining tariff barriers on a reciprocal basis by an average of 1 percent or less each year would not expose any domestic industry to severe adjustment shock.

With the gradual reduction of tariffs, nontarff barriers (including, for example, quotas, variable import levies, some internal taxes, packaging requirements, and health and safety regulations) have become the major obstacle to trade. These nontariff barriers, however, vary greatly from country to country, making it difficult to agree beforehand on what are equivalent reductions. In the Trade Act of 1974, therefore, the Congress empowered the Executive to negotiate with other countries on an *ad referendum* basis groups of nontariff barriers that could be fairly traded off against each other. Congress retains the option to reject any proposed deal which in its estimation bargained away more than it gained. Because of the likely complexity of negotiations for progressive removal of nontariff impediments to trade and the prospective need for separate negotiations on different types of barriers among different groups of countries, these negotiations should get underway with all due speed.

Since the heyday of mercantilists, efforts to free trade from restrictions have meant the removal of barriers to imports. The oil embargo and price increases in 1973, however, added a new dimension to appeals for free trade. Instead of access to foreign markets, the emphasis shifted to the availability of supplies of agricultural commodities and raw materials, particularly petroleum. These events have raised serious questions for U.S. international economic policy. First, how

can we be assured in the future that supplies of imported raw materials critical to the health of the United States economy and not produced in sufficient amounts here will be available continuously in quantities sufficient to maintain desired levels of production? Second, how can occasional sharp increases in the domestic prices of commodities exported from the United States be avoided without periodically abandoning overseas markets that are essential if major sectors of the American economy are to earn satisfactory incomes? Pursuing domestic price stability at all costs and periodically ignoring regular foreign customers risks the loss of foreign markets for U.S. agricultural products and raw materials.

While the current economic slowdown has led to a surplus of most commodities worldwide, these concerns should not be forgotten, as they are likely to re-emerge with any period of worldwide economic upturn. In 1974 Congress established the National Commission on Supplies and Shortages to study resource adequacy and identify impending domestic and international shortages. Difficulties in selecting the advisory committee should be resolved quickly so that the Commission can promptly carry out its mandate. The Trade Act of 1974 authorizes the Executive to consider how such access to supply can be guaranteed and to initiate discussions. The Executive would, of course, have to seek congressional authorization before assuring access to U.S. commodities in exchange for similar foreign commitments.

**With the authority granted under the Trade Act of 1974, the President should aggressively seek on a reciprocal basis the elimination of nontariff barriers to trade and the removal of statutory tariff barriers between industrialized nations.**

**The President should also attempt to reach multilateral understandings regarding the availability of commodities and raw materials. He should report to Congress periodically on the progress of these discussions. We should seek assured availability of essential materials imports. In exchange, the United States should offer potential recipients of food aid and our regular export customers assured access—given prior satisfaction of minimum domestic needs—to supplies of U.S. agricultural products and raw materials.**

## Financing Oil Deficits

The enormous flows of so-called "petrodollars" accruing to the oil producing states as a result of higher prices, it was feared, would cause a collapse of the international banking system. This fear has not been borne out. In 1974 the international banking system was not strained unduly by the $60 billion in current-account surpluses of the oil producing countries, nor has any single market been the recipient of excessive amounts of these surplus funds. Commercial banks directly and indirectly channeled more than half of these funds back to the oil consuming nations. The remainder was granted as aid, placed

directly by the producers in investments outside their own countries, or channeled through international financial institutions.

In 1975 oil deficits for consuming countries have been projected to be approximately of the same magnitude as in 1974. Because of the increase in expenditures on goods and services by the producing countries and the declining demand for oil worldwide, these estimates may well be exaggerated. In all likelihood, however, surpluses will be smaller in future years. Hence the numerous scary projections of accumulated OPEC surpluses of more than $400 billion by 1980 now seem vastly overstated.

The pattern of financing oil consuming countries' deficits in 1975, according to the January issue of Morgan Guaranty's *World Financial Markets*, may be quite different from that of 1974. The rate of lending by the private banks has declined. During 1974, as the revenues derived from petroleum sold at high prices accumulated, the producers continued to place their funds in short-term deposits, as they had done in the past. By the second half of 1974, many banks were approaching their limit on the amounts of short-term funds that they could loan out. As a result, interest rates in Eurodollar markets began to fall off. To some extent, the producers have begun to diversify their placements to a wider variety of banks and into longer term deposits. The process of shifting these surplus funds into longer term accounts and direct investments, however, has been slow and, as a result of a decline in all new international lending, international banks probably will handle only one-fourth to one-third of the current-account surplus of the OPEC nations in 1975.

Apprehensions remain about the ability of banks to handle these petrodollar flows in the future. During 1974 the series of bank failures linked to imprudent foreign exchange speculation, rather than oil financing, intensified concern about the overall soundness of the international banking system. In response, the Comptroller of the Currency has devoted special attention to potential problem banks and tightened scrutiny of foreign loans and other assets of U.S. banks. Federal Reserve Board Chairman Burns, in a speech last fall to the American Bankers Association, discussed the need for new regulatory meaures to insure sounder banking practices. Clearly these efforts to strengthen bank safeguards should be reinforced lest the entire banking system be jeopardized by errors on the part of a few individual banks.

## Official Recycling Mechanisms

Several official recycling mechanisms have been established to insure that a country which has exhausted its ability to borrow in capital markets will be able to obtain emergency oil import financing. These facilities supplement private lending and remove the possibility of total default on a large number of outstanding debts. By borrowing funds directly from the oil producers, the IMF special oil facility has been able to make financing immediately available, though at near-commercial rates, to help weaker economies strapped by increased import costs. In January 1975, the IMF Interim Committee agreed to expand this oil facility by $6.1 billion, making the total of $7.5 billion available for leading in 1975.

Also in January the Group of Ten countries agreed in principle to establish the $25 billion oil solidarity fund proposed by Secretary of State Kissinger in a speech on November 14, 1974, and later amplified by Treasury Secretary Simon. This mutual aid fund, to be set up under the OECD umbrella, would be designed to provide a safety net for the industrialized countries after they had exhausted private market and international institution borrowing. Since many of the specific details are still being negotiated and legislation has not yet been introduced, it is difficult to come to a final judgment on the proposed facility. However, there are important problems Congress should keep in mind in assessing the legislation for this proposed fund.

As part of the effort to achieve consumer solidarity in dealing with OPEC, the proposed fund links eligibility to borrow to a country's willingness to cut oil imports. This conservation effort would reduce balance-of-payments burdens and hopefully bring downward pressure on world oil prices by decreasing the demand for OPEC oil. While energy conservation in the long run is desirable for all consuming nations, the stringent goal of a 10 percent cutback set by Secretary Kissinger may be too much to achieve by the end of 1975. Severe immediate cutbacks could injure the ability of an economy to grow and pay for oil imports. Even in the longer term, uniform cutbacks would be arbitrary and could cause disparate burdens. For example, a 10 percent cut in Japanese petroleum consumption would directly affect industrial production, while similar conservation could be achieved in the United States by cutting waste and nonessential consumer use. The emphasis, therefore, should be placed on meaningful long-term conservation efforts rather than on severe immediate cutbacks.

By preferring the Kissinger-Simon safety net to a larger expansion of the IMF oil facility, the United States has assumed a greater percentage of contingent liabilities. Although no specific figure for U.S. participation has yet been set, the U.S. share—by any of the criteria being discussed—is likely to be between 25 and 30 percent, as opposed to our 21 percent of all IMF quotas. This country, however, has not attracted a disproportionate share of surplus revenues from the oil producers. If the same pattern continues in the future, drawings on the safety net would cause the U.S. Government to borrow in capital markets in competition with domestic borrowers.

By linking the safety net to oil import cuts, the Administration apparently hopes that the resulting drop in world oil prices will ease the financing burden imposed on deficit countries. Nonetheless, borrowers will have to run trade surpluses with either the oil producers or with the lenders, like the United States, if they are to repay their loans. The basic purpose in providing the safety net for additional financing is to extend the adjustment period so that countries will not have to resort to competitive trade and exchange rate practices or undertake radical domestic economic adjustments. However, these commitments to assure financing for other countries' current consumption should not be open-ended. Present plans would limit authority for the proposed oil solidarity funds to two years. And in order to assure that the proposed facility achieves its purpose, drawings on the fund should be linked to specific domestic and external economic policies which will restore credit worthiness of borrowers

and reduce the need for future financing. Without such assurances, the proposed mutual aid fund would become a massive foreign aid program rather than the "financial safety net" that has been proposed.

**If Congress authorizes U.S. participation in the proposed $25 billion oil financing agreement, whether by extending loans or by offering guarantees, it should insure that there are adequate safeguards to assure future repayment. Moreover, the fund's authority should be limited to two years.[2]**

**Foreign Investment in the United States**

Increasingly the OPEC nations will less rely on deposits in financial institutions and put their revenues in government-to-government loans, foreign assistance grants, or in direct and portfolio investments. During 1974 OPEC countries gave $9 billion to governments directly, of which $6½ billion was lent to the industrialized countries. Despite all of the concern with direct and portfolio investment by OPEC nations in the United States, it has been very small. The producers have continued to be cautious, maintaining their preference for short-term deposits, government securities, and, to a lesser extent, real estate. The Treasury estimates that in 1974 the producers placed somewhat less than $1 billion in direct, portfolio, and real estate investments. Morgan Guaranty totals show only about $500 million. In comparison with Commerce Department estimates of the book value of total foreign holdings in the United States of $55 billion in 1973, these additional amounts are insignificant. Furthermore, private surveys of total existing foreign investment suggest that the Commerce Department's estimates may be substantially understated due to poor reporting in past years. Hopefully the new benchmark study of existing foreign investment and the review of reporting requirements, called for under the Foreign Investment Study Act of 1974, will substantially improve available information.

There is growing concern that if the United States were to receive a larger share of OPEC surplus funds, and if it were to place these funds in direct investments rather than bank deposits, bonds, or government securities, OPEC would gain control of an important part of our economy and use this leverage for political purposes. These fears are in a large part exaggerated. Even if the United States were to attract as much as one-third of the present annual OPEC surplus, or $20 billion, and it were all invested directly, it would represent only a fraction of the expected $220 billion expected gross private domestic investment in 1975, and an infinitesimal share of total corporate assets (estimated at $2.5 trillion in 1973).

The inflow of OPEC funds (in direct and portfolio funds as well as in bank deposits and government securities) constitutes an offset to the additional cost of oil imports. While the quadrupling in 1973 of oil

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[2] Senator Proxmire states: "I would oppose a program under which the United States would put up or assume liabilities of $7 to $8 billion. Secretary Kissinger should understand that Congress would most likely reject such a massive commitment on top of the outrageous increase in the price of oil already assumed by the American people."

prices has depressed output and, hence, gross savings in the United States, investment from abroad, if used to expand plant capacity, can raise future output and help pay off foreign debt. In the longer term, it is likely that the OPEC producers' own development needs and ability to absorb funds domestically will be such that they will be inclined to liquidate their foreign investments in favor of investments in their own countries.

The United States, until now, has basically welcomed foreign investors and accorded them equal treatment with domestic investors. This policy is consistent with the Government's efforts to gain equal treatment and protection for U.S. investors abroad. In a few industries (defense, communications, coastal shipping, and commercial aviation), the United States has placed restrictions on foreign ownership. In other sectors of the economy, the Government can monitor foreign acquisitions through its regulatory and licensing powers. In the case of banking, the Federal Reserve has blocked foreign takeovers only for antitrust reasons. While the Foreign Investment Study Act, in addition to the benchmark study, requested a major analysis of economic effects of concentration of foreign investments in any sector or industry, its recommendations will not be available before 1976. Although this kind of thorough analysis is necessary, there is growing concern now that OPEC countries will have made sizable purchases before we have made up our minds on a policy.

Further legislation already appears necessary to regulate foreign banking in the United States. This need arises because of the division of control over banking between the Federal Reserve System and the States. As a result, foreign banks have gained advantages which domestic competitors do not have by being able to branch in more than one State. Furthermore, as they become larger and more numerous, these State-chartered banks can affect domestic monetary policy because they are not required to hold reserves with the Federal Reserve. State-chartered domestic banks do not at the moment pose such a threat because they remain small and without international contacts. To avoid giving foreign banks a special competitive advantage and to insure greater control over the domestic money supply, all foreign banks should be federally chartered as proposed in legislation introduced in the last Congress.

For some time Arab governments have boycotted certain firms that trade with Israel. Recently some Arab financial institutions have attempted to pressure American and European banks to follow the same policy. We deplore this effort to extend the boycott to firms in the United States. As President Ford recently said, this use of economic leverage is repugnant to the principles of American society. U.S. firms are explicitly barred from participating in any such secondary boycott and would be liable for any discriminatory action that violates U.S. law. Foreign firms operating in the United States must, of course, also comply fully.

The recent bid of the Iranian Government to buy a 13 percent share in Pan American Airways, however, has pointed up some of the deficiencies of using the present regulatory process to review foreign investments without having previously established a clear, overall policy. Such a process provides no opportunity to re-evaluate broader

issues: What criteria should be used to determine when it is essential to maintain control over American industry, if ever? Would denying a faltering U.S. company access to foreign capital require the Federal Government to provide a subsidy? Although U.S. law forbids discriminatory practices by foreign investors in the United States, are current enforcement efforts rigorous enough? A rush to restrictions, on the other hand, might discourage all capital inflows. If could also spark further nationalization and capital controls in other countries, which would be detrimental to American investment abroad.

There is and should be concern about foreign investments in the United States, whether by OPEC countries or by large multinational firms. In the past, U.S. companies have argued that their foreign direct investment abroad was in the U.S. national interest. It increased the national wealth and served U.S. foreign policy objectives. This contention has been questioned by organized labor. The Congress must now begin to rethink to what extent the investment by foreigners in the United States is in the national interest.

**The United States should continue to encourage OPEC nations to place their funds in longer term investments to facilitate the recycling process. In order to provide adequate national security safeguards over the inflow of capital into the United States, the Congress and the Executive should review reporting requirements and procedures for screening investments. We must carefully monitor the activities of all firms to insure that they do not discriminate on grounds of race, creed, color or sex or otherwise violate U.S. law. The outcome of this review should be a coherent national investment policy.**

## Aid to Developing Countries

Increased oil costs have hit the poor countries most severely. While the actual increases in their oil bills are small compared with those of the industrialized countries—only 5 percent of the total $60 billion disequilibrium—they are large for the poor. What is more, many developing countries are suffering from rising food costs and from loss of exports due to economic stagnation in the industrialized countries. Even those producers of raw materials other than oil who have benefited by the commodity boom (1972–74), now face sharply declining revenues. Their balance-of-payments deficit doubled from $10 to $20 billion in 1974, completely nullifying OECD assistance efforts.

During the last half of 1974, more than 23 developing countries borrowed from the $3.4 billion IMF oil facility established in August 1974. While oil facility loans were not at concessional rates (7 percent and five to seven years), drawings could be made immediately merely on the basis of an increase in oil import costs. Additional deficit financing for the poor countries has been provided by aid from OPEC countries. The OECD's Development Assistance Committee estimated that OPEC nations committed $8.6 billion in aid to poor countries between January and September 1974, not including more than $1 billion of which was loaned to the World Bank. Actual disbursements of

bilateral aid have been estimated at approximately $2.5 billion for 1974. For the remaining financing, poor countries drew down their reserves and in some cases were able to borrow in the world's capital markets. To the extent that the poor countries' needs were not met, they imported less and their real standard of living declined.

The needs of the non-oil-producing developing countries will be greater in 1975 if they are to maintain even their present rate of growth. With near-zero growth in the industrialized economies through the first half of 1975, the developing countries will experience continued loss of export revenues. Uncertainty in world capital markets and growing debt burdens have also begun to squeeze those developing countries which had previously been able to finance part of their needs at commercial rates.

The most important factor influencing prosperity in the developing world is the rate of growth in the industrialized countries. To the extent that the OECD countries are able to finance their deficits and not resort to restrictive trade and financial practices, the problems of the developing world will be less serious. Restoration of the trend rate of 5 percent growth of GNP for the OECD countries in 1976 would make an important contribution to the solution of the problems of developing countries. However, because the poorer countries have difficulty making the internal adjustments needed to develop new exports quickly, an additional $3 or $4 billion of support is needed to restore reasonable rates of growth, i.e., 2 percent per capita per year.[3] Some of this aid may come from the OPEC countries themselves, although recent figures show that OPEC assistance as a percentage of GNP far exceeds that of the OECD nations. The oil producers should certainly be encouraged to participate more fully in the concessional lending activities of the international development banks. The United States and the other OECD countries must also continue to support this effort.

At its January meeting, the IMF Interim Committee agreed to establish a special account to subsidize the interest rates charged on loans made from the IMF oil facility to poor countries. A subsidy of about 5 percentage points would be financed jointly by the oil producers and industrialized countries. So far, the United States has done little to support this commitment. There is no provision in the 1976 budget for a U.S. contribution. Lest the IMF make hard loans to developing countries that cannot afford them and that will only need further assistance in the future, the United States should support the IMF special account.

**In continuing its commitment to assist poor countries, the United States should support the International Monetary Fund's special account to subsidize loans from the expanded oil facility to those developing countries most seriously affected by higher oil prices. The United States should also encourage the oil producers to support this account and to assume an expanded role in financing the international development banks—particularly the concessional lending activities.**

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[3] Hollis B. Chenery, "Restructuring the World Economy," *Foreign Affairs*, January 1975, p. 262.

## SUPPLEMENTARY VIEWS OF VICE CHAIRMAN PATMAN

This is a good Report and I agree with most of its findings and recommendations as far as they go. However, the recommendations concerning the Federal Reserve Board and its monetary policies don't go far enough.

At one point, the Report states that the Federal Reserve Board of Governors should be required to present specific evidence that monetary policy has been conducted in a manner designed to achieve the employment, price, and output targets established by Congress and to discuss the policies needed to achieve such targets in the future.

Elsewhere in the Report, it is said that the present situation of very weak credit demand and worsening recession is one in which further moves toward monetary ease are urgently required. Short-term interest rates should be reduced further, and the monetary authorities should also take steps to influence long-term rates directly.

I agree with these recommendations, but I have no confidence that the Federal Reserve Board will ever cooperate so long as it considers itself independent of the Government.

Congress must make the Board accountable to it and the President. Anything less than this will simply assure continuation of the Board's practice of conducting policy as it pleases without regard for the Employment Act or other requirements of congressional economic policy.

Specifically, Congress should approve legislation which reduces the terms of Board members from the present 14 years to 4 years and be co-terminonus with that of the President. As it is now, Board members frequently have what amount to life terms. More to the point, the 14-year terms prevent the President from appointing a majority of Board members during his tenure even when it extends to two terms. For the same reason, the term of the Federal Reserve Board Chairman should be made concurrent with that of the President. With these changes, a newly elected President would have the immediate option of nominating the Board chairman of his choice and would be able to appoint a majority of Board members during his first term.

The present situation regarding the Federal Open Market Committee portfolio can only be classified as ridiculous. The Federal Reserve, a Federal agency, purchases the securities with credit of the U.S. Government and thereby incurs a debt owed by another Federal agency, the Treasury. In effect, the Federal Government ends up owing money to itself on Federal securities purchased with its own Federal credit. Moreover, the Federal Reserve, without any restrictions

whatsoever, utilizes whatever portion of the $6 billion in interest payments it wishes to finance its operations and turns back the remainder to the Treasury at the end of the fiscal year. In this way, the Federal Reserve, a Federal agency, remains financially independent from either the executive or legislative branches of government.

This is an intolerable situation. No interest should be paid to the Federal Reserve on Federal securities it holds for trading purposes. Rather, the Federal Reserve should be made to rely solely on Congressional appropriations, and thus be answerable to Congress and the Administration regarding broad, long-term monetary policy issues.

Finally, the General Accounting Office should be authorized by law to annually conduct a full-scale audit of the Federal Reserve System. The Federal Reserve System is one of the most, if not the most, important agency of government in determining whether the Nation shall have prosperity or recessionary conditions because it regulates the flow of the country's money supply and implements other policy decisions which, in turn, decide the level of interest rates, prices and the level of employment. In addition, the Federal Reserve handles an amazing volume of financial transactions. In 1972 alone the Federal Reserve handled 35 billion pieces of paper worth $24 trillion in addition to holding $84 billion in Federal securities. In 1974 it processed 10.8 million checks with a value of $3.3 trillion. Yet, despite its paramount importance to the Nation's economy, the Administration and the Congress know only what the Federal Reserve itself wishes to disclose regarding its activities and programs. It is, in fact, the only important agency of government which is not audited by the General Accounting Office.

To immediately remedy this situation, I have introduced H.R. 4316, co-sponsored by 101 Members of the House to require the Federal Reserve System to undergo a full-scale audit by the General Accounting Office. I have already begun hearings on this legislation and I hope this measure is speedily adopted by the full House Banking, Currency and Housing Committee as well as the House as quickly as possible.

Reforming the Federal Reserve System in this way would make the Federal Reserve Board fully accountable for its actions and programs and responsive to the economic policies of the Administration and Congress. Furthermore, with these changes, Congress would continually occupy a strong position to exert influence over the Federal Reserve regarding the allocations of credit to priority areas of the economy. In effect, the Federal Reserve would have to exchange its attitude of ignoring the wishes of Congress for a continuing willingness to coordinate its programs and activities with the economic goals of Congress. In my view, this is the most effective way of bringing the Federal Reserve in line with the executive and legislative branches of government.

An alternative, in the absence of any other change, would be the enacting of specific legislation directing the President and/or the Federal Reserve Board to allocate credit to prescribed areas of the economy. This, in fact, was the course that I took when I introduced

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H.R. 3160, which required the Federal Reserve Board to conduct monetary policy so as to reduce long-term interest rates and unemployment; and H.R. 3161, to require the President to allocate credit to priority areas of the economy, using the Federal Reserve System for this purpose if he so chooses. Both of these bills were approved by the Domestic Monetary Policy Subcommittee of the House Banking Committee. Unfortunately, only H.R. 3160 has been taken up by the full Committee; and when it was, it was reduced to the status of a concurrent resolution. As such, it merely amounts to an expression of opinion by Congress and completely lacks the force and effect of law. The Federal Reserve Board is free to ignore it and history indicates it will do so if the Board wishes to follow another course. Only a coincidence between the intent of the resolution and the decisions of the Federal Reserve Board will result in compliance and that itself may be only momentary.

It should be recognized that the use of central banks for the purpose of allocating credit to desired areas of their economies is standard procedure in most industrialized nations. For example, Japan, for the past 30 years with the use of its central bank, has managed to generate real per capita growth at a rate which is two and three times that of the American economy. Sweden, which also uses its central bank in similar ways, has a per capita growth rate substantially higher than ours. Switzerland has one slightly above us and West Germany is in the process of passing us. The examples which these nations have set should serve as ample refutation to assertions that allocation of credit to priority areas of the economy through our central bank, the Federal Reserve, would be a dangerous mistake. In point of fact, it continues to be a dangerous mistake not to use the Federal Reserve for this purpose.

It is a matter of record that I have long advocated establishment of a National Development Bank patterned after the RFC which played such an instrumental part in helping the nation recover from the depression and to marshal the monumental financial resources that were needed for the Nation's World War II effort. The benefits provided by the RFC had great impact on every level of the economy. But its most important achievement was the provision of credit to loan starved priority areas of the economy—small business, State and local governments and housing. Its loans put men back to work and gave the people hope and confidence.

There should be no question in anyone's mind that the Nation is in great need of a National Development Bank to pump adequate credit at reasonable cost into those areas of the Nation's economy that have virtually come to a standstill because of high interest rates and tight money conditions—conditions which the Federal Reserve Board's misguided monetary policies have played a major role in creating.

A National Development Bank, such as the one I promised when I introduced H.R. 1955, on January 23, 1975, should be established but in no way should it be used as a mechanism to bail out large finan-

cially ailing corporations or the large commercial banks which have made bad loans to these business giants.

A National Development Bank should be a people's bank. It should provide adequate credit at relatively low cost for low- and moderate-income housing, for small business and industry to create job training and employment opportunities and to State and local governments for urgently needed public works and facilities.

It should also be used to finance technological innovation to develop improved methods for the utilization and conservation of energy and other vital national resources. This aspect of the National Development Bank's function is particularly vital since the area of technological innovation is one which is chronically starved for credit whether the economy is stable and prosperous or bordering, as it is now, on depression. This is true because many large corporations, which could afford the investments needed for technological innovation, have little incentive to do so because they occupy such dominant positions in their markets.

Congress should speedily pursue the matter of allocating credit to priority areas through a National Development Bank and through the monetary and regulatory mechanisms available to the Federal Reserve. Congressional action on this subject is desperately needed.

## SUPPLEMENTARY VIEWS OF REPRESENTATIVE HAMILTON

The essence of the Committee's majority opinion is that a program of strong economic stimulus is needed to reverse the recession and revive the economy, and I subscribe to that view. Fear of a large deficit or a resurgence of inflation should not deter us from a program of greater stimulus than the President has recommended in his economic and energy proposals.

At the same time, I have some concern with the magnitude of the stimulus suggested by the tax reduction and new expenditure figures in the majority report. I find myself somewhere in between the only slightly stimulative program of the President and the vastly stimulative program of the majority report. For this reason, I do not wish to endorse the specific receipts and expenditures figures in the majority report.

The majority report also endorses several new social programs for health care, housing, unemployment and anti-recession grants to State and local governments. While I subscribe to the objectives of these programs, and may very well support them when they come before the Congress for consideration, as a new member of the Committee, I do not feel that I have examined each of them in sufficient depth to endorse them unreservedly at this time.

## SUPPLEMENTARY VIEWS OF REPRESENTATIVE LONG

In my opinion, this Report presents an accurate assessment of the present condition of the economy, our most pressing national concern. The proposed recommendations are the result of much testimony by official and private economists, as well as experts in a number of fields relating to the economic management of the Nation. To me, it is both important and significant to outline briefly how these recommendations were reached.

The Administration, in its Economic Report of the President for 1975, made recommendations which included the need for a strong program to stimulate the economy. Experts and economists—both Democratic and Republican, liberal and conservative—uniformly agreed that such a program of strong stimulus was needed urgently. Consequently, I am of a mind to go along with these recommended programs, especially in view of the overwhelming support for the general approach that the Committee has taken.

We all must be reminded, however, that the line one must draw between those policies needed to combat inflation and those policies needed to combat recession—and the varying degrees of each—is extremely difficult to define, and the degree to which we must implement these policies is equally difficult to ascertain.

Personally, I am concerned about the extent of the recommended stimulus and, as I have indicated in the body of the report, I am concerned about the size of the deficits for 1975 and 1976 that these policies of stimulus would create. My other concern, as indicated in the report, is with the Committee's posture on the subject of the oil depletion allowance.

My reservations are partially alleviated, however, by the Committee's use of "trigger mechanisms" that automatically implement policies as the need arises. I am referring particularly to the emergency public service employment recommendations, which add on jobs as the level of unemployment climbs. This mechanism is a sophisticated method of defining the line between policies needed to combat inflation and policies needed to combat recession, and it provides an appropriate method of implementation as well.

Of course, we must be wary of any solution to our economic difficulties that places sole responsibility on the shoulders of the Federal Government. I am one who believes that the Federal Government cannot do everything, that the efforts of State and local bodies are vital to the success of any program, and that all Federal programs must be carefully constructed to preserve the integrity and autonomy of State and local governmental units. Also, we must encourage full participation by our private business sector so that the Nation can benefit from the many resources and capabilities of our free enterprise system.

Finally, I am convinced that public and consumer confidence is essential if we are to turn the economy around. I am confident that the recommendations embodied in this Report can and will do the job, especially, if they are expeditiously implemented, carefully monitored, reviewed and revised as needed to meet changing circumstances, and are given whole-hearted support by the American people.

# Minority Views
# on the
# February 1975
# Economic Report of the President [1]

[1] Senator Javits states: "I cannot agree with certain of the findings and conclusions of the Minority, specifically, as to how to and how much to reduce oil consumption, the size of the deficit and the appropriate monetary policy to stimulate the economy without rekindling inflation, and the best way to assist the unemployed. Therefore, I have submitted supplementary views to discuss my own opinions as to these matters."

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 1974 President's Economic Report, other messages and this committee's hearings.

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# I. INTRODUCTION

By almost any comparison, 1974 has been a difficult year for the U.S. economy and for the world economy as well. Economic news has dominated world headlines in spite of significant political developments in almost all parts of the world. The shock of the fourfold increase in crude oil prices not only adversely affected economic life in 1974, but will possibly be the most significant development of the decade with respect to our standard of living. The effect of the massive transfer of wealth to oil producing countries and efforts at home to control inflation induced partly by higher oil prices have combined with the natural course of the business cycle to create a recession more severe than any of the postwar period. These problems have been frankly presented by the President in his budget message.

The details of our economic dilemma have been described by analysts and politicians to an almost unprecedented degree; there is no want of words to describe the afflictions of today's economy. However, as we view our Nation's economy and the economic problems of the world in general, we are struck by two disturbing distinct phenomena which will influence standards of living and the role which we must expect from government in the near and far term.

First, the world is undergoing a political crisis of leadership change at a time when the economic and international problems facing us demand the highest statesmanship and political strength. Witnesses before this Committee have expressed alarm at the seeming lack of public confidence in institutions by Americans. In instance after instance, political leaders of governments around the globe have been removed from power. Only 10 of the 24 OECD countries, for example, have the same President or Prime Minister as they had at the beginning of 1974. One characteristic of mature democracies has been the transfer of government accomplished in an orderly fashion. However, there is an inevitable testing period when the policies of a new Administration are not yet completely formed. Throughout the world, the past year has seen many such periods of testing new policies, and the United States is no exception.

This political phenomenon is important to economic policy because of its impact on consumer confidence. Many writers and analysts emphasize the need for consumer confidence in seeing our way out of our current economic dilemmas.

The second phenomenon is also related to consumer confidence. This phenomenon has been analyzed in this Committee as well as in publications of other organizations. It is the extent to which increased taxes have contributed to the current inflationary spiral. As we discuss below, spiraling taxes are a problem which the American people have visited upon themselves, but makes them no less serious.

A recent report of the Subcommittee on Consumer Economics of the Joint Economic Committee found that higher tax payments in 1974

outstripped all other price increases in consumer budgets this year. The Conference Board has concluded that during the last 6 years income and Social Security taxes have risen nearly 65 percent for the average family while the cost of food, housing, clothing and other goods and services has risen only 35 percent. The Conference Board analysis indicated that the highest premium that a family pays now to maintain the same standard of living it enjoyed in 1967, is the tax premium. This premium is greater than the increase which a family must spend on food, on housing, or on any other personal expenditure. We are sure that this point has not been lost on the American taxpayer. Whatever the trials of having to pay higher food prices, the burden of having to pay even higher taxes must provide a clear message that the role of government in this country has become too large and too oppressive too quickly for our own good.

Unfortunately we have operated on only half of the Keynesian principle over the last decade. That is, we have "primed the pump" and had deficit spending to stimulate the economy during periods of slack, but when we were operating at capacity with full employment, such as during the latter years of the Vietnam War, we did not effectuate tax policies which countered inflation and overstimulation.

Given the rather dismal economic scene, the goals for economic policy in 1974 must be modest. We cannot hope to right the economic wrongs of a decade within a single 12-month period.

**The most we can realistically expect to achieve this year is to lay a sound basis for a sustained, long-term, recovery. In this regard, we would stress that what the economy needs now is a slow, but strong and steady growth towards full employment and capacity output so that we do not reinflate too quickly.**

We are all too aware of the mistakes made by policymakers in the recent past. We have always known that too rapid and unnatural a governmental stimulus toward economic growth is self-defeating in the long run. The lesson of 1972 is that it can also fail in even the short run. The lesson of the past 200 years is that what made this country great was not the ability of government to solve its problems but the ability of individual Americans to create the largest free market economy in the world. That ability is a function of confidence that government will not frustrate the rewarding of individual initiative.

## II. FISCAL POLICY

The course of fiscal policy during the next one and a half years will be very important in determining the nature of government activity in the economy for a decade or more. This is because the need for fiscal stimulus, with which we do not take issue, could be confused with the need to enact large new spending programs or permanently increase those in existence.

The President has proposed a $53.7 billion deficit for fiscal year 1976, and the combined fiscal 1975 and 1976 budgets are planned to have a combined deficit in excess of $80 billion. Frankly, we are alarmed at the size of this deficit, even though we realize that there is a good theoretical basis for it and that the full-employment budget projections show a substantial surplus for each of these years. Witnesses before the Committee have split on the issue of the optimum size of the deficit, but we take seriously the recommendations of the Federal Reserve Chairman Arthur Burns that Congress should strive to hold spending below the level projected by the President.

As a practical matter, government spending is likely to be considerably in excess of the $351.2 billion total on which the $53.7 billion deficit figure was based. This is because the 1976 Budget does not cover an estimated $11 billion of off-budget items; nor does it include $15.3 billion in rescissions and deferals which were advocated by the Ford Administration in the fall of 1974, but which the present Congress is unlikely to enact.[1]

**These facts indicate that Congress must watch the overall budget figures very closely as it enacts appropriations measures during the coming months. In this setting, we believe that if we must tolerate huge deficits, because of the need to ameliorate the hardship posed by high unemployment rates, then these deficits should be focused on extended unemployment compensation benefits, public sector jobs, and other such measures that will bring relief to those persons who suffer most from the current situation.**

We fear that a Congress obsessed with painless, short-term solutions to the current economic problems will add too casually to the deficit already proposed either by ineffective increases in spending, overriding rescissions of wasteful programs or both.

**The Congress must give careful consideration to the spending levels suggested for fiscal year 1976 in the President's Budget because our political system places the budget initiative with the President. But Congress also has an opportunity and a responsibility for initiative as well.**

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[1] At this Committee's Annual Hearings, Donald T. Regan, Chairman of Merrill, Lynch & Co., Inc., indicated that we cannot have much more than $75 billion of deficit financing in fiscal year 1976 without crowding out private borrowers and having a severely retarding affect on economic recovery.

**We are now in a war against depression and against the energy crisis. The seriousness of this situation dictates that Congress carefully establish its own priorities and determine jointly with the President spending levels for fiscal year 1976 as the year and the economic energy situation develop. Just as the President has approached his budget responsibility, we strongly believe that Congress must use every discipline within its power to hold spending to reasonable levels and to the extent consistent with economic recovery, we must look to new revenue sources such as increased luxury taxes to finance additional expenditures.**

Our second concern with the President's Budget lies in the extent to which the Federal Government is becoming increasingly "locked in" to Federal programs which inevitably compound their costs over the years. So called relatively uncontrollable outlays now account for 74 percent of all budget outlays compared with 64 percent 5 years ago. This suggests that Congress has been making larger and larger claims upon our future resources, creating an overhang of spending proposals to be forced on future Congresses and Administrations.

Another way of describing this phenomenon is to chart the extent to which the Government, as it enters a fiscal year, is encumbered by unspent authority which has been enacted in previous years. The record shows that the Federal Government is suffering increasingly from a "fiscal overhang" of unspent authority which threatens in the long run to severely limit our options and which guarantees in both the short and long run that the Federal Government will have a dominant and not necessarily beneficial effect on the nation's economy.

The proportion of unspent authority to outlays has changed substantially during the past 10 years, growing from 113 percent in fiscal year 1971 to a proposed 141 percent for fiscal year 1976.

We can only hope that unspent authority as a percent of current outlays will fall still further in future years, and that we can thus undo the "foot in the door" techniques of past budget planners. With these points in mind, we strongly urge that the Congress scrutinize carefully all authorization and appropriations measures with the view toward scaling down or eliminating those programs which imply a commitment in the future years which we cannot afford.

On the revenue side, the Ford Administration has proposed $16 billion in temporary tax cuts, through a 1-year increase in the investment tax credit and through a $12 billion rebate measured by 1974 tax liabilities. The Administration package also includes a series of energy excise and windfall profits taxes, which would be passed through to consumers by means of permanent changes in the tax code; these permanent changes would be designed primarily to benefit low- and middle-income taxpayers.

**We support the swift enactment of temporary tax cuts to individuals and corporations to stimulate the economy.**

Although we may differ on the exact form of the President's proposal, the advisability of a tax cut and its general size are matters we agree upon fully. We urge immediate passage of the personal tax cut as a means of helping restore consumer purchasing power and of imparting a sense of certainty and confidence about the future of the economy. The 1-year increase in the investment tax credit is required, we believe,

in view of the downward trend in capital spending plans and the need to continue to modernize this country's physical plant.

**With regard to the President's energy tax and permanent reduction proposals, we believe, as we discuss more fully below, that the timing of any tax on imported petroleum products is as important as the principle of a tax itself.**

We are concerned lest a sudden increase in the price of gasoline and other products cause dislocations as severe as the ones we have already experienced with regard to previous price increases. On the other hand we believe that tax reform in the form of advantages to middle- and low-income taxpayers need not be tied to energy changes. We are confident that Congress will continue its work which was begun last year on reform of the personal income tax.

## III. MONETARY POLICY

The Federal Reserve was the major government influence in the economy during 1974. During this past year, the monetary aggregates decelerated significantly in keeping with policy aims of slowing both the expansion of total spending and the rapid rise in bank credit. In that year, the monetary aggregates grew at a slower rate than during 1973, even with taking 1974's higher inflation rate into account. On a real basis, the Fed's monetary policy was actually tighter than the numbers imply, because the real growth in the money supply declined one to two percent from 1973.

In 1975, it is quite likely that the course of monetary policy will again be one of the prime influences on the economy. The projected budget deficits for fiscal years 1975 and 1976 have drawn attention to the need to relate Federal Reserve monetary policy to the Treasury borrowing patterns. Several times during the Annual Hearings of this Committee witnesses were pressed to give their opinion as to the rates of money supply growth which would be most called for this year to meet the needs of current and future economic conditions. Answers varied and there were differing views on the impacts different policies would have on financial markets. But the issues which seem to emerge with regard to monetary policy centered about the optimum rate of money supply expansion (not whether to expand, but how much) and the extent to which the Congress should participate in the formulation of monetary policy.

**We note that several proposals have been made in the Congress to compel or to attempt to persuade the Federal Reserve to follow certain money supply growth patterns. While we believe that a constructive dialog between the Congress and the Federal Reserve is desirable, we strongly oppose any legislation which would compel the Fed to a particular course of monetary policy set by Congress.**

There is no analogy with fiscal policy. The impression of Congressional control of fiscal policy through appropriations measures does not begin to approach the delicate kind of control needed over monetary policy. Even so, there are those who seek legislation to try to give Congress such control over monetary manipulation. At the present time, setting fiscal policy is imprecise. It is still influenced largely by the Executive Branch, through the scheduling of payments, deferrals, rescissions, etc. With the enactment of the Congressional Budget Act, Congressional control over fiscal policy can become more of a reality, though there are those of us who are pessimistic about the prospects for success. The political bias of a fiscal policy set by Congress always is toward the deficit or expansionary side, even though economic theory and logic tells us expansionary fiscal patterns are not always advisable. Similarly, any Congressional effort to set monetary policy would almost surely be politically tilted toward expansion, even

**though economic theory and logic tells us that expansion of the money supply can be as undesirable in many circumstances as unconstrained fiscal expansion.**

It should also be noted that Congress is forever tardy in actually completing its action of fiscal policy questions. Is there any reason to feel it would act in more timely fashion on monetary policy—even though monetary actions must be more carefully timed and delicately tuned? On the contrary, the very sensitive relationship which exists between fiscal and monetary policy and which would have to be employed by the Congress in any exercise of control over macroeconomic policies generally does not appear to be within the ability of Congressional exercise. The Budget Act provides for fiscal oversight starting with the fiscal year 1977. Only when Congress has established a successful record under that law should it consider the ways in which it might have an increased voice in the conduct of monetary policy.

With regard to monetary influence this coming year, we view with some concern the financial needs which will have to be satisfied in 1975. Not only will the borrowing requirements of the U.S. Treasury reach record levels this year, but the need of corporations to improve balance sheet positions, the clear depression in the housing market, and the liquidity situation in our financial institutions will all require a marked degree of monetary ease.

The particular money supply growth rates which these conditions might suggest have been projected by witnesses before this Committee at anything from 8 to 12 percent. The Data Resources Econometric Model implies that a policy of 8 percent $M^1$ growth produces an economic recovery scenario which makes headway against both unemployment and inflation.

**Federal Reserve Chairman Arthur Burns testified that a 10 to 12 percent growth target for $M^2$ and an 8 to 10 percent target for $M^1$ were "too large" for long term success in achieving economic stability. Though such an expansionary monetary supply might help employment and even inflation in the short run, the long range impact toward inflation was so great as to be undesirable. We tend to agree. At the same time he stated that the Fed keeps an open mind on the subject. So do we.**

**With these considerations and with our own recommendations in mind for a more restrained fiscal policy, we believe that money supply growth rates should be at the low end of the scale which has been discussed above.**

However, we believe that it is important to emphasize the monetary stimulus in 1975 must keep a watchful eye on unemployment and industrial malaise and be prepared to act or react as the situation merits. It is important to note that the United States went into this recession after 8 years of unusually high inflation, unlike the extended era of relative price stability which preceded the Depression of the 1930's. Therefore, one might wish to be cautious about the inflation danger waiting to be rekindled in this situation which was not present in the United States in the 1930's. Our situation now has more parallels with the Weimar Republic Days in Germany in the late 1920's than anything else—including a certain lack of confidence in government's ability to do *anything* well, including manipulate the economy. Ob-

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viously, there are a great many more cushions and restraints and precautions built into our system today than was true in the America of the "Thirties" or Germany in the Weimar days. But even so, confidence in oneself may exceed confidence in government in a post-Watergate America.

The implications of this situation for tax, fiscal and monetary policy are clear in terms of not locking ourselves in at this time to expensive, long-range programs of government control or undue government domination of economic decision-making vis-a-vis the Gross National Product. Tax policy should not stifle individual initiative. We also emphasize that monetary policy be directed at a substantial diminution of inflationary pressures as well as at progress against the very real and unacceptable level of unemployment. The consequences of failing to make headway against inflationary pressures are too dire to enable us to advocate a monetary policy which does not contemplate reducing inflation as one of its primary goals. At the least, an accelerating rate of inflation would substantially lower real wages and salaries, thus once more reducing the standard of living of most Americans. At the most, failure to come to grips with inflation in this country could also seriously weaken the strength of the dollar abroad which would further delay U.S. economic recovery.

## IV. ENERGY

Perhaps the most controversial aspect of President Ford's anti-recession program is his energy package. Twenty-one separate recommendations are included in this package. Among them are: tax credits to residential homeowners for improving insulation; standards to increase automobile gas mileage; tax changes to encourage investments in electrical utilities; the expansion of Federal leasing activities; deregulation of old oil and all natural gas; and the imposition of import fees on crude oil and crude oil products.

The primary goal of the President's program, which also includes domestic stockpiling of oil, is to cut our dependence on imported crude oil by 1 million barrels a day by the end of 1975 and by 2 million barrels by the end of 1976. Other goals include creating a beneficial climate for investment in synthetic fuel processes, and discouraging consumption by the price mechanism, but rebating taxes to municipal and low- and middle-income consumers so as to stimulate the economy. The energy measures, of course, have been necessitated by the economic drain resulting from the fourfold increase by OPEC countries in the price of crude oil and by the realization that national and international security requires us to become less dependent on foreign sources of supply.

**The economic implications of these goals and the forces which have caused us to reassess our energy policies are profound. At the very least, they involve direct costs to American consumers either through the diversion of resources to pay the increased price of crude oil imports or the increased cost of market-priced or excise taxed domestic oil. In addition, there will be some economic restructuring as a result of efforts to increase domestic oil production to enable this country to become more energy self-sufficient.**

At the consumer level, higher energy prices take a substantial bite out of workers' earnings; and the President's conservation program with its goal of a reduction in petroleum imports by 1 million barrels a day by the end of this year implies that consumers will be forced to change their patterns of energy consumption.

It is clear that the policies for change of this magnitude (one-sixth of our consumption this year) must be designed for the long run. Short run policies aimed at suppressing demand through creation of an artificial shortage by mandatory rationing or by a system of quotas are not likely to be sustainable. Unless American consumption habits are permanently adjusted, it could only postpone the day of judgement. In developing solutions to our energy problems, we cannot afford to wear ideological blinders, but must look at all options. Our response must be a mechanism which cannot be interrupted or frustrated by OPEC countries. With these considerations in mind, we have the following observations and recommendations with regard to the domestic aspects of the energy situation.

**At the outset, we believe the energy situation is a problem of the greatest significance which must be dealt with quickly and firmly. The consequences of failing to act on the energy situation will create even more long range inflationary problems as this country becomes geared to the price strategies of OPEC countries. This in turn will make Americans subject to a recurrence of recessionary pressures if the United States attempts to adjust to still higher oil prices or is faced with another embargo. The results of a dependent oil economy will be a severe erosion of confidence in Government economic policies as consumers see their economic situation tied to the policies of foreign oil producers.**

Second, while we may have reservations about individual aspects of the President's program, we believe that this program is the only comprehensive plan available to date. Therefore, it must be the basis for debate. We believe the President has made an honest attempt to develop policies which will sustain this country in the long-run.

**To the extent that decreased consumption of energy is called for, we support the "rationing" of energy through the price mechanism rather than through direct means such as allocation or rationing, although we believe there is room for debate on the abruptness with which price adjustment should be carried out.**

Thus, we agree in principle with the eventual deregulation of natural gas and old oil, although again we emphasize that the gradual phasing in of such deregulation of prices is a matter of some importance. Too sudden an increase in the amount of dollars being absorbed in consumer spending by such a universal product as petroleum and gas can have a depressing effect on economic activity in other areas and, therefore, on demand and employment in all sectors.

**While expressing our preference for utilizing the price mechanism as a primary means for rationing energy supplies, we are, nevertheless, concerned whether the price mechanism alone can handle the present problem.**

For this reason, we believe that the Administration must keep its options open with regard to modifying its energy conservation methods or to investing in more aggressive efforts to find energy alternatives. We also approve of the President's announcement that he will maintain contingency plans for emergency rationing, should the need arise.

**Several of the President's proposals involve incentives for voluntary conservation efforts, and we stress the importance of providing these proposals as part of an overall energy package.**

Although we do not believe in energy conservation for its own sake, there is no escaping the fact that dependence on foreign sources of energy carries strong political and economic implications. The outflow of petrodollars from the U.S. economy amounts to a drain on U.S. resources, exceeding $100 annually for every person or about $450 per family, a decline of over 3 percent in U.S. living standards. Petrodollars which are used to purchase goods and services represent a present claim on U.S. resources, and petrodollars which are utilized for investment in this country constitute a future claim. While excessive cutbacks on the use of energy have already had an adverse

effect on domestic employment, and could have serious future impacts, failure to start now at restructuring our energy usage patterns in order to achieve greater independence could result in a devastating transfer of economic resources out of this country. For these reasons, we strongly endorse the President's proposals for insulation standards and the tax credit for improving the thermal efficiency of residences through installing insulation, storm windows, etc. We also applaud the successful efforts which have been made by the Administration in obtaining commitments from automobile manufacturers to improve the full efficiency of autos in this country.

**We would support mechanisms to further this purpose as necessary.**

We stress the importance of enacting some amendments to the Clean Air Act, particularly the proposals which would impose most aspects of the California Standard on 1977–81 model year automobiles.

**In conclusion, we again stress that action on the energy front is required now. While we recognize that individual members of Congress may disagree on certain particulars of the President's program, the fact is that this program is goal-oriented, comprehensive, effective and the only one in existence. If this country is serious about developing a capability for dealing with the energy problems of the 1970's and beyond, it must enact and implement a carefully designed program to adapt this country to a long-term goal of energy conservation and increased self-sufficiency.**

## V. PRODUCTIVITY

In 1974, productivity in the private economy actually declined by 2.7 percent. This is the first such decline in our country since we started compiling productivity figures.

While some of our poor productivity performance in 1974 can be ascribed to the peculiarities of the business cycle, some can only be explained, we believe, by certain, disturbing long-range trends in the American economy and its society. Since the end of the post-World War II adjustment period, output per man-hour in the total private economy—one of the commonly accepted measures of productivity—has increased at an average annual rate of 2.9 percent. However, in recent years, this average has grown smaller and smaller; the corresponding figures for the last 20 years is 2.6 percent, it is 2.1 percent for the last 10 years, and only 1.6 percent for the last 5.

It is not surprising, then, that the productivity performance in the United States also compares unfavorably with that in other countries. In fact, productivity growth in the United States since 1965 in the manufacturing sector (the only sector for which international comparisons are available) is the worst in all the OECD countries.

The importance of productivity in bringing the U.S. economy back to a healthy state cannot be overestimated. According to a recent study published by the National Commission on Productivity, improved productivity has a direct relationship to controlling the rate of inflation. In a more general sense, productivity gains are the only way in which this country can achieve higher standards of living from our finite resources. In the international arena, good U.S. productivity performance ensures the strength of the dollar abroad and our ability to purchase needed imports at reasonable prices.

Conversely, continuation of our poor productivity performance could have adverse effects on the economy. With output per man-hour actually declining, wage increases are not being absorbed at the present time by more efficient work methods, and must be passed directly along to the consumer. This phenomenon is reflected in the Ford Administration's rather pessimistic projections of consumer price activity in 1975. Similarly, we are depriving ourselves of a better standard of living through our poor productivity performance. Had the rate of productivity growth in 1974 been at the postwar average, it would have added $80 billion to the Gross National Product, or an amount almost equal to the entire defense budget. In the international money markets, declining output per man-hour contributed to the weakening of the dollar vis-a-vis virtually every other major currency during 1974.

**In his January 14, 1975, address on economy and energy, President Ford stated that "at the heart of our problems is the need to improve productivity. * * * The maintenance of our historic role of productivity growth is a vital factor in the broader task of achieving a less inflationary and more stable economy." We fully agree with**

the President both as to the diagnosis and the goal, and with these considerations in mind we make the following recommendations:

**First, be believe that the Federal productivity effort has been grossly deficient to date. The National Commission on Productivity has been seriously underfunded ever since its inception, having been budgeted for less than its authorization and having received less than the requested amount.**

Furthermore, the Commission itself has done little in the way of actively promoting productivity improvement, and it should be adapted to fit this very important role. In those areas where the Commission has taken an active role, notably in the encouragement of unit trains from California to the East Coast, we note that significant success has been achieved, not only in establishing new techniques for productivity improvement but also in promoting competition in the private sector. The unit train concept, for example, was implemented by competing railroads as soon as the Commission had encouraged one set of lines to adopt the idea.

**Second, we believe that any Federal productivity effort must be made jointly with the private sector.**

Thus, we believe that the form of the Productivity Commission should be changed to be jointly funded by the Federal and private sectors as a center for productivity improvement. If private contributors were to accept a responsibility in such an operation, it would be an investment well spent. Such a joint commission should be charged with actively promoting productivity improvement in the Federal and private sectors, by proposing and offering comments on legislation which affects productivity, and by mounting a broad public relations campaign to inform Americans of the very vital role which productivity plays in increasing our standard of living.

**Third, within the Federal Government, the President should implement a system of incentives for productivity improvement.**

This recommendation is similar to one which was made in our interim report, "An Action Program To Reduce Inflation and Restore Economic Growth," and is as valid today as it was last fall when it was published. Such a system, if effectively administered, could go a long way toward improving the efficiency of the Federal sector, stabilizing tax rates and insuring Americans that their tax dollars are being well spent.

**Fourth, business and government should be encouraged to establish labor-management committees at the unit, community, industry and national levels as a means of promoting productivity through improving the quality of work.**

The few examples of efforts to improve the quality of work in this country indicate that significant productivity improvements can be made through attention to the factors which motivate people to do better jobs, and by promoting employee responsibility and independence in the work place. At a time when our labor force is more than twice as well educated as it was only 30 years ago, we are still employing methods of work which existed in the 19th century. We urge that the Federal Government and forward looking business leaders make a special effort to spotlight successful cases of improvement in the quality of work and to demonstrate that this aspect of productivity improvement can be successfully implemented.

# VI. EMPLOYMENT

Clearly the employment situation is the number one issue of 1975. During the past year unemployment has climbed more rapidly than in any other similar postwar period. The jobless rate now stands at the highest point since 1941. There is evidence to suggest, furthermore, that the rate would be higher but for the numbers of persons who have withdrawn from the labor force for lack of suitable job opportunities, a condition which presumably existed in 1941 as well.

A number of factors make the present situation especially ominous. First, the onset of the steep rise in unemployment during the third and fourth quarters of 1974 was almost totally unforeseen by both government and private economists. At midyear, 1974, most major econometric forecasts projected that unemployment would not rise above 6 percent in 1975. By the beginning of this year, the same forecasters were predicting an approximately 8 percent average unemployment rate for 1975, and the lowest of these forecasts was 7.2 percent. In the interim period, forecasters have been revising their projections to reflect the pessimistic data which has been produced each month, and these pessimistic revisions continue to this day.

**Second, the coincidence of high unemployment rates and high inflation means that any efforts to reduce unemployment must be taken cautiously and over a long period of time. The Administration's unemployment projections which appear so pessimistic, are, in fact, consistent with a price scenario which envisages 4 percent inflation in the year 1980.**

**Third, the amount of long-term unemployment indicates that temporary programs for solving the unemployment problem may not be sufficient.**

The percentage distribution of long-term unemployment (15 weeks or more) indicates that the long-term unemployed are becoming a larger and larger portion of the ranks of the jobless. The number of long-term unemployed as a percent of the unemployment rate now stands at the highest it has been in more than 10 years. Another way of looking at this problem is to investigate the average duration of unemployment, which has also climbed sharply in recent months. It now stands at 10.7 weeks, up more than 1½ weeks from 1 year ago.

These conditions suggest that a multipronged approach to the unemployment problem must be undertaken if we are to make any headway.

**We strongly recommend the establishment of a major program to provide jobs through the public sector to cope with the unemployment created by the current recession.**

Such a program should be administered through the facilities established by the Comprehensive Employment and Training Act. Characteristics of such a plan should include (1) a trigger mechanism designed to release more funding if the unemployment rate climbs

beyond certain levels, and to phase the program out as the unemployment rate is reduced to more acceptable levels. (2) The provision of transitional, as opposed to permanent jobs. The program should be so designed that persons provided employment can quickly find jobs in the private sector as the economy gains strength. (3) There must be a provision for jobs under such a program to provide useful services as opposed to "makework." According to findings published in the April 1974 "Manpower Report of the President" only 22 percent of the funds expended under the Emergency Employment Assistance Program over the period April 1971 through June 1973 were devoted to public works projects; the remainder of the funds were aimed at education, law enforcement, health, and other sectors. We believe that future public sector employment programs should be similarly diversified, so that a full range of public sector needs can be satisfied. (4) The program must be supplemented by public employment plans at the State and local level which can be quickly implemented. Unlike a major public works program, the emergency public sector jobs program must respond to temporary phenomena so that it can be quickly implemented and efficiently phased out.

**Because we believe that the unemployment situation, and especially the long-term unemployment situation, is relatively unusual, we believe that special efforts must be made to supplement the transitional public sector jobs approach. For this reason, we believe that the Federal Government must make a special effort to increase funding, through the Job Opportunities Program or other suitable means, for longer term employment projects of a labor intensified nature.**

For example, the Department of Commerce has identified more than 15,000 labor-intensive projects in the Federal Government which could be expanded in order to provide increased employment opportunities. The amounts involved total $20 to $30 billion. The Department of Defense alone has $1 billion in deferred maintenance and repairs which could be implemented through such a program. The Appalachian Regional Commission has $258 million of projects for increased employment which it could implement on relatively short notice. The rail rights-of-way of Amtrak and the proposed Conrail system could be modernized under such a program without the necessity for complicated planning.

**Again, as in the Public Sector Jobs Program, we believe that this increase in Federal activity should be temporary, and should provide employment opportunities only so long as private sector opportunities do not exist.**

However, we believe that if labor intensive projects such as we have mentioned can be given Federal assistance, the effort could serve a dual purpose of providing useful services as well as employment. In the rail transportation area in particular, we believe that the present economic circumstances affords an excellent opportunity to modernize the national passenger network and the northeast corridor for high speed, efficient, intercity transportation.

## VII. REVENUE SHARING

With the energy and economic proposals of the President and Congress at the center of our national focus, it is important to consider the status of State and local governments. Revenue Sharing was passed during the 92d Congress with the hope that the fiscal imbalance between Federal and State and local governments could be substantially improved.

At the time of General Revenue Sharing's initial passage, the burden on State and local governments was substantial. State and local governments spent[1]—

98 percent of all public funds spent on education;
82 percent of the funds going to welfare;
71 percent of health and hospital expenditures; and
75 percent of public housing and urban renewal outlays.

Historically, the capacity of the Federal Government to raise revenues through the progressive income tax placed the State and local level in the role of supplicant to the Federal level.

The plethora of categorical grant programs of the early 1960's was one approach to the fiscal problem of State and local governments. But by the end of that decade, it was clear that categorical grants had failed to meet the diverse needs of the State and local units of government.

The enactment of Revenue Sharing in 1972 culminated an arduous legislative debate that had begun in the 1960's. The theoretical base on which the bill was enacted has only changed in degree. There is still a disparity between the taxing and borrowing capacity of the Federal Government *vis-a-vis* the State and local governments. While the financial status of State and local governments improved somewhat in 1972 and 1973, inflation and the cost of energy have virtually eliminated the position of "fiscal luxury" in which some States were thought to be.

Recent data from the Department of Commerce shows that on a national income accounts basis, State and local governments enjoyed a $4.8 billion surplus in the first quarter of calendar year 1973. By the second quarter of calendar year 1974, a deficit of $7.7 billion was in existence. The Department of Commerce estimates that the fourth quarter 1974 figures will finally show a deficit of $10 billion.[2]

Complicating this turn around in the fiscal status of State and local governments is the increased cost resulting from the current recession/inflation. Unemployment, welfare payments, and diminished sales and income taxes exacerbate the financial plight of State and local government.

[1] Source: U.S. Congress, House of Representatives, Committee on Ways and Means, General Revenue, Sharing, 92d Congress, 1st session, 1971, pp. 1026–1027.
[2] Source: U.S. Department of Commerce, Social and Economic Statistics, Bureau of Economic Analysis, "Survey of Current Business," November 1974.

**Under these conditions, Congress, in all good conscience, cannot fail to enact a continuation of the General Revenue Sharing legislation when it comes up for renewal this year.**

Revenue sharing entitlements under Public Law 92-512 will amount to over $30 billion for the 5-year entitlement period of the program. Given the current state of the economy, and the impact it is having on tax receipts at the State and local level, the relatively unencumbered nature of revenue sharing assistance is of substantial benefit.

The most significant reason for initiating revenue sharing was to provide more economic and equitable methods of distributing Federal assistance to local communities. Most local governments have enthusiastically endorsed the results of the program.

General Revenue Sharing was devised because "need" can be defined differently in different places. For example, in Newark, N.J., the bulk of general revenue sharing funds in 1973 were utilized to stabilize property tax rates. This was a priority for Newark in order to maintain businesses in the downtown area. This, in turn, generates greater tax activity in the urban area which can only assist the State of New Jersey and the City of Newark in meeting the service requirements of their residents.

Revenue sharing was adopted under the banner of "Fiscal Federalism." This term was meant to demonstrate the commitment of the Federal Government to a maintenance of viable and vital State and local governments.

The United States' current economic malaise calls for an "Economic Federalism." The reenactment of General Revenue Sharing before it expires on December 31, 1976, should be a top priority for the Congress and the Administration.

In recommending the renewal of revenue sharing, it is important to clarify several points:

(1) Flexibility of revenue sharing entitlements is the underpinning of its successful continuation. The less restrictions placed on State and local use of revenue sharing, the more likely it is that effective economic recovery programs can be initiated and continued by State and local governments.

(2) Local needs will vary from locality to locality. Thus, the use of revenue sharing funds as a means of stabilizing local property taxes is consistent with the theory of federalism which should encourage creative diversity in its public policy as much as it has tolerated diversity among its people.

(3) The monitoring of revenue sharing has proved to be a source of considerable controversy between the advocates of the "no strings attached" philosophy and those who believe that the full impact of the Federal enforcement authority should be used when distributing revenue sharing funds. The Office of Revenue Sharing, the Department of the Treasury, and the Department of Justice are currently examining the civil rights provisions of the revenue sharing legislation to determine the most effective means of enforcing them. Regulations should take the form which enable the Federal Government to fully enforce the civil rights provisions of the bill in those cases where discrimination is apparent. This can be accomplished without injuring the basic goal of the program which is to assist State and local governments to do those things the recipients deem important.

(4) We reaffirm that general revenue sharing is a viable *political* concept and can be supported on that basis alone. A Brookings study has concluded that in approximately half of the jurisdictions covered in its detailed research, revenue sharing resulted in an increased public awareness of the State or local budget process and increased activity on the part of public interest groups. This is, we believe, the ultimate test of revenue sharing, and we are encouraged by these preliminary findings.

## VIII. AGRICULTURE

In general, we support the direction in which farm policy and farm programs have been moving in recent years—particularly since the new farm program was enacted in 1973.

**We favor freeing American agriculture from the traditional government farm support programs and moving it toward reliance on the world marketplace, while still poviding farmers some income protection. We favor freeing farmers from production controls and allowing the American farmer to get increased return in the marketplace.**

We are certainly conscious of farmers' fears that bumper crops in 1975 could result in depressed prices. Prices have been declining on commodity exchanges since October, and January 1975 was the third consecutive month of decline in prices farmers receive. Lower farm prices have intensified pressures to rewrite the 1973 farm bill this year toward higher target prices for wheat, corn and cotton. Those opposed to such a course of action fear that substantial increases in price guarantees and support-loan levels for feed grains, wheat and cotton could stimulate production artificially and further obligate the Government to billions of dollars of additional expenditures in years to come for price supports and storage.

Some farm groups, not having faith in the legislative and executive branch processes, have even called for farmers to cut back their plantings this year in order to reduce supplies, hopefully to get prices higher.

**We strongly support the movement in American agriculture in the direction set by the Agriculture and Consumer Protection Act of 1973 toward a market orientation for American agriculture and away from government support programs, while still providing a basic degree of income security for farmers. Any changes written into a new farm bill during this Congress should reflect this basic orientation. Though there may be just cause for some higher price guarantees, we would urge they not be so high as to distort the market mechanism. We should also change the laws for rice, extra-long staple cotton and peanuts to have these crops also directed toward the free market approach established for wheat, feed grains and cotton in 1973. We strongly urge American farmers not to cut back on their planting intentions this year as we foresee sufficient demand both at home and abroad to justify full production.**

Increasing food demand in a world where some countries are suffering from acute food shortages, has led to calls for some kind of international system of food reserves. This was apparent at the World Food Conference held in Rome last November. In the past, this was never an issue as the United States basically acted as the world's reserve in times of need. However, with demand and supply for U.S.

production coming closer into balance in the past 2 years, the United States no longer has a cushion which can automatically guarantee food assistance wherever and whenever needed in the world.

To date the U.S. Government has agreed in principle to some form of international grain stockpile to provide reserves for emergency situations in the world. The questions in agreeing to details of a grain reserve system include:

What countries should share in the costs of maintaining stock and where should they be held?

Should U.S. reserves, if any, be in government or in private hands?

Is the goal of food reserves to alleviate shortages or also to stabilize prices?

**Although there are many details to be worked out in the future, we favor the following principles regarding any system of international food reserves.**

**We feel that all participating countries, both food exporters and food importers, should share in the storage and cost of food reserves. Reserves could be internationally coordinated, but should be nationally held. The main focus for any U.S. reserve system should be on providing a cushion for emergency needs at home or abroad, not on having a reserve to stabilize prices. We feel that any U.S. reserves should be maintained in private hands rather than in strictly government reserves. Some mixed system might be possible. Along with a reserve system there should be great emphasis placed on technical assistance to other countries, particularly food deficit areas to improve agricultural production to help the world meet its food needs on a nation by nation basis. Technical assistance and information on population stabilization measures should also be an important part of such a program to enable countries to become food self-sufficient.**

Exports of agricultural commodities are vital to American farmers in order to increase their income and to the Nation as a whole with regard to its balance of payments. We need overseas outlets for a large part of our crop production. In fiscal year 1974 the United States exported $21.3 billion of agricultural commodities which had a net favorable impact on the balance of payments of $11.8 billion. For fiscal year 1975 agricultural exports are projected to be $22 billion with again an over $11 billion favorable impact on the U.S. balance of payments. To say this country needs this balance of payments surplus is obviously an understatement.

Uncertainties in the past 2 years regarding U.S. policy toward agricultural exports have led to great turmoil in the agricultural sector of the American economy and have led to fears that farmers would not be able to export freely. Major actions of the past 2 years have included the soybean export embargo imposed in 1973, the October, 1974 government cancellation of grain sales to the Soviet Union, and the setting up last fall by the Department of Agriculture of an advance approval system for export sales above a certain level. All of these actions tend to disrupt world agricultural produce trade, give the United States the reputation as an unreliable supplier and reduce the revenues generated from foreign sales. Even the talk of export controls can be price depressing at home and disrupting abroad. Fortu-

nately, the Department of Agriculture recently eliminated the prior approval system and will now allow, without prior approval, grain export sales.

**Agricultural exports are vital for income to the American farmer and to balance the United States payments abroad to badly needed imports such as oil and other vital raw materials.**

**Assuming that our recommendations on foodstock reserves are adopted, we cannot see the need for a comprehensive system of export controls as a principle of U.S. policy. However we do favor full disclosure of export sales and encourage continuation of the Department of Agriculture monitoring system for informational purposes. We applaud the elimination of the prior approval system.**

The price spread between the farm value of commodities and their retail cost increased 18 percent during 1974, with milk and bread price spreads up to 17 percent. Though nonfarm costs of beef and pork remained fairly stable over the year, the farm value and retail price of pork continued to climb in the third quarter as beef prices and beef farm values steadily declined. Thus, though retail prices to consumers increased around 15 percent during 1974, benefits to farmers were uneven and unreliable. The major contributing factor to the higher retail prices was the increase in labor costs throughout the nonfarm handling process. Additional increases were due to escalated transportation, processing, packaging and slaughter expenses. Also contributing to the consumer price increases were a variety of government regulations, such as Occupational Safety and Health regulations which add further inefficiency between the farmer and the marketplace. It would seem that a close look needs to be taken at the many Federal regulations to which food processors and transporters are now subject, and an eye toward streamlining these controls as much as possible.

With good weather and some amount of inflation control in 1975, the USDA predicts a more moderate retail increase for farm products of 7 to 8 percent. Due to decreasing production, specific commodity price increases will probably be seen in poultry, eggs and pork. Conversely, sugar and beef prices should continue to decline gradually.

**Since nonfarm costs now claim 60 cents of every consumer dollar spent on food and accounted for 80 percent of food price rises in 1974, we fully support the research efforts of the Agricultural Research Service to reduce nonfarm costs. USDA should examine areas such as beef transportation from slaughterhouse to retail stores, the handling and processing of frozen foods, and the sanitation and handling methods for highly perishable farm products for possible cost reductions. Labor-management contracts in many cases could also be reevaluated for more efficient use of personnel in retail stores. Additionally, such innovations as electronic check out systems should be fully evaluated and consumer-tested for possible retail savings.**

According to a Committee Print of the Senate Agriculture and Forestry Committee in December 1974, "the U.S. food and fiber sector accounts for about 13 percent of the total energy consumed in the United States today." (The U.S. and World Fertilizer Situation.) Thus, the current energy supply problems are of particular concern

to the agricultural sector. Though there will be spot shortages of some farm fuels, the Federal Energy Administration forecasts no shortages of major fuels in the first half of 1975, assuming moderate conservation. FEA has also corrected some fuel supply problems encountered earlier in 1974 in the agricultural sector. Though the shortfall in petrochemical feedstocks is expected to be around 8 percent during the first half of 1975, increased oil refinery capacity should improve this supply situation in the long run.

Overall agricultural fuel use is predicted to rise only 4 percent by 1980, even though we expect and encourage much greater food and fiber production. The savings in fuel is accounted for by predicted yield increases as new technology comes onstream. The use of herbicides alone has accounted for a reduction in cultivation of 50 percent on 160 million acres of farmland in the United States, which provides a fuel savings of between 94 and 170 million gallons of fuel. Unfortunately, herbicides and the other essential farm chemicals such as insecticides, fungicides and pesticides were reported in tight supply in approximately a fifth of all agricultural counties in 1974 and will continue to be tight in 1975 due to low inventories and a continuing shortage of the raw materials on which these chemicals are based—petrochemical feedstocks, intermediates, emulsifiers and solvents. A survey by the National Agricultural Chemical Association indicated that additional production of these materials will not be forthcoming for the most part until 1976 and that currently available supplies are being allocated based on historical marketing and not on any type of end-use priority system, which would take into account the vital need for farm chemicals.

Ninety-five percent of our domestic ammonia capacity uses natural gas as the hydrogen source for fertilizer production. Over half of the interstate pipelines reported to the American Gas Association on curtailment of gas deliveries last year and indications are that 12 percent of their firm requirements will not be met during the 1974–75 winter season. Natural gas is also a major heat and power source for input supply and food processing firms. Crop-drying and irrigation pumping are other major agricultural needs for natural gas. Conversion to alternate fuel forms, where possible, will be costly and contribute significantly to retail commodity prices. Consequently, the Senate adopted S. Res. 289 in February 1974 expressing the wish that the fertilizer industry be given the highest priority for allocation of natural gas. As a result of this Resolution, the Federal Power Commission established a hearing docket on this matter but concluded that its present system of priorities and emergency relief procedures were sufficient to protect the needs of the agricultural sector.

**We propose a more reliable natural gas allocation to the agricultural sector and increased coordination between the FEA and FPC to meet agricultural energy demands voluntarily as the highest priority user. Stronger leadership and initiative with State regulatory bodies for intrastate end-use priorities is also a desirable goal. Additionally, we must make suppliers of agrichemical feedstocks more aware of the high priority needs of the farm sector for their materials.**

The inexpensive food policy which we have enjoyed for so many years has been greatly aided by the expanded use of fertilizer. Over the

past 25 years, corn and sorghum yields have tripled, with cotton and rice yields more than doubling. Unhappily, the supplies of fertilizer, raw materials, nitrogen and phosphate—were short in 1974, creating record high prices at all marketing levels. Since 9 percent more fertilizer was used in the fiscal year 1974 than in the previous year, inventories were drawn dangerously low. Though new production facilities were in operation, existing facilities had to be operated without adequate maintenance in order to provide the needed increase over the past year in total supplies of primary plant nutrients.

During 1975 ammonia production capacity will increase 5 percent due to the completion of seven additional facilities, but this capacity for phosphate fertilizers will be raised a total of 28 percent by the end of this year due to five new plants coming onstream at various times in the year. Much of the additional 1.3 million tons may be exported, however, due to existing contracts and the higher prices foreign purchasers are paying. Potash imports in 1974 roughly equaled 75 percent of U.S. domestic use. The principal supplier, Canada, is subject to a costly system of production due to rents, royalties and taxes, though, and new potash mines are slow to develop and fill the need for this material.

No new production facilities are foreseen for 1975. Though inventories of potash in North America are dangerously low, resistance to high prices of phosphate and nitrogen fertilizers may rebuild the depleted inventories of these fertilizers.

USDA forecasts that 1975 fertilizer prices will continue upward, as a result of high demand due to high production of grain prices and with prices stimulated by high grain. With normal weather conditions and the expected increased acreage, demand is likely to push fertilizer prices 10 to 15 percent above September 1974 levels. Consequently farmers will spend an estimated $6.5 billion on fertilizer during 1975, which reflects an 18 percent increase over the estimated 1974 figure of $5.5 billion.

**We feel it is vital to maintain high yields through the use of chemical fertilizer. This can only be done if fertilizer is available at reasonable cost. Consequently we support the additional research into the use of methane gas for fertilizer production and we feel there should be Federal encouragement to bring on line additional North American potash mining operations.**

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## SUPPLEMENTARY VIEWS OF SENATOR JAVITS

Our economy is suffering from its worst decline since the Great Depression. Already a debate is underway on whether our economic plight should be labelled a severe recession or actual depression. There are no magic number of unemployed that will tell us when we have crossed the threshold, but it is certain that only honest recognition of how far we have already fallen and how much worse the situation could get will lead us to act to prevent a depression. The gravity of our current economic crisis demands a unified and nonpartisan approach. One thing is certain we are at war against a depression.

It is in this spirit that I am writing supplementary views this year. I strongly believe that what is needed is an attempt. which I make here, towards a meeting of the minds between the minority members of the JEC, who deplore the budget deficit and the large sum of fiscal stimulation necessary to pull the economy out of the current recession in a shorter period of time than projected in the President's Economic Report; and the Majority, who insist on deficit spending of such magnitude that although stimulus will be achieved, an even greater risk of renewed inflation is probable.

The Majority, in a number of ways, has made significant and largely useful changes in the President's program. But in some cases it has failed to recognize that the totality of its approach, which would provide short-term recovery, may undermine the longer-term stability of our economy.

Clearly, a greater amount of stimulus will be necessary than that proposed in the President's economic program. That program is barely stimulative, and as Alan Greenspan, Chairman of the President's Council on Economic Advisers admitted during the Joint Economic Committee Annual Hearings, there would be no stimulus after the third quarter. This would result in an unemployment rate of 7.9 percent in 1976 and 7.5 percent in 1977, figures which are wholly unacceptable.

Our urgent need is to prevent a slide from severe recession into real depression and to provide for prompt recovery and materially reduced unemployment.

The only rationale that has been offered during the hearings for a slow recovery is the fear of renewed inflation. Yet the President's energy program alone—if implemented—adds between 2–4 percent to the rate of inflation next year.

The special factors that contributed so heavily to our current rate of inflation, such as the fourfold increase in OPEC's oil prices, the world food shortage, the increased prices of raw materials and the devaluation of the dollar are unlikely to recur, especially simultaneously as they did over the past 2 years. Evidence of this is seen in the most recent Wholesale Price Index in which prices actually declined for the third month in a row. In addition, the economy is now operating at less than 70 percent of capacity and unemployment can

be expected to soften wage demands, factors which should guard against a resurgence of inflation. This combination of circumstances points strongly to the fact that inflation is abating and will continue to drop below double-digit levels unless the policies adopted force it upwards.

The fear of budget deficits by the Minority—in view of the fact that we still have a Full Employment Budget Surplus annually of over $30 billion—is excessive. In fact, unless we act promptly to provide greater stimulus, this full employment deficit is likely to increase. The slow path of recovery advocated by the Minority will further erode our tax base and cause huge outlays for unemployment compensation and public service jobs. This excessive concentration on current budget deficits, although rightly feared by the Minority in principle, will in fact exacerbate the recession and create larger deficits later. One estimate shows that the loss to the economy by 1980 from continued recession and unemployment over 4¾ percent to 5 percent would amount to a total of one-half trillion dollars in excessive unemployment and lost real output.

The Minority has expressed great alarm as to our capacity to finance the large deficit the President assumes. However, I believe these fears are unfounded because shrinking private credit demands will free additional funds for expanded government borrowing. Leading investment institutions indicate that an orderly matching of public and private credit needs can be accommodated without a financial crunch.

It is entirely possible to accommodate increased Federal borrowing and the additional financial requirements arising from the larger output that the tax cut is designed to generate so long as the Federal Reserve Board allows the money supply to grow at an adequate; i.e., increased, rate. It is not an exaggeration to say that the Federal Reserve Board has the power to choke off economic recovery if monetary policy does not move in tandem with fiscal policy. It would be counterproductive to cut taxes unless the Federal Reserve Board permits a sufficient increase in the money supply to push interest rates lower and keep them there for a time.

Congress therefore has a major stake in ensuring that the Federal Reserve Board policy does not lag behind the increased demands for money generated by the taxcut.

While I am in agreement with the majority proposals that the Federal Reserve Board should follow a policy which would result in the reduction of both long and short term interest rates and keep them low through 1975, and that it accommodate Federal borrowing requirements, I do not feel that Congress is adequately equipped to dictate to the Board the precise increase required or the mechanisms it should use to achieve its targets. If the Board follows the policy recommendations of Congress generally to increase the money supply, a mandated system of credit allocation will not be needed. Such a mandatory system of credit allocation would be a step of last resort, but Congress cannot shrink from it if an adequate growth in the money supply is not forthcoming.

One major aspect of this problem may be the mechanisms that the Board uses to increase the money supply. Rather than trying to control

monetary growth through the Federal funds rate, the Board could calculate the necessary weekly additions to reserves required to achieve the desired rate of monetary growth, and provide that amount. The Board could allow for a period of monetary growth of at least 8 percent for a period of time without risking renewed inflation, and achieve that target through the mechanism suggested. Although savings and corporate purchases of certificates of deposits are both up, and thus it is arguable that there is sufficient liquidity, there has actually been a steep decline in $M_1$. New funds must be injected into the system to create additional stimulus.

Unemployment is the most painful product of the economic slump. The national unemployment rate of 8.2 percent for February with 7.5 million unemployed, together with predictions by Administration and other experts that the rate of unemployment will average over 8 percent into next calendar year and may well jump over 9 percent, make positive action necessary.

To deal with the current crisis, and move toward a real full employment policy, I propose the following:

(1) The maintenance of at least one million public service jobs through fiscal year 1976 under titles II and IV of the Comprehensive Employment and Training Act of 1973 (CETA), as compared with the Administration's plans for 310,000 public service jobs for the same period. To provide standby authority to maintain the one million job level, Senator Williams and I have introduced S. 609, the "Emergency Public Service Employment Extension Act of 1975."

(2) Protection of the health care needs of the 7.5 million unemployed workers and their families. Toward that end, Senators Williams, Kennedy, Schweiker, and I have introduced S. 626, the Emergency Unemployment Health Benefits Act of 1975" which would provide that unemployed workers would continue to participate in the health insurance program under which they were covered at their last place of employment. The premiums for this continued protection to be paid by the Federal Government.

(3) Continued income maintenance for workers who suffer from long-term unemployment. Under two bills I have introduced workers who had exhausted their rights to unemployment compensation under existing unemployment insurance programs (including the "Special Unemployment Assistance Program" enacted by title II of the "Emergency Jobs and Unemployment Assistance Act" passed last December), would be eligible for an additional 13 weeks of unemployment compensation payments. This program would be funded entirely from Federal revenues.

(4) A supplemental appropriation of $680.2 million to provide at least 1.1 million summer youth jobs for poor youth for the coming summer—together with related transportation and recreation activities—the level documented by the National League of Cities and the National Recreation and Park Association as the minimum necessary and useable. For these efforts the Administration has requested a supplemental of only $412.0 million, for approximately 760,000 summer youth jobs.

(5) The establishment of a "Federal Full Employment Board" as an independent agency in the Executive Branch to spearhead efforts

toward full employment, as proposed in S. 472, the "Full Employment and Job Development Act of 1975," which Senator Williams and I have introduced.

The energy crisis has dealt our economy a particularly severe blow at the worst possible time. It is argued that efforts to achieve energy conservation and a lower level of oil imports are in conflict with the need to restore economic health to the economy, especially to sectors such as automobile manufacturing which is directly affected by energy conservation measures. The President's proposals have at least had the virtue of bringing the conflicts sharply into focus, since his proposals in energy, if enacted, would have raised the overall rate of inflation to unacceptable levels. We must not shirk the painful choices posed by these dilemmas, and pretend that we can ignore the urgent need for greater energy conservation and ultimate self-sufficiently until our economy has been restored to health. At the same time I believe a better way exists to achieve energy self-sufficiency within the next decade than the program proposed by the President.

We must recognize that the era of cheap fossil fuel resources—with the possible exception of coal—is over. Cheap energy over the past 20 years has bred inefficiency and waste and slowed increases in productivity. Until advanced energy systems are developed—gasification of coal, nuclear fusion, solar, oil shale—the United States and the world must use its energy resources more wisely and sparingly. This is a reality which must be accepted and on which major changes of energy use must be based.

I believe we should enact an emergency energy development program to be instituted on a crash basis. We must do whatever needs to be done to assure ourselves of alternative energy sources within a period of 3 to 5 years—instead of the presently planned 10 years. We cannot permit ourselves or the rest of the industrial and developing world to be without such alternatives and at the mercy of one of the most oppressive "political" cartels the world has ever known.

Rationing, which has been proposed by many, and which is appealing from a price viewpoint, could help to alleviate our balance of payments difficulties and may be needed in an embargo or other crisis situation. But there is a limit to how much energy the Government can ration without creating even a worse economic drop and a limit even to how much energy use can be cut by gasoline rationing. For, in World War II there were 30 million cars on our roads, now we have more than 100 million.

Hence, as to the near term—1975–77—it is unrealistic to believe that anything we can do will free us of dependence on imported oil. Assuming achievement of the President's optimistic goals, oil imports at the end of 1977 will be 5.8 million barrels a day—and that figure includes a cut of 2.2 million barrels a day, 1.6 million of which is based on projected decreased consumption resulting from increased prices. Cuts of greater than that amount will necessarily cut into our economic muscle.

It is to the midterm that most of our critical current actions must be geared. By 1985, we should develop a storage capacity to insulate us from a prolonged oil embargo. The turning point for the United States is around 1980, when our oil storage will be increasing and our

imports will have leveled off to near 5 million barrels per day. But, equally important as supply is the price of oil. When 1985 rolls around, oil and gas prices will have to be high enough to protect the massive investment which is necessary in synthetic fuels and other new sources.

With immediate price increases, such as has been proposed by the President, all marginal production that might not be brought on line until later will be expedited, and all marginal conservation that might not take place until later will be accelerated. But tremendous economic dislocations will occur if a price rise is effected entirely in 1975 including disastrous inflationary pressures. If the price rise is phased in over a 3- to 5-year period, these dislocations and inflationary pressures could be greatly lessened. Individuals and business will have some time to adjust. Moreover, the conservation potential of the program will not be seriously diminished and the acceleration of new supply will not be impeded if this phase-in is accompanied by other interim incentives. The short-term price elasticity of almost all energy consumption is very low. The fourfold increase in oil prices over the past year has produced only very small cuts in consumption—and very little immediate increases in production.

But petroleum has a much greater long-term price elasticity. Industry and individuals can adjust to higher energy prices over time by changing methods of production, durable purchases and lifestyles.

We would lose some amount of conservation at the margin, which could be made up by mandatory allocations and other mandatory conservation programs. But we would gain the major economic and social benefits resulting from a phase-in of the increases.

I specifically propose the following action program for energy:

First, an alternative energy development program funded at whatever level necessary to achieve results in 3 to 5 years.

Second, no increase in the import tariff. Prices are already up to $12 to $13 per barrel on imports and most of the near term slack has been eliminated. This will eliminate about $4 to $5 billion from the price increases and reduce regional inequities.

Third, phase in the $2 domestic oil tax and the corresponding tax on natural gas over 3–5 years and tilt the oil tax towards gasoline.

Fourth, continue to control the price of old crude, but raise the controlled price by not over $1 a barrel each year for 5 years before considering total decontrol. Prices would increase about $2 billion each year, rather than the $14 billion—without ripple effect—that could result from immediate and permanent decontrol. The domestic oil industry would still generate substantial profits to give it all it can reasonably and prudently invest.

Fifth, for the same reasons, legislate a phased decontrol of new natural gas prices analogous to the decontrol of old crude over a 5-year period to determine if development is spurred.

Sixth, use the existing mandatory allocation system, import quotas and simplified gasoline rationing, if necessary, to guarantee achievement of a 1 million barrel per day reduction of oil imports in 1975 and a 2 million barrel per day reduction by 1977.

Seventh, enact a windfall profits tax with a limited plowback provision to recapture excess—windfall—profits caused by the price increases of oil and gas.

Revenues from all these proposals would reach approximately \$5–\$8 billion this year, compared with the \$30 billion figure under the President's proposals. However, the Treasury's annual intake would rise to approximately \$25 billion by 1980. As a result, the inflationary effects of the tax would be spread through a longer period, and the shock to the economy of such a large shift in spending would be minimized.

An essential aspect of this program, however, would be a system to redistribute the revenues in a way that accords with what the tax system would look like. And in this regard, I strongly urge that we use this occasion to enact major tax reform which works to redistribute income toward the lower income levels—under \$15,000 per year. Included in this tax reform effort should be provisions for imparting some progressivity to the social security tax.

The program should also include:

Eighth, immediate enactment of standby gas rationing authority, ready to be implemented on 30 days notice.

Ninth, emergency development of a strategic oil storage capacity of enough for 1 year.

Tenth, enactment of an auto fuel consumption tax on cars with low fuel economy combined with a tax credit on purchases of high fuel efficient cars to encourage automobile buyers to purchase energy efficient cars.

Eleventh, nationwide peak power pricing and establishment of a national power interchange system to increase efficiency of utility energy use.

Twelfth, congressional reform of Government regulatory agencies to increase energy efficiency of regulated industries.

Other legislation is also required, but I view these elements as the principal components of a comprehensive energy program designed to achieve midterm self-sufficiency with the least possible disruptive impact.

## SUPPLEMENTARY VIEWS OF SENATOR PERCY

### Alternative Energy and Economic Proposals

I realize that to stimulate the economy, additional government spending will be necessary in fiscal year 1975 and fiscal year 1976. However, to keep Federal deficits within manageable limits, I feel strongly that we should look for additional sources of revenue to pay for new programs. We should look for revenue sources that will generate substantial revenue but have the least possible effect on economic activity.

Further, I think that energy conservation in and of itself is highly desirable and many steps can be taken by the Federal Government to stimulate energy conservation.

Although the Report addresses these problems, I would like to spell out in greater detail ideas for raising revenue and energy conservation, many of which I have already framed in legislation this year.

The theory behind the President's energy program, announced in his State of the Union address, rests on the fundamental presumption that the world oil price rise of 1973–74 was too sudden and too drastic for the world economy to absorb, and that therefore the world price of oil must come down, or at least not be permitted to rise further.

In the next few years major new oil supplies for the United States and the rest of the developed world can only come from the Middle East, and increased reliance on that source would only exacerbate the present tensions over price. Alternative sources of energy will not be available in significant quantities until the 1980's. Thus the only bargaining chip we have in negotiating for a price reduction or stabilization with the Organization of Petroleum Exporting Countries—OPEC—is energy conservation. But this can be a powerful chip.

Regardless of the outcome of our negotiations with OPEC, energy conservation will have a clear, positive payoff for the energy-consuming nations. If the price comes down, world monetary strains will be eased. If imports are reduced, trade balances and balances of payments will improve. If the OPEC cartel is weakened, the price of oil will become less arbitrary and more responsive to the market. If energy growth rates are reduced, our resources will last longer and our environment will improve.

This is a sound and workable theory based on energy conservation, and I subscribe to it. Because the United States uses far more energy per capita than any other industrial nation, our contribution to the conservation effort must be proportionately greater. We in the United States should reduce our consumption of oil by 1 million barrels per day or more in 1975 and strive to permanently reduce our overall energy growth rate from 4 percent to 2 percent annually.

The President is right in concluding that mandatory energy conservation programs are now needed to supplement the still voluntary

programs of the past year. In the months following the Arab embargo last year, voluntary efforts to conserve resulted in only about a 2-percent reduction in U.S. oil consumption, compared with the same period in 1973. Over the long term, voluntarism is ineffective and inequitable because the sacrifice is shared only by those who volunteer.

The President is also right in rejecting gasoline rationing as a solution to our dependence on imported oil. Gas rationing is really a supply restraint rather than a demand restraint mechanism, and thus it would not effect a permanent change in our energy consumption habits.

Rationing would lead inevitably to cheating and demands for exemptions, even if a "white market" coupon system were instituted to make additional fuel available at a higher price. Gas rationing would be inequitable because those who live closest to work and thus contribute the most to conservation would be entitled to the least gasoline, while those who conserve the least would require the most fuel. General administrative rules governing the distribution of gasoline among consumers could never take into account all the special individual circumstances and these, too, would lead to inequities.

There are many components of the President's energy package which conform to the conservation theory and should be supported. For example, the President has asked Congress to provide a tax credit for homeowners who insulate their homes or install storm windows, and to provide direct grants to low-income families and elderly persons who insulate their dwellings. Another program would set mandatory standards for heat efficiency in new homes and commercial buildings. Appliances would be required to use 20 percent less energy by 1980 and to be labeled according to their energy efficiency.

All these mandatory energy conservation measures which the President has proposed should be enacted promptly into law. Congress has already provided by law that the uniform national speed limit of 55 miles per hour, which helped to save about 10,000 lives and 50 million barrels of fuel last year, must be adequately enforced or States could lose their Federal aid to highways.

On the supply side, Congress should also support the President's proposal to explore and develop Naval Petroleum Reserve No. 4 in Alaska. Elk Hills Reserve in California, the only immediately available source of new domestic energy supply, should now be opened for development as the President recommended.

Other parts of the President's program need to be strengthened. For example, the President obtained commitments from automobile manufacturers voluntarily to increase the average fuel efficiency of new cars to 19.6 miles per gallon by 1980, but this commitment was in exchange for a 5-year delay in achieving the exhaust emission standards already required by law. I am deeply disappointed by this. The Federal Government's own studies conclude that the same improvement in fuel efficiency can be achieved by 1980 with current technology and without any impairment of air quality standards.

Instead of trading mandatory pollution requirements for a voluntary commitment to better fuel efficiency, we need a much stronger incentive program. Purchasers of new cars which deliver 15 miles per gallon or less should pay a stiff sliding-scale tax based on the car's fuel efficiency. Conversely, buyers of new cars that deliver better than 17

miles per gallon should receive a cash payment from the Federal Treasury financed from the tax. The standard for fuel economy in new cars should be increased 1 mile per gallon every year until it reaches 24 miles per gallon in 1983. This would be a further incentive for the manufacturers to design and produce more efficient American cars.

The heart of the President's economic and energy program, however, is the system of revenue increases and tax relief. These tax changes attempt to solve several problems at once by transferring income from one segment of the economy to another. The amounts of dollars transferred are staggering and the system is complex. Trying to predict accurately the total impact of this program on the economy will occupy economists for months to come.

In considering the President's proposals, the Congress must try to assess the impact on consumers of the energy taxes and price increases and their corresponding tax cuts. The President's plan calls for the following new energy taxes and deregulation of prices:

First. An import fee on foreign crude oil and refined petroleum products ultimately stabilizing at $2 per barrel. This would raise the price of imported crude oil from about $11 to about $13 a barrel.

Second. Removal of price controls from "old" domestic crude oil and and excise tax of $2 per barrel on all domestic crude oil. This would have the effect of raising the average price of domestic oil from about $8 a barrel to about $13 a barrel. This means that the average price of American oil will rise as much—about $5 a barrel—through deliberate action by our own Government as it did in 1973–74 through deliberate action by OPEC.

Third. Elimination of regulated prices on "new" natural gas and an excise tax on all natural gas of 37 cents per thousand cubic feet. This will have the effect in the first year of increasing the price of new natural gas contracts in interstate markets from about 45 cents to at least $1.37 per thousand cubic feet to equal the current average intrastate rate plus the excise tax.

Fourth. A tax on all domestic crude oil to capture the windfall profits resulting from price decontrol. The tax would initially take 88 percent of the windfall profits on crude oil and would phase out over several years.

The President anticipates that the import fees and excise taxes will bring in $18 billion and the windfall profits tax will capture another $12 billion in the first year.

The President's program thus relies heavily on an enormous price increase to achieve the energy conservation goals of the United States. The assumptions are that demand for oil and gas will be cut markedly by these price increases and that the burden of sacrifice will be shared equitably throughout the economy.

In order for these assumptions to work, a further assumption must be made—that demand for all petroleum products is equally elastic. We know that this is not the case. Demand for heating oil and petrochemical feedstocks, for example, is much more stable, and thus less dependent on price, than demand for gasoline. But a tax on crude oil would likely drive up the price of all refined products.

In the absence of Government controls or incentives, refiners would be expected to pass on their tax burdens more heavily to consumers

of the products with the least elastic demand; namely, heating oil and petrochemical feedstocks. This is only good business sense.

The effect would be that gasoline consumers, who could contribute the most to conservation by eliminating nonessential driving, would sacrifice the least. Conversely, homeowners and renters of homes heated with oil and gas would sacrifice the most.

There is a limit to the amount of energy that can be conserved in a home in winter. Once the thermostat is turned down and the dwelling is insulated, then higher prices just translate into being cold. For low income persons, unbearably high heating bills can mean freezing to death.

To counter the effect of fuel taxes being passed on to the customers least able to pay, the administration has established a system of regulations and incentives for refiners to encourage higher price increases for gasoline than for other products. The President's advisers have expressed the hope that retail gasoline prices will increase by about 15 cents a gallon, and other products, about 10 cents a gallon.

It is reasonable to ask: If the real purpose of the President's tax program is to raise gasoline prices, why not simply tax gasoline at the pump? This would prevent the highly inflationary effects of a $5 per barrel increase in average crude oil prices spreading throughout the economy. It would avoid the problem of higher home heating costs. It would avoid the added bureaucratic tangle of applying incentives to refiners. Most importantly, it would concentrate on cutting consumption of the product most susceptible to conservation; namely, gasoline.

In place of the complex series of import fees, excise taxes, decontrolled prices and windfall profits taxes, the Congress should enact a retail sales tax on gasoline of 20 cents per gallon the first year and 30 cents per gallon in subsequent years. So that the tax will not be recessionary, the equivalent of the tax on the first 450 gallons purchased the first year and the first 400 gallons purchased each subsequent year should be rebated to individuals as an income tax credit, or as a cash refund for those who do not pay Federal income taxes. Four hundred gallons is the amount consumed by a car traveling 8,000 miles and delivering 20 miles per gallon.

A gasoline tax would generate sufficient revenues to permit flexibility for applying either fiscal stimulus or restraint. If the tax on the first 450 gallons is rebated to each individual the first year, a 20 cent-a-gallon gas tax would still produce over $6 billion in revenues. In future years, a 30-cent-a-gallon gas tax would produce over $10 billion above the rebated amount.

Under the President's program, the import fees, excise taxes, and windfall profits taxes imposed on producers will tend to multiply as they are spread through the economy. Consumers will pay higher direct fuel prices for gasoline, heating oil, diesel oil, and natural gas. Consumers will also pay higher indirect fuel costs for air travel, train travel, electricity, and petrochemical products, as well as higher product prices due to increased fuel costs paid by industrial and commercial users.

A study conducted by the Library of Congress concludes that this ripple or multiplier effect could result in total costs to consumers of

up to $50 billion this year, $20 billion more than the Administration's estimate. The Library of Congress also believes that the direct fuel costs alone will add 3 percent to the inflation rate, and that indirect costs could possibly add another 3 percent to inflation.

The Federal Energy Administration has conceded that its original estimate of $250 per year in additional costs to the average family was too low. It now estimates that combined direct and indirect fuel costs will add at least $275 to the average family's annual expenses, and could add up to $345. Other estimates have ranged up to $1,000 per family.

A simple rebatable gasoline tax would, I believe, conserve as much fuel as the President's plan, cost consumers less and avoid both the immediate inflationary and potential recessionary effects of the President's program. The rebatable gas tax I have proposed would cost the average family about $160 the first year and $210 in subsequent years in increased fuel costs, and more than half of those amounts would be rebated directly.

Although I disagree with his crude oil tax approach, the President cannot be faulted for proposing a bold and comprehensive program to attack the triple headed monster facing our economy—inflation, recession, and energy dependence. The Congress has not lived up to its obligation to develop an equally comprehensive alternative program of its own.

Until the Congress enacts a gasoline tax or some other serious alternative energy conservation proposal, I shall oppose any effort to delay the implementation of the President's proposed import fee. A vote for delay is a vote for inaction and for continued dependence on high-priced foreign oil. The time for rhetoric about energy conservation is past. The time for action is now.

Another part of my alternative energy conservation package is abolition of the highway trust fund, which every year earmarks billions of dollars of Federal gas tax revenue primarily for highway construction whether the highways are needed or not.

The highway trust fund has outlived its usefulness. It has discouraged the development of other modes of transportation which are far more energy-efficient than cars. This money should be channeled into general revenues where it could be used to help finance various types of transportation or other national needs.

In addition to the energy conservation tax measures I outlined above, the program I have presented includes several proposals to achieve greater equity in our tax system and lay the basis for long-term economic growth.

I agree with President Ford that a temporary economic stimulus of $12 billion is called for at this time, but Congress must insure that the money we rebate is actually poured back into the spending stream, not just tucked away, by giving the bulk of the rebates to low-income groups who need it to combat inflation.

I strongly support the President's proposal to enact a permanent reduction in tax rates, particularly for low income individuals, and to increase the standard deduction. This $16.5 billion in tax relief will help mitigate the effect inflation has had on real wages in recent years.

I also favor increasing the business investment tax credit for all

industries to 12 percent for a 1-year period and then setting it at 10 percent permanently. Capital investment is vital to our real long-term growth.

Small businesses have been particularly hard hit by inflation and are generally less able to take advantage of the investment tax credit. Under existing law, corporations pay a 22 percent tax on the first $25,000 of income and a 48 percent tax on income in excess of $25,000. I propose raising this base to $100,000.

The revenue-raising measures in my package will make our tax laws more equitable and raise the necessary revenue to fund these tax relief proposals.

First, I have introduced legislation to increase the Federal tax on alcohol by 50 percent and on tobacco by 100 percent. These luxury taxes have not been increased for 23 years and would raise an estimated $5.8 billion.

Second, tax reforms are necessary in the area of energy production and use. The following measures, which will raise over $5 billion a year in revenues when fully effective, should be adopted immediately:

Repeal the Federal income tax deduction for State and local gasoline taxes.

Limit the credit against U.S. taxes for taxes paid to foreign countries on oil production income.

Repeal the domestic depletion allowance this year, with longer-phase-out provisions for independent producers and stripper wells.

Repeal the foreign depletion allowance.

Require foreign oil and gas extraction income to be figured on a country-by-country basis and prohibit the use of excess tax credits on that income to be used to offset taxes due on other types of income in the same country or to offset taxes in other countries.

Dye heating fuel oil to deter tax fraud in its use as a diesel fuel.

Nonenergy related tax reforms in my proposal include repealing the special tax advantages allowed Western Hemisphere Trading Companies and increasing the effectiveness of the minimum tax by including additional items of preference income and raising the applicable tax rate. These two reforms would increase Federal revenues by nearly $1 billion per year.

As shown on the chart below, this program will pay for itself. The revenue disbursing measures are funded by the revenue raising measures. I believe this is a must for any comprehensive program. In our efforts to fight recession, we must not form the basis for ever-increasing budget deficits in the future.

In conclusion, I oppose any effort to delay the implementation of the President's program of import taxes without a consistent proposal to replace it. That is why I have offered my own alternative. The keystone of a correct economy-energy program is in my view a gasoline tax. It will have an immediate impact on consumption, and can be administered in order to have a selective, quantifiable, controllable effect on the economy and American families, and can be rebated through the tax system without unusual difficulty. However, until Congress sees fit to proceed with a comprehensive program to deal seriously with our economic and energy problems, I will not oppose implementation of the President's plan. It is far more important now to have a concrete plan of action than to delay and have none.

Following is a chart showing the fiscal impact of my energy conservation and tax reform proposals, a summary of the bills I introduced today, and the texts of these bills.

S. 635

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That chapter 36 of the Internal Revenue Code of 1954 (relating to certain other excise taxes) is amended by inserting at the beginning thereof the following new subchapter:

SUBCHAPTER A—AUTOMOBILE FUEL CONSUMPTION TAX

"SEC. 4451. Imposition of tax.

"(a) IN GENERAL.—There is imposed on each new automobile sold to a final purchaser a tax in the amount determined under subsection (b). The tax imposed by this subsection shall be paid by the final purchaser.

"(b) AMOUNT OF TAX.—The amount of tax referred to in subsection (a) is determined in accordance with the following table:

| If the fuel consumption rate (in miles per gallon) of the new automobile is: | The credit is: |
|---|---|
| Over 15 | $0 |
| Over 13 but not over 15 | $200 |
| Over 11 but not over 13 | $420 |
| Over 9 but not over 11 | $680 |
| Not over 9 | $1,000 |

"(c) CREDIT AGAINST TAX.—There shall be allowed as a credit against the tax imposed by this subsection an amount determined in accordance with the following table:

| If the fuel consumption rate (in miles per gallon) of the new automobile is: | The credit is: |
|---|---|
| Not over 1 | $0 |
| Over 17 but not over 19 | $75 |
| Over 19 but not over 21 | $150 |
| Over 21 but not over 23 | $225 |
| Over 23 | $300 |

"(d) INCREASE IN TAX AND CREDIT.—

"(1) 1977–1978.—Effective January 1, 1977, each fuel consumption rate listed in the tables under subsections (b) and (c) shall be increased by 2 and, as increased, shall be the rate in effect for calendar years 1977 and 1978.

"(2) 1979–1980.—Effective January 1, 1979, each such rate shall be increased by 4 and, as increased, shall be the rate in effect for calendar years 1979 and 1980.

"(3) 1981–1982.—Effective January 1, 1981, each such rate shall be increased by 6 and, as increased, shall be the rate in effect for calendar years 1981 and 1982.

"(4) 1983 and thereafter.—Effective January 1, 1983, each such rate shall be increased by 8 and, as increased, shall be the rate in effect for calendar years after 1982.

"(e) COLLECTION OF TAX AND REFUNDS.—

"(1) COLLECTION.—Every person who receives payment for a new automobile on which a tax is imposed under this section shall collect the amount of the tax from the final purchaser making such payment.

"(2) REFUNDS.—Each person who sells a new automobile to a final purchaser shall report to the Secretary or his delegate the amount of credit, if any, to which such purchaser is entitled under subsection (c).

"(f) DEFINITIONS.—For the purposes of this section—

"(1) FINAL PURCHASER.—The term 'final purchaser' means the first person who in good faith purchases a new automobile for purposes other than resale.

"(2) FUEL CONSUMPTION RATE.—The term 'fuel consumption rate' means the fuel consumption rate determined on the basis of the Automobile Fuel Consumption Schedule prepared by the Administrator of the Environmental Protection Agency.

"(3) NEW AUTOMOBILE.—The term 'new automobile' means an internal combustion engine vehicle, other than a truck or bus, which is a highway motor vehicle as defined in section 4482(a)."

SEC. 2. AUTOMOBILE FUEL CONSUMPTION SCHEDULE

(a) STUDIES.—The Administrator of the Environmental Protection Agency shall, from time to time, study the fuel consumption rates of automobiles which are subject to the tax imposed by section 4451 of the Internal Revenue Code of 1954 (relating to automobile fuel consumption tax).

(b) CRITERIA.—The studies conducted under subsection (a) shall include tests—

(1) of each automobile model subject to such tax equipped—

(A) with each available engine size (measured by horsepower);

(B) with standard accessories; and

(C) with standard tires;

(2) which shall be conducted—

(A) under driving conditions representative of average urban and highway driving speeds and circumstances.

(B) with the fuel used being of the quality normally recommended for use in such automobile, and

(C) with such automobile carrying the average weight load recommended for such automobile.

(c) REPORTS.—Based upon the studies conducted under subsection (b), the Administrator shall determine the fuel consumption rate of each automobile with each available engine size, standard accessories, and standard tires. The Administrator shall, not later than January 1, 1976, and by January 1 of each year thereafter, report to the Secretary of the Treasury a schedule of all such rates to be known as the Automobile Fuel Consumption Schedule. The Automobile Fuel Consumption Schedule shall be published in the Federal Register each year.

(d) Until the first Automobile Fuel Consumption Schedule is reported to the Secretary of the Treasury under subsection (c), the fuel consumption rate shall be determined for purposes of section 4451 of

the Internal Revenue Code of 1954 by reference to the harmonic mean between the urban and highway test cycles as reported by the Environmental Protection Agency under the 1975 Federal Test Procedure.

SEC. 3. TECHNICAL AMENDMENTS.

(a) ASSESSMENT AUTHORITY.—Section 6201(a) of the Internal Revenue Code of 1954 (relating to assessment authority) is amended by adding at the end thereof the following new paragraph:

"(5) ERRONEOUS CREDIT UNDER SECTION 4451.—If on any claim for a refund of excise taxes under chapter 36 there is an overstatement of the credit allowable by section 4451 (relating to automobile fuel consumption tax), the amount so overstated which is allowed as a refund may be assessed by the Secretary or his delegate in the same manner as in the case of a mathematical error."

(b) REFUNDS.—Section 6401 of the Internal Revenue Code of 1954 (relating to amounts treated as overpayments) is amended by—

(1) redesignating subsection (c) as subsection (d), and

(2) inserting after subsection (b) the following new subsection:

"(c) EXCESS CREDIT UNDER SECTION 4451.—If the amount allowable as a credit under section 4451 (relating to automobile fuel consumption tax) exceeds the tax imposed by chapter 36 of subtitle D of chapter 1, the amount of such excess shall be considered an overpayment."

(c) CLERICAL AMENDMENT.—The table of subchapters for chapter 36 of the Internal Revenue Code of 1954 is amended by inserting at the beginning thereof the following new item: "Subchapter A. Automobile fuel consumption tax."

SEC. 4. LABELING.

Section 3 of the Automobile Information Disclosure Act (15 U.S.C. 1232) is amended by inserting "(a)" after "Sec. 3" and by adding at the end thereof the following:

"(b) Every label required to be affixed under subsection (a) shall include, in the case of any automobile on which a tax was imposed or a credit allowed by section 4451 of the Internal Revenue Code of 1954 (relating to automobile fuel consumption taxes)—

"(1) the fuel consumption rate determined to be applicable for such automobile, and

"(2) the tax paid or credit allowed under such section 4451."

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S. 636

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That effective on and after July 1, 1975—

(1) the Highway Trust Fund is terminated and the amount in such Fund, including any obligations held in such fund, shall be covered into the general fund of the Treasury;

(2) any outstanding appropriations from, or obligations of, such Trust Fund shall be made from such general fund;

(3) any authorizations for appropriations to be made from such Trust Fund shall be considered to be authorizations for appropriations from such general fund; and

(4) section 209 of the Highway Revenue Act of 1956 is repealed.

S. 637

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That effective after December 31, 1974 (1) section 164(a) of the Internal Revenue Code of 1954 as amended (relating to deduction of taxes not related to a trade or business) is amended by striking out paragraph (5) (relating to taxes on gasoline and other motor fuels);

(2) section 164(b)(5) (relating to separately stated taxes) is amended by striking out "or of any tax on the sale of gasoline, diesel fuel, or other motor fuels."

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S. 638

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That this Act may be cited as the "Revenue Act of 1975".

SEC. 2. (a) Subpart A of part III of subchapter A of chapter 32 of the Internal Revenue Code of 1954 (relating to manufacturer's excise taxes) is amended by redesignating section 4084 as 4085, and by inserting after section 4083 the following:

"SEC. 4084. ADDITIONAL TAX.

"There is imposed on gasoline sold by the producer or importer thereof, a tax of—

"(1) 20 cents a gallon with respect to gasoline sold before January 1, 1976, and

"(2) 30 cents a gallon with respect to gasoline sold after December 31, 1975.".

(b)(1) Section 4082(d) of the Internal Revenue Code of 1954 (relating to definition of wholesale distributor) is amended by inserting "or section 4084" after "section 4081" where it appears in paragraph (2).

(2) Section 4083 of such Code (relating to exemption of sales to producer) is amended by inserting "or section 4084" after "section 4081".

(3) Section 4101 of such Code (relating to registration) is amended by striking out "section 4081 or section 4091" and inserting in lieu thereof "section 4081, section 4084, or section 4091".

(4) Section 4221(d)(6)(C) is amended by inserting "or section 4084" after "section 4081".

(5) Section 4226(a) of such Code (relating to floor stocks taxes) is amended by adding at the end thereof the following new paragraphs:

"(8) 1975 tax on gasoline.—On gasoline subject to tax under section 4084 which on the date occurring 15 days after the date of enactment of the Revenue Act of 1975, is held by a dealer for sale, there is hereby imposed a floor stocks tax at the rate of 20 cents a gallon. The tax imposed by this paragraph shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by a producer or importer of gasoline.

"(9) 1976 tax on gasoline.—On gasoline subject to tax under section 4084 which, on January 1, 1976, is held by a dealer for sale, there

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is hereby imposed a floor stocks tax at the rate of 30 cents a gallon. The tax imposed by this paragraph shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by a producer or importer of gasoline.".

(6) Section 6421(b)(1) of such Code (relation to allowance for local transit systems) is amended by inserting after "(A)" the following: "one-half of the tax paid under section 4084 for each gallon of gasoline so used on which tax was paid under such section and".

(c) The table of sections for such subpart A is amended by striking out the item relating to section 4084 and inserting in lieu thereof the following:

"Sec. 4084. Additional tax.

"Sec. 4085. Cross references.".

(d) The amendments made by this section apply to gasoline sold on or after the 15th day after the date of enactment of this Act.

Sec. 3. (a) Section 5001(a) of the Internal Revenue Code of 1954 (relating to imposition and rate of tax on distilled spirits) is amended by striking out "$10.50" and inserting in lieu thereof "$15.75".

(b) Section 5021 of such Code (relating to imposition and rate of tax on distilled spirits and wines) is amended by striking out "30 cents" and inserting in lieu thereof "45 cents".

(c) Section 5022 of such Code (relating to tax on cordials and liqueurs containing wine) is amended by striking out "$1.92" and inserting in lieu thereof "$2.88".

(d) Section 5023 of such Code (relating to tax on blending of beverage brandys) is amended by striking out "30 cents" and inserting in lieu thereof "45 cents".

(e) Section 5041(b) of such Code (relating to rates of tax on wines) is amended by—

(1) striking out "17 cents" in paragraph (1) and inserting in lieu thereof "26 cents",

(2) striking out "67 cents" in paragraph (2) and inserting in lieu thereof "$1.01",

(3) striking out "$2.25" in paragraph (3) and inserting in lieu thereof "$3.38",

(4) striking out "$3.40" in paragraph (4) and inserting in lieu thereof "$5.10", and

(5) striking out "$2.40" in paragraph (5) and inserting in lieu thereof "$3.60".

(f) Section 5051(a) of such Code (relating to rate of tax on beer) is amended by striking out "$9.00" and inserting in lieu thereof "$13.50".

(g) The amendments made by this section take effect 15 days after the date of enactment of this Act.

Sec. 4. (a) Section 5701(a) of the Internal Revenue Code of 1954 (relating to rate of tax on cigars) is amended by—

(1) striking out "75 cents" in paragraph (1) and inserting in lieu thereof "$1.50",

(2) striking out "$2.50" in paragraph (2)(A) and inserting in lieu thereof "$5.00",

(3) striking out "$3.00" in paragraph (2)(B) and inserting in lieu thereof "$6.00",

(4) striking out "$4.00" in paragraph (2)(C) and inserting in lieu thereof "$8.00",

(5) striking out "$7.00" in paragraph (2)(D) and inserting in lieu thereof "$14.00",

(6) striking out "$10.00" in paragraph (2)(E) and inserting in lieu thereof "$20.00,"

(7) striking out "$15.00" in paragraph (2)(F) and inserting in lieu thereof "$30.00", and

(8) striking out "$20.00" in paragraph (2)(G) and inserting in lieu thereof "$40.00".

(b) Section 5701(b) of such Code (relating to tax on cigarettes) is amended by—

(1) striking out "$4.00" in paragraph (1) and inserting in lieu thereof "$8.00", and

(2) striking out "$8.40" in paragraph (2) and inserting in lieu thereof "$16.80".

(c) Section 5701(c) of such Code (relating to tax on cigarette papers) is amended by striking out "½cent" and inserting in lieu thereof "1 cent".

(d) Section 5701(d) of such Code (relating to tax on cigarette tubes) is amended by striking out "1 cent" and inserting in lieu thereof "2 cents".

(e) The amendments made by this section take effect 15 days after the date of enactment of this Act.

SEC. 5. (a)(1)(A) Subpart A of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to credit allowable) is amended by redesignating section 42 as 43, and by inserting after section 41 the following new section:

"SEC. 42. EXCISE TAX ON GASOLINE.

"(a) IN GENERAL.—There is allowed as a credit against the tax imposed by this chapter for the taxable year, an amount equal to 20 cents multiplied by the number of gallons of gasoline purchased by the taxpayer during the taxable year.

"(b) LIMITATIONS.—

"(1) AMOUNT.—The credit allowed by subsection (a) for any taxable year shall not exceed $90 ($180 in the case of a joint return under section 6013).

"(2) APPLICATION WITH OTHER CREDITS AND DEDUCTIONS.—In determining the number of gallons of gasoline purchased by the taxpayer during the taxable year, any gasoline purchased with respect to which a credit or a deduction is claimed under this chapter for the taxable year shall be disregarded.".

(B) The amendments made by this paragraph apply to taxable years beginning after December 31, 1974, with respect to amount paid or incurred after such date.

(2)(A) Section 42 of such Code (as added by subsection (a) of this section) is amended—

(i) by striking out "20 cents" in subsection (a) and inserting in lieu thereof "30 cents", and

(ii) by striking out paragraph (1) of subsection (b) and inserting in lieu thereof the following:

"(1) AMOUNT.—The credit allowed by subsection (a) for any taxable year shall not exceed $120 ($240 in the case of a joint return of tax under section 6013).".

(B) The amendments made by this paragraph apply to taxable years beginning after December 31, 1975, with respect to amounts paid or incurred after such date.

(3) The table of sections of such subpart A is amended by striking out the item relating to section 42 and inserting in lieu thereof the following:

"Sec. 42. Excise tax on gasoline.

"Sec. 43. Overpayments of tax."

(b) Section 6401(b) of such Code (relating to excessive credits) is amended by—

(A) inserting after "(lubricating oil)" the following: ", 42 (relating to tax credit for excise tax on gasoline),"; and

(B) striking out "sections 31 and 39" and inserting in lieu thereof "sections 31, 39, and 42".

(3) Section 6201(a)(4) of such Code (relating to assessment authority) is amended by—

(A) inserting "or 42" after "Section 39" in the caption of such section,

(B) striking out "oil)," and inserting in lieu thereof "oil) or section 42 (relating to excise tax on gasoline),".

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## S. 639

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That effective after December 31, 1974:

(1) section 11(d) of the Internal Revenue Code of 1954 as amended (relating to the corporate surtax exemption) is amended by striking out "$25,000" and inserting in lieu thereof "$100,000".

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## S. 640

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the Act be

For purposes of this Act—

SEC. 101. DEFINITIONS.

For purposes of this Act—

(1) the term "number 1 fuel oil" means any distillate oil which meets the following distillation requirements established by the American Society of Testing Materials under test numbered D–86: the 10 percent point is equal to 420 degrees Fahrenheit maximum, and the 90 percent point is equal to 550 degrees Fahrenheit maximum;

(2) the term "number 2 fuel oil" means any distillate oil which meets the following distillation requirements (established by the American Society of Testing Materials under test numbered D–86): the 10 percent point is equal to 440 degrees Fahrenheit maximum, and

the 90 percent point is equal to 610 degrees Fahrenheit maximum; and

(3) the term "Administrator" means the Administrator of the Federal Energy Administration.

SEC. 102. LIMITATION ON USE OF MARKED FUEL OIL

(a) No person shall purchase or use any number 1 fuel oil or number 2 fuel oil which is marked in accordance with the provisions of subsection (b)(1) for the purpose of providing fuel, which makes it subject to tax under section 4041(a) of the Internal Revenue Code of 1954 (relating to imposition of tax on diesel fuel) for any diesel-powered highway vehicle.

(b)(1) Any person who sells or distributes number 1 fuel oil or number 2 fuel oil shall provide for the marking of such fuel oil in accordance with rules which the Administrator shall prescribe under this subsection, except that such fuel oil shall be marked if such fuel oil is to be used in a manner which makes it subject to tax under section 4041(a) of the Internal Revenue Code of 1954 (relating to imposition of tax on diesel fuel).

(2) The Administrator shall, before prescribing such rules, conduct and make available to the public a study to determine—

(A) the appropriate oil soluble dye to be used for the marking of such fuel oil, and the proportionate amounts of such dye to be used for such marking;

(B) the appropriate point or points in the petroleum distribution system at which such dye shall be added to such fuel oil in order to carry out the marking requirements of this section; and

(C) effective means and procedures through which the Administrator may oversee the marking of such fuel oil in accordance with the provisions of this section.

(3) The Administrator shall prescribe such rules no later than 180 days after the date of the enactment of this Act. Such rules shall, to the extent the Administrator considers practicable, take into account the findings and conclusions of the study which the Administrator conducts under paragraph (2).

SEC. 103. INSPECTION

The Administrator or his delegate may enter during business hours the premises (including places of storage) of any person who sells or distributes number 1 fuel oil or number 2 fuel oil, and the Administrator or his delegate may have access to any motor vehicle owned or operated by any such person, for the purpose of conducting an inspection or examination to determine whether such person is in compliance with the provisions of this Act. The Administrator or his delegate may provide for the inspection of any other motor vehicle to insure the compliance with the provisions of this Act.

SEC. 104. PENALTY

Any person who violates any provision of this Act shall be fined not more than $25,000 or imprisoned not more than 5 years, or both.

SEC. 105. EFFECTIVE DATE

The provisions of this Act shall take effect on the date of the enactment.

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*Percy Energy Conservation and Tax Reform Program—Fiscal impact*

*1975 calendar year*

| | *Estimated in billions* |
|---|---|
| Revenue raising measures: | |
| Gasoline tax of 20 cents a gallon | * $18.00 |
| Luxury taxes on alcohol and tobacco | 5.80 |
| Energy-related tax reforms | 3.48 |
| General tax reforms | .85 |
| Total revenue raised | 28.13 |
| Revenue disbursing measures: | |
| Individual gasoline tax rebate (450 gals.) | 9.00 |
| Increased business tax deductions | 2.70 |
| Cut in individual rates | 16.50 |
| Credit for home insulation | 0.50 |
| Subtotal revenue disbursed | 28.70 |
| One-time economic stimulus (Ford proposal): | |
| Individual tax cut of 12 percent geared to low-income individuals | 12,00 |
| Raise investment tax credit to 12 percent | 4.00 |
| Total revenue disbursed | 44.70 |

*1976 calendar year*

| | |
|---|---|
| Revenue raising measures: | |
| Gasoline tax of 30 cents a gallon | * 25.80 |
| Luxury taxes on alcohol and tobacco | 5.80 |
| Energy-related tax reforms | 3.78 |
| General tax reforms | .85 |
| Total revenue raised | 36.23 |
| Revenue disbursing measures: | |
| Individual gasoline tax rebate (400 gals.) | 12.00 |
| Increased business tax deductions | 3.87 |
| Cut in individual rates | 16.50 |
| Credit for home insulation | .50 |
| Raise investment tax to 10 percent | 2.00 |
| Raise base for small business tax rate | 2.50 |
| Total revenue disbursed | 37.37 |

*Presumes a cut in gasoline consumption of 10% (750,000 barrels a day) at 20¢ a gallon and of 14% (one million barrels a day) at 30¢.

1977 AND FUTURE CALENDAR YEARS

Package will be in fiscal balance as of calendar 1978, at which time revenues from phasing out the oil depletion allowance will be $417 million higher than in 1976 and the tax credit for home insulation will be terminated. By calendar 1980, the oil depletion allowance phase out will be raising another $1.1 billion above 1978 revenues.

## SUMMARY OF BILLS INTRODUCED BY SENATOR PERCY

### REBATABLE GASOLINE TAX

Provides for a new fuel conservation tax on gasoline with rebates to consumers for essential driving. The tax would be 20 cents a gallon in 1975 and would increase to 30 cents a gallon on January 1, 1976. Revenue raised would be paid into the general fund of the Treasury. An annual tax credit for essential driving would be provided on the first 450 gallons of gasoline purchased by an individual in the first year, and the first 400 gallons purchased in subsequent years. A driver could receive a tax credit of up to $90 in the first year (20 cents times up to 450 gallons used) and up to $120 in subsequent years (30 cents times up to 400 gallons). The credit is obtained by filing a Federal income tax return, whether or not a driver has any income tax liability.

### AUTO EFFICIENCY TAX INCENTIVE PROGRAM

Establishes an automobile efficiency tax incentive program by taxing new car purchases on the basis of gasoline mileage. Based on an initial fuel economy standard of between 15 and 17 miles-per-gallon, which is the average gas mileage range for 1975 model cars, a new car purchaser would be subject to a tax or payment depending on fuel efficiency. A purchaser of a new car that delivers more than 17 miles-per-gallon would receive a payment from the Federal Treasury on a sliding scale, up to $300 for a car that gives 23 miles-per-gallon or more. Conversely, a purchaser of a new car that delivers 15 miles-per-gallon or less would pay a tax that starts at $200 and increases in steps to a maximum of $1,000 on a car that delivers 9 miles per gallon or less. The scale for taxes and payments would increase by 2 miles-per-gallon every two years until 1983, when the standard for fuel economy would reach the range of 23 to 25 miles-per-gallon. This program would be a strong incentive for consumers to purchase and manufacturers to produce more fuel efficient cars.

### ABOLITION OF THE HIGHWAY TRUST FUND

Abolishes the Highway Trust Fund and makes the billions of dollars collected annually from the Federal gas tax available to help finance various types of transportation or other national needs. A trust fund designed for highway construction is anachronistic in our present economic condition. It has discouraged the development of other modes of transportation which are far more energy-efficient than cars. The fund now has a balance of $8 billion, but work has either been completed or is underway on 99 percent of the nation's 42,500 mile Interstate Highway System.

### REPEAL OF DEDUCTIBILITY OF STATE AND LOCAL GAS TAXES

Repeals the Federal income tax deduction now allowed for state and local gasoline taxes, retroactive to January 1, 1975. This deduction is a Federal subsidy on gasoline sales. National policy now emphasizes fuel conservation. The subsidy works against that policy. Moreover,

the income tax deduction for state and local gasoline taxes, like other deductions, benefits only those taxpayers whose incomes are high enough to warrant itemized deductions. Those taxpayers are the ones least in need of selective tax benefits. Also, this deduction deprives the Federal Treasury of about $600 million annually.

### INCREASED LUXURY TAXES

Increases tax on alcohol by 50% and increases tax on tobacco by 100%. These taxes, which have not been increased in over 20 years, are levied on the producer. The current tax on alcohol varies with alcoholic content: from 17¢ per gallon for spirits that are less than 14% alcohol by volume to $10.50 per gallon for spirits that are 50% alcohol by volume. The current tax on tobacco varies with type and size. The tax on small cigarettes is $4.00 per thousand, the tax on large cigarettes is $8.40 per thousand. The current tax on small cigars is 75¢ per thousand and the tax on large cigars is from $2.50 to $20.00 per thousand depending on retail price.

### REDUCE "SMALL BUSINESS" TAX RATE

Increases the base on which the normal corporate tax is levied from $25,000 to $100,000. Under current law, a tax of 22 percent is levied on the first $25,000 of corporate income and a tax of 48 percent is levied on all incomes above $25,000. Small businesses have been particularly hard hit by inflation and, because of the nature of their business, are generally less able to take advantage of increases in the investment tax credit. This measure will be of primary benefit to small corporations.

### DYE HEATING FUEL OIL

Requires that number 1 and number 2 heating fuel oil be colored with an oil soluble dye to deter tax fraud. Under existing law, diesel fuel is taxed at the rate of 12¢ per gallon (4¢ federal and 8¢ state).

An extensive black market has developed in which untaxed heating oil is substituted for taxable diesel fuel. It has been estimated that up to $500 million in Federal revenues are lost every year because of this fraud. A similar program was instituted in Canada in 1973 and resulted in a 58.5% increase in revenues in the first year of operation.

## STATEMENT OF SENATOR TAFT

I have been recovering from a coronary attack since the first week of the Committee's 1975 economic hearings. While my staff has kept me informed of developments in Washington, under the circumstances I do not feel comfortable signing any of the detailed statements presented in this report.

Very briefly, my general feeling is that additional economic stimuli, in the form of a tax cut of about the magnitude proposed by the House of Representatives ($20 billion for 1975) and temporary spending increases where essential to avert hardships caused by the recession or to create productive jobs, are necessary now to turn the economy around. While budget deficits of the magnitude the President is proposing are caused largely by falling tax receipts due to the recession, as a practical matter the deficits obviously will be greater because of the enlarged tax cut and Congress' refusal to make some unwise spending cuts proposed by the President. For example, we will not cut back on governmental support to the incomes of the elderly and the poor in the name of fighting inflation.

In view of the considerable slack in financial markets which will reduce the strains caused by heavy government borrowing, the need to reduce the $200 billion of unused productive capacity and the need to avert a disastrous further economic slide, I feel that the inflationary risk inherent in deficits of a magnitude implicit in the House tax action is reasonable. The recovery effort will also require an expansion of the money supply at a greater rate.

Nevertheless, the government's budget situation should be a charge to Congress to eliminate unessential government spending where possible and to search for economically and philosophically justifiable new sources of revenue. I believe there is a real danger that Congress could go overboard in its attempt to stimulate the economy and thus cause a devastating inflation problem a few years hence. I am also extremely concerned about the impact of our actions on the government's long-run fiscal position.

With respect to energy, I believe that mandatory conservation measures are essential to combat both the $26 billion annual drain on our resources and the potential for political blackmail resulting from our present level of dependence on foreign crude oil. We must make a major effort to this effect immediately; it would be a mistake to use our present economic woes as an excuse for procrastination or virtual inaction. Nevertheless, in view of the fragile economic situation, the conservation measures should be phased in more gradually than the President has proposed. The conservation effort also should be tilted more toward gasoline, because that is the area of greatest energy waste. It must include measures with teeth to curb the unessential use of gasoline.

I am pleased to be a new member of the Committee. In these difficult economic times, I look forward to participating in Congress' efforts to minimize our people's immediate and future economic hardships.

## SUPPLEMENTARY VIEWS OF SENATOR FANNIN

I concur basically with the tone and substance of the Minority Views. The persistence of inflation and increasing recession are serious economic issues. However, they are short-term problems of a cyclical nature which should be dealt with both expeditiously and in a manner which does not risk their recurrence.

My own convictions encourage me to discuss further one particular feature of this minority report which I feel is of particular importance to our society. It is my belief that our most pressing long-term problem is that of adequate capital formation to meet the needs of the future. However, this essential problem is receiving neither the attention nor the action necessary for a successful solution.

This nation's policy of promoting the free enterprise system through our almost 200-year history has brought the average American an unprecedented standard of living. This achievement required the accumulation of of an equally unprecedented volume of capital in every segment of the economy.

The amount of capital investment necessary for the continued vitality of our economy and standard of living is nothing short of staggering. Yet, developments in recent years indicate that not only will we not meet those increased demands, but we may regress from the economic position we presently enjoy. Department of the Treasury figures vividly illustrate this claim. In 1965 American business showed $20 billion in retained earnings. By 1973, after 8 years in which real GNP rose by 36 percent, the retained earnings of nonfinancial corporations had dropped 70 percent to $6 billion; 1974 data reveals that undistributed earnings were a minus of $15.6 billion.

Retained earnings are an essential component in the financing of new production capability. Other sources include borrowing in the financial markets. The availability of adequate funding is stifled here by massive governmental borrowing to meet current expenditures. Therefore, these two principal sources of risk capital are incapable of meeting the Nation's investment needs.

Our free enterprise system cannot survive this decrease in actual capacity. The choice is clear: Either accept direct government support of private business or restructure our tax system so that incentives are clearly present and rates are not confiscatory. It is my belief that the average American recognizes and respects the ability of the free enterprise system and wants to see it prosper. I represent that viewpoint.

The time is ripe for basic changes in our tax structure. I commit myself to the task of a complete reexamination of that structure in order to assure the necessary investment which is so essential to our future economic prosperity.

## SUPPLEMENTARY VIEWS OF REPRESENTATIVE ROUSSELOT

The position taken in the Minority Views on the 1975 Economic Report of the President that, "...(T)he lesson of the past two hundred years is that what made this country great was not the ability of government to solve its problems but the ability of individual Americans to create the largest free market economy in the world..." is a good one. However, it is disappointing that in several instances the solutions recommended contradict this philosophy, and instead of phasing down the Federal role, a continued increased reliance on massive Federal participation is recommended.

I do not believe that the economy can tolerate increased or sustained Federal deficit spending under any circumstances. As a matter of fact, the goal should be to rapidly move toward a balanced budget by reducing Federal expenditures. The primary role of deficit spending as a factor in causing inflation must be recognized and the trend reversed if we are to achieve economic stability in the long run.

Increased Federal deficit spending is not a solution to unemployment, and does not treat the causes of unemployment. The emphasis must be placed on less Federal involvement, thereby allowing the private sector to stimulate production—this, in my estimation, would be a job producing program. The majority of jobs are in the private sector, and "maximum employment" without inflation can only be achieved by creating an atmosphere that will allow private industry to expand. It is through this expansion that we can realize our National goals in housing, transportation, development of alternative sources of energy, and the many other critical areas that must be developed to move us toward a healthy economy.

A very important area of the President's 1975 Economic Report is regulatory reform, and the minority views do not give this concept the priority position it requires. To stimulate production and jobs, it is absolutely necessary that private industry be freed from unnecessary Federal controls and regulations which have pushed up prices and industry costs. Prompt Congressional action is needed to identify, and then repeal or substantially amend those laws which have given excessive powers to the Federal regulatory agencies. This would be a positive step that would have a chain reaction—consumer prices would be eased, stimulating demand which in turn stimulates production and expands employment. In addition, less Federal control means less Federal spending, and a further lessening of the inflationary burden.

Another subject in the minority views which in my opinion is not given adequate treatment are the workable alternatives to revenue sharing. The fact remains—as it did in 1972 when the State and Local Fiscal Assistance Act was approved—that the Federal Government has no revenue to share—only debt. The solution to State and local

budgetary deficits is not increasing the Federal deficit. Less Federal spending and control would encourage State and local governments—the levels of government closest to the people—to set their own priorities and finance their own programs, and with greater public scrutiny than the average American has over the spending of his Federal tax dollars.

The Federal taxpayer is not getting his money's worth. In return for his tax dollars, he is getting inflation fueled by increased deficit spending and governmental controls and regulation of almost every phase of his life. If we are able to reverse this trend, it would be the greatest service we could possibly render to our constituents.

## COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

Public Law 304, 79th Congress, directs the Joint Economic Committee to report to the Congress by March 1 on the main recommendations of the President's Economic Report. Due to the late filing of the President's Economic Report, the Joint Economic Committee's filing date was extended to March 30th. The Committee is also required by the law to make a "continuing study" of the economy. This report is intended to serve as a guide to the several committees of the Congress dealing with legislation relating to economic issues.

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

### FULL COMMITTEE

*February 1974 Economic Report of the President*

The Committee conducted 12 days of hearings during February in its annual review of the President's Budget and Economic Report. Witnesses included the Chairman and members of the Council of Economic Advisers, official Administration spokesmen, the Chairman of the Board of Governors of the Federal Reserve System, and distinguished members of the academic, business, and labor communities. The rise in the unemployment rate was given particular attention, along with continuing high interest rates, lags in production, persistent inflation, and the decline in real income.

*1974 Joint Economic Report*

The Committee's Annual Report (H. Rep. No. 93–927) was filed with the Congress on March 25, 1974, the March 1 deadline having been extended. The report included a statement of Committee agreement as well as minority and supplementary views. The fifth and final volume of the printed hearings contained invited comments commenting on the President's Report from leaders of agriculture, banking, business, labor, and private research groups.

*Economic Problems of Women*

Senator Javits chaired hearings in June in New York City centered on economic discrimination against women. These hearings continued an inquiry begun by the Committee in 1973. The focus of the hearing was to determine how existing antidiscrimination legislation might be improved and better enforced, as well as solicitation of ideas for possible new legislation.

*Reorientation and Commercial Relations of the Economies of Eastern Europe*

A compendium of papers submitted to the Joint Economic Committee continued a long series on economic conditions in Communist countries. The main focus of this study in August was to assess the possibility of improving commercial relations between the United

States and the countries of Eastern Europe and to explore the notion that increased trade, may provide a way for the United States to improve European security.

*Examination of the Economic Situation and Outlook*

The deterioration in the economic situation made it especially important to review the economy in August. In six days of hearings, the Committee heard from economists and Administration officials on the immediate economic outlook and on the adequacy of current policies, especially in regard to the control of inflation. The hearings served as initiation of the emergency study on inflation which was pursued during the remainder of 1974, pursuant to S. Con. Res. 93 of August 7, 1974. Committee activities pursuant to Senate Concurrent Resolution 93 appear as Appendix B to the Committee's Report of December 30, 1974, entitled "Achieving Price Stability Through Economic Growth." These activities are repeated at the end of this chapter.

In September a special Interim Report was prepared at the President's request, in which recommendations were made for immediate action on the inflation problem. This interim report, entitled "An Action Program to Reduce Inflation and Restore Economic Growth," was distributed by the President to all participants in the White House Conference on the Economy on September 27 and 28, 1974.

The Committee's December report stressed the need for a healthy rate of economic growth in reducing unemployment and achieving the productivity gains essential to the fight against inflation. Specific recommendations were made for fiscal, monetary, and price-incomes policies, as well as recommendations for the housing, agriculture, and energy sectors of the economy.

Additional hearings were conducted following publication of this report as a part of the Committee's continuing study of the areas investigated under S. Con. Res. 93.

*A Reappraisal of U.S. Energy Policy*

Three Subcommittees of the Joint Economic Committee—Consumer Economics, International Economics, and Priorities and Economy in Government—issued a combined report in March urging a rollback of oil prices and elimination of tax loopholes for the oil industry. The report reviewed a wide range of domestic economic issues, from allocation and price controls to long-run efforts for conservation and output expansion. It also examined conditions in the world oil market. The Committees held extensive hearings on energy during the 12 months preceding the issuance of the report. The report advocated rationing as an allocative device for gasoline during periods of intense oil shortages and called for various measures to permit greater competition in the oil industry, such as more effective antitrust laws and enforcement.

## SUBCOMMITTEE ON ECONOMIC PROGRESS

Conducted a comprehensive study of credit flows and interest costs. This study, which was published on March 17, 1975, provides a detailed analysis of credit flows and interest rates over the past five years, including comprehensive analysis of sources and uses.

Members of the Subcommittee on Economic Progress were: Representative Wright Patman, Chairman, Representatives Henry S. Reuss, Martha W. Griffiths, Clarence J. Brown, and Ben

B. Blackburn; Senators William Proxmire, J. W. Fulbright, Lloyd M. Bentsen, Jr., James B. Pearson, and Richard S. Schweiker.

## SUBCOMMITTEE ON PRIORITIES AND ECONOMY IN GOVERNMENT

*Employment-Unemployment*

The Subcommittee held monthly hearings on employment and unemployment at which Mr. Julius Shiskin, Commissioner of the Bureau of Labor Statistics, discussed with the Subcommittee the statistics on unemployment and possible future trends. Other distinguished individuals were invited periodically to discuss the impact of government programs on employment, the causes of rising unemployment, and related matters.

*The Economics of Federal Subsidy Programs—Part 8*

The final volume in a series of eight containing studies of Federal subsidies was released by the Subcommittee in July. The study of food subsidies recommends the unification of all food subsidies into a single program, and changes to enlarge food subsidies for school meals and provide expanded educational programs. The study of media regulation concludes that the Federal Communications Commission protects the profits of the large networks at the expense of consumer welfare. Other studies contained in this volume discuss oil import quotas, subsidies for water pollution abatement, and health insurance. An additional staff study released in October estimated the total cost of Federal subsidy programs from 1970 to 1975, and concluded that present subsidies taken as a whole are economically inefficient, act to distort market operations, and redistribute income to the affluent.

*Energy Statistics*

Senator Proxmire, Chairman of the Subcommittee, chaired hearings in January exploring the statistical bases used in projections of energy shortfalls and for oil allocation. The problem of obtaining reliable information from oil companies necessary in the formulation of equitable pricing policies was discussed with Administration officials and energy experts.

*National Priorities and Federal Research and Development Programs*

Hearings were held in May to look into the possibilities for producing low-cost ethanol and single-cell protein through a new technology developed at the U.S. Army in Natick, Masachusetts. The new technology might possibly be used to help solve worldwide energy and food shortages. Scinetists, Administration officials, oil company representatives, and public interest advocates appeared to discuss the implementation of the new technology and the relative costs of production.

*The 1976 Current Services Budget*

A staff study was released in December estimating the size of the Federal deficit in fiscal year 1976 based on projections of the spending necessary to maintain a constant level of government services. The study forecasts a substantial Federal deficit for 1976 and placed the responsibility for increased deficits on the economic policies followed during the last two years.

In April, the Subcommittee held hearings on the "Allocation of Resources in the Soviet Union and China." The hearing was in executive session in order for the Director of Central Intelligence to present classified information on the way in which the Soviet Union and China determine their plans for the use of resources. Later, it published the part of those hearings which could be made available to the public.

Members of the Subcommittee on Priorities and Economy in Government were Senator William Proxmire, Chairman, Senators John Sparkman, J. W. Fulbright, Hubert H. Humphrey, Charles H. Percy, James B. Pearson, and Richard S. Schweiker; Representatives Wright Patman, Martha W. Griffiths, William S. Moorhead, Hugh L. Carey, Barber B. Conable, Jr., Clarence J. Brown, and Ben B. Blackburn.

## SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

The subcommittee continued its study of the effect of economic conditions and developments in South America on U.S. policy toward Latin American countries.

Members of the Subcommittee on Inter-American Economic Relationships were: Senator John Sparkman, Chairman, Senators J. W. Fulbright, Abraham Ribicoff, Lloyd M. Bentsen, Jr., James B. Pearson, and Richard S. Schweiker; Representatives, Martha W. Griffiths, William S. Moorhead, Barber B. Conable, Jr., and Ben B. Blackburn.

## SUBCOMMITTEE ON INTERNATIONAL ECONOMICS

*Kissinger-Simon Proposals for Financing Oil Imports*

Hearings were held in November pursuant to S. Con. Res. 93 at which testimony was taken from Administration officials from the Treasury and State Departments and from the Chairman of the Board of Governors of the Federal Reserve System relating to official recycling mechanisms as a result of the Kissinger-Simon $25 billion "safety net" proposal.

Members of the Subcommittee on International Economics were: Representative Henry S. Reuss, Chairman, Representatives William S. Moorhead, Hugh L. Carey, William C. Widnall, Barber B. Conable, Jr., Clarence J. Brown; and Senators John Sparkman, J. W. Fulbright, Abraham Ribicoff, Hubert H. Humphrey, Lloyd M. Bentsen, Jr., Jacob K. Javits, Charles H. Percy, and James B. Pearson.

## SUBCOMMITTEE ON FISCAL POLICY

The Subcommittee on Fiscal Policy competed its 3-year study of public welfare programs in December 1974. During the last year of the study nine papers were completed, including a final report with recommendations for welfare and tax reform.

Paper No. 13, *How Income Supplements Can Affect Work Behavior*, contains three papers examining the effects of income maintenance programs on work incentives. The authors review the impact of cash aid on work behavior, and also in-kind assistance. Comparisons are made of negative income tax, wage subsidies, and earnings subsidies.

The three papers address the major issues in transfer programs and work incentives with varying degrees of technicality. (100 pages, February 18, 1974)

Paper No. 14, *Public Welfare and Work Incentives: Theory and Practice*, was prepared in chart book form as a short, nontechnical summary of two previous subcommittee papers, numbers 4 and 13, in the series *Studies in Public Welfare*. Paper No. 14 examines the theoretical impact on work incentives of such program features as benefit levels, benefit-loss rates, income accounting periods, and work and training requirements. Research results as to actual impact are also reviewed. Examples are used to depict the problems faced, and the authors conclude with an overview of policy choices. (55 pages, April 15, 1975)

Paper No. 15, *Welfare in the 70's: A National Study of Benefits Available in 100 Local Areas*, presents findings and analysis of a staff survey of 100 nationally representative local areas. This study reveals what welfare benefits are available to eight family types in the 100 counties, and affords an overall look at the national operation of welfare programs. The analysis includes an examination of combined benefit levels, their gross earned income equivalent, and their comparison with median area earnings; benefits-loss rates; child-bearing and family formation incentives; and administrative implications of a multi-layered program world. (300 pages, July 22, 1974)

*Income Security for Americans—Recommendations of the Public Welfare Study* is the Report of the Members of the Subcommittee on Fiscal Policy based on their three year study of public welfare programs. It analyzes the various components of our public welfare system and the policy issues raised. The Report presents recommendations for tax and welfare reform to enhance equity and adequacy, to achieve greater administrative control and simplicity, and to preserve incentives for work.

Paper No. 16, *A Model Income Supplement Bill*, presents in bill form the recommendations of the Subcommittee on Fiscal Policy as contained in its Report. Also included is an overview and section-by-section analysis and rationale for the bill. (62 pages, December 20, 1974)

Paper No. 17, *National Survey of Food Stamp and Food Distribution Program Recipients: A Summary of Findings on Income Sources and Amounts and Incidence of Multiple Benefits*, contains a summary of a survey conducted by the Department of Agriculture at the request of the Subcommittee Chairman. This study shows who receives food stamps, what other programs they benefit from, and their total incomes. This study explores the interaction of food programs with other public welfare programs. (47 pages, December 31, 1974)

Paper No. 18, *Issues in Financing Retirement Income*, contains four papers with respect to programs providing retirement income. The principal focus is on social security and private plans, with secondary mention of the supplemental security income program. (200 pages, December 31, 1974)

Paper No. 19, *Public Employment and Wage Subsidies*, contains five papers. Historical experience with public employment is examined as well as the utility of public employment in dealing with a variety of current objectives. (162 pages, December 30, 1974)

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Paper No. 20, *Handbook of Public Income Transfer Programs: 1975*, is an updated version of Paper No. 2 in the series *Studies in Public Welfare*. This publication furnishes basic program information on a variety of cash and in-kind public income transfer programs, as well as costs and caseloads. It serves as a basic reference document.

HEARINGS: On September 11 and 12 hearings were held on Federal contract compliance and affirmative action plans.

Members of the Fiscal Policy Subcommittee were: Representative Martha W. Griffiths, Chairman, Representatives Richard Bolling, Hugh L. Carey, William B. Widnall, Barber B. Conable, Jr.; and Senators William Proxmire, Abraham Ribicoff, Lloyd M. Bentsen, Jr., Jacob K. Javits, and Richard S. Schweiker.

## SUBCOMMITTEE ON URBAN AFFAIRS

### *Productivity in Urban Transportation*

Subcommittee Chairman William S. Moorhead conducted a series of hearings throughout the year on the effectiveness of urban transportation expenditures. It was felt that these hearings were necessary to begin to provide guidance to State and local officials faced with important transportation-related decisions. The hearings focused on methods of dealing with the transportation problems faced by State and local governments throughout the country. Recent developments and projects, such as the Bay Area Rapid Transit System in the San Francisco area were examined in order to determine the feasibility of such systems for other cities in the Nation. Organizations were called upon to advise the Subcommittee on the viability of mass transit and the incentives necessary to make these systems succeed.

Members of the Subcommittee on Urban Affairs were: Representative William S. Moorhead, Chairman, Representatives Richard Bolling, Martha W. Griffiths, Hugh L. Carey, William B. Widnall, Clarence J. Brown, and Ben B. Blackburn; Senators Abraham Ribicoff, Hubert H. Humphrey, Lloyd M. Bentsen, Jacob K. Javits, and Charles H. Percy.

## SUBCOMMITTEE ON CONSUMER ECONOMICS

### *Resignation of the Director of the Office of Consumer Affairs, Federal Energy Administration*

Hearings in August concentrated on the resignation of the FEA Director of the Office of Consumer Affairs, attempting to shed light on why and how the consumers' interests are disregarded in dealing with energy matters.

### *Gasoline Distribution*

Subcommittee Chairman Hubert H. Humphrey conducted 2 days of hearings on gasoline distribution during March. The allocation system in effect at that time was reviewed to see what changes might be made to make the system more equitable. Testimony was heard from individuals representing groups intimately involved in or affected by the allocation system as well as Administration officials and energy experts.

### *Gas and Electric Rates*

Large increases in gas and electric rates during the last three years were investigated by the Subcommittee in a set of hearings conducted

in March. The Subcommittee heard testimony from the Chairman of the Federal Power Commission, an Economics Professor at the University of Wisconsin, and the Commissioner of the New York Public Service Commission.

*Current Assessment of the Economy*

In hearings before the Subcommittee May 10, 1974, the Chairman of the Council of Economics presented the Administrations case on current economic policy and the Subcommittee considered what to expect in the months ahead, whether there were any significant signs of recovery, and whether the rate of inflation could be expected to abate.

*Inflation*

The Subcommittee invited the Director of the Cost-of-Living Council to testify on the adequacy of the Nation's efforts to deal with problems of inflation. Additional testimony was received from the Chairman of the Council of Economic Advisers on the Administration's assessment of the state of the economy and the immediate economic outlook.

*Food Retailing and Processing Practices*

Hearings were held in May to examine food processing and retailing practices that unnecessarily increase the price or lower the quality of food for the consumer. Testifying before the Subcommittees were officials from the Department of Agriculture, the Federal Trade Commission, and the Agribusiness Accountability Project.

*The FEA and Competition in the Oil Industry*

The status of independent oil refiners and markers under the Emergency Petroleum Allocation Act was investigated by the Subcommittee in a set of hearings conducted in June. The hearings were prompted by apparent inequities in the allocation system which worked to the disadvantage of the independent firms. The Subcommittee heard from representatives of the independent firms and from the Administrator of the Federal Energy Administration.

Members of the Subcommittee on Consumer Economics were: Senator Hubert H. Humphrey, Chairman, Senators William Proxmire, Abraham Ribicoff, Jacob K. Javits and Charles H. Percy; Representatives William Moorhead, Martha W. Griffiths, Henry S. Reuss, Hugh L. Carey, William B. Widnall, and Clarence J. Brown.

## SUBCOMMITTEE ON ECONOMIC GROWTH

The Subcommittee on Economic Growth was created in 1974 by the Joint Economic Committee to look into the uncertainties surrounding the Nation's long-term economic growth. Senator Lloyd Bentsen, Jr., was appointed Chairman of the new Subcommittee.

*Long-Term Economic Growth*

The new Subcommittee started its investigations in May with hearings on the prospects for economic growth over the next decade. Public officials, business leaders and academic experts were invited to give their perspectives on this issue. Senator Mike Mansfield pre-

sented his recommendations for improving the government's ability to foresee and head off economic problems.

*Outlook for Prices and Supplies of Industrial Raw Materials*

In hearings held in July, the Subcommittee focussed in on recent reductions in raw materials prices as a possible key to slowing down the rate of inflation. The Subcommittee sought to determine whether these reductions would be permanent and how they would affect supply conditions. The stockpile policy of the government was reexamined in light of these developments.

*Financial Shortages*

Senator Lloyd M. Bentsen, Jr., chaired hearings on methods for easing the financial shortage affecting construction, farming, and other basic U.S. industries. The hearings pointed out the need to expand supply as well as dampen demand in attacking inflation. Testimony was received from academic experts, industry representatives, bankers and the Chairman of the Federal Reserve Board during four days of hearings held during October.

Members of the Subcommittee on Economic Growth were: Senator Lloyd M. Bentsen, Jr., Chairman, Senators William Proxmire, Abraham Ribicoff, Hubert H. Humphrey, Jacob K. Javits, and Charles H. Percy; Representatives Henry S. Reuss, William S. Moorhead, William B. Widnall, and Barber B. Conable, Jr.

## COMMITTEE ACTIVITIES PURSUANT TO SENATE CONCURRENT RESOLUTION 93

In order to carry out the mandate given to the Joint Economic Committee by Senate Concurrent Resolution 93, the Committee held approximately 30 days of hearings, has sponsored approximately 12 special studies which will be published during the next few months, and has prepared an interim and a final report. In addition, the Committee staff held several seminars with invited experts, attended a number of conferences, and consulted widely on an individual basis with leading researchers in economics and related disciplines. Several Committee members participated in the White House Conference on the Economy on September 27 and 28 as well as in most of the preparatory meetings held prior to that conference.

### REPORTS

The Committee has published two reports. The first, or interim, report is entitled "An Action Program for Reducing Inflation and Restoring Economic Growth." It was prepared in response to the hope expressed by President Ford in his address to Congress on August 12, 1974 that the Committee could report within six weeks. The Report was presented to the President and the Congress on September 21 and was subsequently distributed to participants in the White House Conference on the Economy on September 27 and 28. The Report contained recommendations for actions which could be taken immediately in four areas: fiscal and monetary policy; price-incomes policy; policies to help those hurt most by inflation; and policies to restore market efficiency.

The Committee's final report under S. Con. Res. 93 is entitled "Achieving Price Stability through Economic Growth" and is dated December 23, 1974. Longer and more comprehensive than the earlier report, the final report assesses the prospects for economic growth, prices and employment over the next several years and outlines a comprehensive program for ending the recession and initiating renewed progress toward full employment and price stability.

## HEARINGS

As part of its study conducted pursuant to S. Con. Res. 93, the Committee held approximately 30 days of hearings on 11 individual subjects related to the study. Each of these 11 sets of hearings is described briefly below.

### *Mid-Year Review*

Rampant inflation, declining real incomes, and the failure of output to grow at all in the second quarter demonstrated that current policies were not adequate to deal with the serious economic situation which confronts us. Therefore, on July 29, 30, August 1, 2, 6, and 14, the Joint Economic Committee scheduled a thorough mid-year review of the economy which served not only as an assessment of the immediate outlook, but also as the initiation of the emergency study of inflation.

### *Inflationary Impact of Pricing by Concentrated Industries*

The Joint Economic Committee held three days of hearings on the inflationary impact of pricing by concentrated industries. During the first two days of hearings (September 4 and 9) academic and government witnesses presented background material. A follow-up hearing was held on October 7, with the top decision makers of three major steel companies (U.S. Steel Corporation, Bethlehem Steel, Inland Steel) testifying. In addition to the hearing, questionnaires were sent on October 2 to the major steel companies (including those who testified on October 7) asking them to submit data on their raw steel capacity and capacity utilization rates for the past five years, including 1974. As a result of the information gathered by the questionnaires, Senator Proxmire released information on steelmaking capacity and its utilization. This survey marks the first time in 15 years that the steel industry has made capacity and utilization data available to the public. A table summarizing the questionnaire data is available from the Committee. The complete responses of each company is to be published with the record of the October 7, 1974, hearing on administered pricing.

### *Inflation Outlook*

Mr. Alan Greenspan, Chairman of the Council of Economic Advisers, testified before the Joint Economic Committee on September 26, 1974. The purpose of this hearing was to assess the implications of recent price statistics for inflation and the economic outlook. The hearing looked into the following points: whether inflation was likely to continue to accelerate in the months ahead; why any price acceleration is occurring in a slack economy in the midst of a recession; and whether this recent acceleration in inflation is likely to throw the Nation into a much more severe recession. This hearing was held just after the

August price statistics were released. The August increase in wholesale prices of 3.9 percent, coming on top of the 3.7 percent increase in July, had accelerated wholesale prices in the three months previous to an annual rate of increase of 37 percent. Consumer prices had also showed some acceleration, jumping 1.3 percent in August alone, which meant a 13 percent annual rate of increase in the three months previous.

*Financial and Capacity Needs*

On October 1, 2, 3, and 10, the Joint Economic Committee held hearings on methods for easing a financial shortage that is driving up prices and aggravating unemployment in construction, farming, and other basic U.S. industries. Business and industry have been especially hard hit by the financial crunch. The lack of financing is curtailing needed plant expansion in basic manufacturing. High interest rates have sent the homebuilding industry into a virtual state of depression. Contractors can't borrow money for building, nor customers for buying. Former Treasury Secretary Henry Fowler led the list of witnesses. The hearings concluded on October 10 with testimony from Arthur Burns, Chairman of the Federal Reserve Board.

*President Ford's Economic Proposals*

Three days of hearings were held on October 11, 16 and 18, to evaluate the economic proposals presented by President Ford on October 8. The witnesses included Treasury Secretary William Simon; Arthur Okun and Joseph Pechman of the Brookings Institution; John Kenneth Galbraith of Harvard University, Robert Nathan (Robert Nathan Associates) and Albert Rees, Executive Director of the Council on Wage and Price Stability.

*Market Power, FTC, and Inflation*

The November 18 hearing inquired into the reasons for the relative ineffectiveness of the Federal Trade Commission and the problem generally of market power, the abuses of market power, and how they contribute to the inflation we are experiencing today. Chairman Lewis A. Engman and Commissioner Mayo J. Thompson of the FTC and Gardiner C. Means testified.

*The Economic Impact of Environmental Regulations*

Three days of hearings were held evaluating the economic impacts of compliance by industries and local governments with environmental regulations. The hearings held on November 19, 21 and 22, 1974, focused on whether or not there is any merit to the argument that compliance with environmental regulations has contributed to the recent severe inflation. The hearings also seeked to determine what employment effects may have resulted from such compliance.

*International Financial Problems Related to High Oil Prices*

On November 25, 27, and 29 the Committee held hearings on the financial problems created by sharply higher world oil prices. Particular attention was devoted to the proposals recently put forward by the Secretary of State for a new international financing facility administered through the Organization for Economic Cooperation and Development (OECD) and for consumer nation agreement on oil price maintenance. Witnesses included the Chairman of the Federal

Reserve Board, the Secretary of the Treasury, the Undersecretary of the Treasury for Monetary Affairs, and the Assistant Secretary of State for Economic and Business Affairs.

*Public Utility Industry*

The hearing on December 4 examined recent developments in the electrical utility industry which have caused hardships for both consumers and the utility industry. The following points were discussed at this hearing: development of more efficient methods for converting primary fuels to electricity; examining more efficient use of our generating capacity, thus reducing the per unit costs of generating electricity; examining more carefully the propriety of charging small residential users twice as much as large industrial and commercial users; carefully examining the huge increases in the cost of constructing generating capacity, particularly nuclear plants in an attempt to reduce the huge cost of capital equipment which is passed through to the consumer; discussion of the feasibility of coal and nuclear fuel playing a large role in the generation of electricity.

*Recent Developments in U.S. Energy Policy*

Secretary of Interior Rogers C. B. Morton testified at the hearing on December 5 which focused on recent developments in U.S. energy policy and the impact of these developments on our major urban areas. Questions that the Committee examined included: (1) What mandatory conservation program is the Administration prepared to propose if voluntary measures fail? What impact will this mandatory conservation program have on the poor, the commuting worker, the construction industry and other important groups in our cities? (2) Will the Administration support a significant rise in the gasoline tax if voluntary measures fail and how will the Administration cushion the impact of this increase on various sectors of the economy? (3) What policy options in the *Project Independence* report is the Administration likely to implement and what will be the economic impact of these proposals?

*Food Chain Pricing Activities*

On December 9, 12, 16, and 17, the Committee held hearings on food prices and pricing policies of the major food chains. The Committee, as part of its inquiry into the causes of inflation in various sectors of the economy, has subpoenaed records and documents from the 17 largest food chains. A preliminary analysis of most of this data has been completed. However, at the time of these hearings some of the chains had not yet complied with their subpoena. The Committee's interest is in the structure of the food retailing industry and the resulting impact on prices.

## Special Studies

The Committee has initiated about a dozen studies of special topics related to the problems which S. Con. Res. 93 instructed the Committee to investigate. Some of these studies are being conducted by the Committee staff, some by experts in various government agencies and some by outside consultants. Time has not permitted the completion and publication of all of these studies prior to the December 31, 1974,

filing deadline for the Committee's final report. However, many of the studies were available to the Committee in preliminary form in time for some of the most important conclusions to be included in that report. The Committee expects that most of the studies can be completed and published within the next few months.

Among the subjects expected to be covered in these studies are the following:

(1) The differential impact of inflation by income class, with special attention to the impact on the poor,

(2) The contribution of exchange rate changes and international commodity price movements to inflation in the United States,

(3) A review and analysis of German economic policy,

(4) A simulation of the effects of various possible fiscal policies during 3 periods in the recent past,

(5) An analysis of problems with the use of the full employment budget concept in an inflationary period,

(6) An analysis of the factors which have contributed to the rising cost of residential construction,

(7) An analysis of concentration of ownership in retail food marketing and its effect on prices,

(8) An assessment of the outlook for food prices and supplies, with particular attention to the effect of the poor 1974 feed grain harvest on meat prices and supplies,

(9) An analysis of information needs in agricultural commodity markets, especially of the need for information relating to international transactions,

(10) An updated history of price patterns and policies to achieve price stability since the enactment of the Employment Act of 1946.

## STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

In addition to conducting formal studies and arranging hearings for the Committee and Subcommittees, the staff participated in discussions of economic problems and research techniques with outside groups. The following list illustrates the nature of these activities in which the staff took part in 1974:

American Economic Association Convention, San Francisco.
American Enterprise Institute.
American Political Science Association Annual Meeting.
Atlantic Institute Conference on Energy, Paris, France.
Brookings Institution.
Carnegie-Mellon University Conference on Floating Exchange Rates.
Center for Applied Economics, New York University Conference on Bidding and Auctioning for Procurement and Allocation.
Columbia University.
Conference of Local Legislators, St. Paul, Minnesota.
Cornell University.
Data Resources Conference—in New York, Boston, and Washington.
Eastern Economic Association Annual Meeting.

Harvard University.
Library of Congress Conference on Urban Growth.
Massachusetts Institute of Technology.
National Association of Tax Administrators Conference on Revenue Estimating, Juneau, Alaska.
Natural Resources and Recreation Conference on Inflation, Dallas, Texas.
Friedrich Naumann Foundation Conference on Cooperation and Conflict—the Tension Between Nationalism in the Americas and Western Europe, Ottawa, Canada.
North American Conference on Labor Statistics.
North American Study Group of the Middle East, Columbia University.
Summit Meeting on State and Local Governments, Washington.
Summit Meeting on Transportation, Los Angeles.
Urban Institute, Land Use Seminar.
Wharton Econometric Forecasting Associates Conference on the Economic Outlook.
White House Labor Conference on Inflation.
World Food Conference, Rome, Italy.

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

AFL-CIO.
American Planners 57th Annual Conference, Denver, Colorado.
American University Washington Seminar.
Brookings Institution.
Civil Service Commission Executive Training Seminar.
Douglas College of Rutgers University.
George Washington University.
Kenyon College, Gambier, Ohio.
National Economists Club.
National Restaurant Association.
National War College.
Naval War College.
New York State Savings Bank Association.
Southern Economic Association.
University of Kentucky.
Executives of the YMCA, Denver, Colorado.

The Executive Director participated in meetings of the World Economic Congress in Budapest and Venice. In the course of that participation, briefings were given to United States Embassy staff in Budapest and Belgrade. Also, a lecture was given to graduate students at the Institute of International Politics and Economics in Belgrade. He also participated as a staff member at a meeting of the United States Delegation to the Inter-American Development Bank.

A Senior Staff Economist for the Joint Economic Committee interviewed staff at the Bank of England and Italy and at the Bank for International Settlements in Switzerland on the state of the economy in various countries in Europe.

## CHANGES IN COMMITTEE MEMBERSHIP

The new Members of the Committee in the 94th Congress are: Senators Edward M. Kennedy of Massachusetts, Robert Taft, Jr., of Ohio, and Paul J. Fannin of Arizona; and Representatives Lee H. Hamilton of Indiana, Gillis W. Long of Louisiana, Garry Brown of Michigan, Margaret M. Heckler of Massachusetts, and John H. Rousselot of California.

Representative Barber B. Conable, Jr., has left the Committee to assume other committee duties. Other Members who are no longer with the Committee are: Senators James B. Pearson and Richard S. Schweiker and former Senator J. W. Fulbright; and former Representatives Martha W. Griffiths, Hugh L. Carey, William B. Widnall, and Ben B. Blackburn.

## CHANGES IN COMMITTEE STAFF

Leaving the staff during the year were Kathleen B. Watters, receptionist; Anne Waggoner, secretary; and Walter B. Laessig, Minority Counsel. Additions to the professional and administrative personnel staff include Cheri Boothe, secretary; Gregory C. Church, messenger; Marie H. Cunningham, secretary; Jeanine Drysdale, secretary; Robert D. Hamrin, economist; Kathleen MacArthur, secretary; Cathy Pennock, receptionist; Carl V. Sears, research assistant; and George R. Tyler, economist.

Professional staff members of the Subcommittee on Fiscal Policy for some portion of 1974 included: Alair Townsend, James R. Storey, Irene Cox, Robert Lerman, Vee Burke, Sharon Galm, Jon Goldstein, Katherine Conroy, Alexander Korns, and Martha Grundmann.

Professional staff members who were hired for some portion of the period between July 1 and December 31, 1974, under authority of S. Con. Res. 93 included: William Donnelly, Albert J. Eckstein, Thomas P. Graves, Peter D. H. Stockton, and Irene Till.

## DISTRIBUTION OF COMMITTEE PUBLICATIONS

In 1974 the Joint Economic Committee distributed over 300,000 copies of current and previous year's publications to individuals, libraries, and organizations the world over.

Since the time of our last Annual Report the committee has released 18 reports and studies and has printed 24 sets of hearings, for a total of 42 publications.

Also during the past year the Superintendent of Documents sold over 125,000 copies of current and previous year's publications.

Economic Indicators, which are sold by monthly subscription through the Superintendent of Documents, were received by almost 12,000 subscribers in 1974.

In addition there are over 700 depository libraries in major universities throughout the country that are mailed by the Government Printing Office the committee prints that are released by the Joint Economic Committee.

## SUBCOMMITTEE MEMBERSHIP, NINETY-FOURTH CONGRESS

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