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JOINT ECONOMIC REPORT

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REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

ON THE

JANUARY 1954 ECONOMIC REPORT  
OF THE PRESIDENT

WITH

SUPPLEMENTAL VIEWS

AND

THE ECONOMIC OUTLOOK AND OTHER MATERIALS  
PREPARED BY THE COMMITTEE STAFF



FEBRUARY 26, 1954.—Committed to the Committee of the Whole House  
on the State of the Union and ordered to be printed

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JOINT COMMITTEE ON THE ECONOMIC REPORT

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

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*2d Session*

HOUSE OF REPRESENTATIVES

REPORT  
No. 1256

## REPORT OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

FEBRUARY 26, 1954.—Committed to the Committee of the Whole House on the  
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Mr. WOLCOTT, from the Joint Committee on the Economic Report,  
submitted the following

### R E P O R T

TOGETHER WITH SUPPLEMENTAL VIEWS

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

#### THE SIGNIFICANCE OF THE EMPLOYMENT ACT TO THE CURRENT SITUATION

Eight years ago this month the Employment Act of 1946 passed the Congress by an overwhelming vote as a bipartisan expression of determination on the part of the Federal Government that it will exert all of its influence and coordinate all of its programs to "promote maximum employment, production, and purchasing power" in a manner consistent with the system of free competitive enterprise. This the Federal Government seeks to do with the assistance and cooperation of industry, agriculture, labor, and State and local governments for, under the free enterprise system, the Federal Government cannot alone be responsible for achieving these objectives fully each year.

Since the act was passed, the Government's powers have been exerted to dampen and limit powerful post-World War II and Korean war inflationary pressures. The act was in operation during the 1949-50 recession and recovery. The characteristic American hope through all these years has been that the world situation and our own preparedness might reach a point beyond which war and defense expenditures for the future could be gradually curtailed. As we face the realization of this hoped-for leveling off and moderate curtailment of the Government's role as a buyer of defense supplies, the policy and determination expressed in the Employment Act assume utmost importance.

We can face the necessary readjustments with the full knowledge that Congress has not wavered in its determination to minimize economic hardships. The Joint Committee on the Economic Report, fully cognizant of its own share of responsibility in carrying out the policy expressed in the act, notes that during the year just closed the President has repeatedly expressed his belief in the basic principles of the Employment Act. The reorganization and strengthening of the Council of Economic Advisers was but one tangible step in recog-

nizing and carrying out this purpose. As the President stresses again in his economic message:

Government must use its vast power to help maintain employment and purchasing power as well as to maintain reasonably stable prices. \* \* \* It must be prepared to take preventive as well as remedial action; \* \* \*. This is not a start-and-stop responsibility, but a continuous one.

THE PRESIDENT'S ANNUAL ECONOMIC REPORT IS A STEP IN CARRYING OUT THE OBJECTIVES OF THE ACT

We wish to commend the President and the reconstituted Council of Economic Advisers upon the quality of the economic analyses contained in the Economic Report of January 28, 1954. The annual economic reports have always been useful for the data included therein. We find this year that the excellence of the historical statistical tables and the extensive analyses of recent economic developments are even more valuable than in the past. They represent, we believe, distinct steps forward in helping to make the Employment Act effective.

Looking to the continued improvement of the machinery contemplated by the Employment Act, we feel, however, that several pertinent comments are warranted:

(1) The Employment Act of 1946, it will be recalled, expressly calls upon the President to transmit "a program \* \* \* together with such recommendations for legislation as he may deem necessary or desirable." Quite apart from consideration of the merits of the program proposed in the President's report, we believe that the operations of both the executive branch and the Congress would be facilitated if recommendations for carrying out the program are set out in summary form where they can be viewed for their overall adequacy rather than diffused throughout the entire report. A summary of the President's recommendations appears in the accompanying staff materials (appendix B, p. 60).

(2) The section of the Employment Act referred to above directs also that the Economic Report shall set forth the levels of employment, production, and purchasing power needed to assure useful employment opportunities for those willing, able, and seeking to work, in accordance with the act's declaration of policy. We have sought to supplement the current report in this respect by developing through our hearings greater clarity and more specific information on the present trends, plans and expectations of consumers, business and governments and the levels of activity needed to maintain "maximum" employment in the months and years ahead. As the Federal Government curtails its defense purchases it seems especially desirable that our economic thinking be as precise as possible in indicating the nature and magnitude of the adjustments called for to permit our economy to continue stable and to expand. The attached staff materials on the economic outlook suggest the nature and magnitude of the necessary adjustments. (See pp. 37-60.)

(3) Because the Economic Report was not transmitted until January 28, the committee has been burdened with the necessity for a heavily concentrated series of hearings and a limited time in which to prepare its report which under the Employment Act is to be submitted March 1. The act fixed this date early in the session so that the committee's report may serve as a guide to the legislative committees.

The act places no similar submission date on the filing of the President's report, although it does call for its transmission "at the beginning of each regular session." It may be advisable to establish in the act a fixed early date for its transmission.

#### COMMITTEE HEARINGS AND CONSIDERATION GIVEN TO THE PRESIDENT'S REPORT

In reviewing and analyzing the 1954 Economic Report, the committee has received testimony from key officials in the administration, in executive and open sessions. The committee has met with panels of technicians drawn from business, labor, agriculture, State and local governments, universities, and research agencies who have brought to it the best available viewpoints on the economic outlook and the implications for Federal economic policy. Other interested individuals and groups have cooperated by submitting their written views for the committee's consideration. Because of the uncertain outlook, these hearings have been the most exhaustive ever held on the general economic situation by this committee. We have stressed especially the private investment outlook, the consumption outlook, State and local government plans, the agricultural outlook, the foreign economic situation and outlook, savings and finance outlook, current and prospective employment levels, together with the implications of each of these areas to Federal economic policy.

A transcript of these hearings and panel discussions (except for an informal executive session with the Chairman of the Council of Economic Advisers) is being printed. This record will be available in limited quantity and on sale by the Superintendent of Documents. As in previous years, and as referred to above, the committee staff has prepared materials on the economic outlook which have been reviewed by the committee.

#### ECONOMIC DEVELOPMENTS OF THE PAST YEAR

Official statistics and the testimony of experts received at the committee hearings support the generally accepted fact that the economy today is operating at levels reduced from those which prevailed 1 year ago. Some readjustment in the tempo of economic activity is only natural and should be expected as we move from a wartime and defense economy to a lower level of defense spending and, it is to be hoped, more stable economy.

Unemployment, however measured, has increased. Industrial production has fallen off, especially in recent months. We have passed from a period of inventory accumulation to a period of inventory liquidation. Farm income, which affects a large segment of our people directly, has declined with inevitably adverse effects upon those whose prosperity is indirectly connected with agricultural conditions.

Whether one calls these changes an adjustment, a contraction, or a recession, it is the facts which are the concern of this committee. While we recognize the significance of the psychological element in maintaining confidence in economic stability, it is equally important that we be alert to understand and improve upon any situation which the facts disclose.

## THE ECONOMIC OUTLOOK

While recognizing the declines which have already taken place in economic activity, it is well also to look at the future shifts which will be required in the year ahead if the economy is to be maintained at the level of "maximum" sustainable production and employment. The materials prepared by the committee's staff indicate that a substantial increase in private demand on the part of consumers and for business investment is necessary if the economy is to comply substantially with the ideals of the Employment Act during the coming year. The committee as a whole is confident that any serious further recession can be avoided and that this increase in private demand can take place in the interests of economic stability and growth if the available tools are used in a timely and courageous manner. Our confidence is based upon the following factors:

(1) There is a general feeling that the basic economy is essentially healthy, in part because of the institutional improvements which have been added over recent decades, and in part because the postwar inflation, serious as it was, has been brought under control without many of the worst and disastrous effects which have often been associated with inflations.

(2) There is a recognition by those who appeared before the committee and, we believe, by Americans generally that there are powerful, long-run sustaining forces in the economy. These lie in the needs of a growing population and in the capabilities of an enterprise system which is constantly opening new vistas for new products through large-scale research and developmental expenditures.

(3) While members of this committee differ as to the relative emphasis which should currently be given to the encouragement of investment expenditures and to the encouragement of expanded consumption, the committee is unanimous in recognizing the spirit of the Employment Act itself as a strong reason for viewing the transition years optimistically. If the Government accepts its responsibility to create a climate and to pursue programs which will advance the objectives of the Employment Act, we believe that complementary private demands for investment and consumption will be sufficient to forestall serious economic declines and to bridge any deficiency or "gap" which may appear.

(4) Confidence is further reinforced by the assurance, not only that the administration is prepared to use the powers it now has, or has recommended, if the downturn continues, but that a variety of additional tools and devices are available. While we suggest that an interesting and provocative list of specific measures might be presented, we recognize also that no such list could be complete or anticipate all of the devices which might be acceptable in the face of need. We agree, however, with the President in his statement that "the arsenal of weapons at the disposal of Government for maintaining economic stability is formidable." We must be prepared to use these weapons as need arises.

Over against these reasons for confidence, no judgment of the outlook can afford to ignore elements of uncertainty in the current situation. Specifically some of these are:

(1) It is only proper to recognize that the extent of involuntary unemployment may not be fully reflected in current statistics. Avail-

able information upon the degree of involuntary short workweeks and of short-term layoffs, as well as of reasons for apparent withdrawal from the work force fall short of expressing fully and promptly decreases in employment arising from such forms of underemployment. Public confusion respecting the situation has moreover been inevitable in view of the number of different series currently issued no matter how useful the individual series may be in themselves. The committee believes that these limitations in our statistical knowledge are serious and that the agencies involved should promptly seek to remedy the present situation so as to assure the utmost in accuracy and consistency in the various series relating to employment and unemployment. The committee staff materials analyze these limitations in some detail. (See pp. 49-50.) We endorse the recommendations set forth to correct the situation and urge the Bureau of the Budget to exercise its statutory authority to put them into effect. The Appropriations Committees are urged to recommend sufficient financial support for those and other statistical programs of the executive agencies.

(2) The recent decline in economic activity has sometimes been characterized as an "inventory adjustment," and has been in this respect likened to the economic adjustments experienced in 1949. It would be a mistake, we believe, to conclude from any superficial similarities between the two periods that similar forces can be wholly relied on in the present situation to bring about the desired stabilization and growth. The slackening of business activity in 1949 came at a time when the tremendous backlog of automobile, housing, and consumer durable demand inherited from the period of wartime restrictions was still largely unsatisfied. The current situation differs in that much of the compelling drive inherent in this type of pent-up demand is no longer present.

(3) It is highly important, in forming a judgment as to the outlook at this time, to recognize that we are now face to face with the hoped-for possibility of reduced defense expenditures. While the forces making for contraction may be no more serious than a minor readjustment in the economy, they are occurring at a time when a basic and fundamental shift in the Federal Government's position as purchaser and consumer of goods and services is taking place. The necessity for reorienting and strengthening our economy in line with this basic shift, regardless of whether it is of longer or shorter duration (assuming, of course, no worsening of the international situation), should not be overlooked.

#### ECONOMIC CAPACITY FOR ADEQUATE DEFENSE PROGRAM

The Economic Report states that: "Our approach to a position of military preparedness now makes it possible to turn the productive potentialities of the economy increasingly to peaceful purposes."

We welcome this opportunity to reduce military expenditures and do not view with pessimism the adjustments involved in making this transition.

It is beyond the jurisdiction of this committee to pass judgment upon the adequacy of our military preparedness. It is not our function to determine how many air wings, ships, or divisions are necessary. However, we do feel it is within our jurisdiction to state that, in our opinion, the economy is capable of meeting safely additional



military expenditures if such expenditures are necessary for our military security.

This is not a recommendation for more spending for national-security purposes. It is rather an assertion that reductions in these programs, which have been made and which are projected for the future, should be justified upon their merits, and not upon the premise that they are made necessary for economic reasons.

#### PROPOSALS CONTAINED IN THE ECONOMIC REPORT FOR STRENGTHENING THE ECONOMY

We turn now more specifically to the legislative recommendations of the Economic Report as summarized in appendix B of the staff materials. (See p. 60.) The numerous recommendations contained in the economic message have been grouped under several program headings. The committee's task as prescribed by the act is to present a coordinated study of these recommendations, relating them to the current economic situation and outlook and to report its findings with respect to each of the "main recommendations" as a guide to the several committees of Congress dealing with specific legislation. Having viewed these proposals in a broad way as they are interrelated to the work of the various committees of Congress, we conceive it to be our duty to comment upon these proposals as economic programs, leaving to the appropriate legislative committees of the House of Representatives or the Senate the task of shaping the details of legislation best suited to implementing the respective programs.

It is scarcely necessary to point out that individual members of this committee, who are also members of the several legislative committees, in approving this report as a whole are in no way prejudging issues or indicating their position in specific matters as and when these may come before the legislative committees of the Houses of Congress.

#### INCREASING THE FEDERAL DEBT LIMIT

The margin between the \$275 billion statutory limit and the outstanding public debt subject to debt limitation has fallen under \$300 million on occasions during recent months. Because tax collections under present law are highly seasonal, the fall months of this year are likely again to witness borrowings at a seasonal high. There are, moreover, very large "open end" programs now authorized, such as Commodity Credit Corporation and Federal National Mortgage Association, where the initiative giving rise to demand for Federal funds lies outside Treasury Department control. These factors, coupled with the large volume of refinancing which must be accomplished and the measure of uncertainty in the economic outlook suggest that a higher Federal debt limit is desirable if the Government's financing operations are to be efficiently and economically managed.

We are driven inevitably to this view by recognizing that, if general economic conditions should deteriorate much below present levels, the Federal Government (1) may be called upon to act promptly and vigorously, accepting a deficit as an unfortunate necessity but nonetheless the most appropriate fiscal policy, (2) will be faced with a deficit forced upon it by the reduced tax collections resulting from reduced personal and business incomes, or (3) requirements under the

"open end" programs will by their very nature and purpose tend to increase the debt.

While it may be sincerely hoped that economic conditions will soon improve sufficiently to warrant a balanced budget, it does not seem prudent at this time for the country to face the possibility of further economic contraction with the Treasury's debt-management hands tied. The present tight leeway in debt administration appears, therefore, unrealistic and inefficient. Congress clearly has the responsibility for raising the debt limit if it makes appropriations and fails to provide sufficient revenues to cover the resultant expenditures.

The Senate Finance Committee, in considering the new debt limit, is looking into the fiscal and operational needs of the Treasury for general fund balances. Since the volume of funds flowing into, out of, and at times held by the Treasury are of considerable magnitude, the Joint Economic Committee plans to examine the economic effects of these movements and the changing of the Treasury-Federal Reserve disposition of those funds, especially in respect to Treasury balances held in commercial banks.

#### THE OLD-AGE AND SURVIVORS INSURANCE SYSTEM

We believe that the proposals contained in the Economic Report for broader coverage and increased benefits under the old-age and survivors' insurance system are desirable and should be enacted. Extension of the system is justified not only in the interests of equity and justice but because it is capable of making a direct contribution in helping to bridge the transition to lower defense production levels.

Benefits under the system have not kept pace with the rising wage levels or living standards in recent years. During the war and post-war defense years, the Nation has, moreover, benefited by the willingness of millions of workers of advanced age to contribute to the needs for all-out production of extra goods and services. As the pressure of these defense needs relaxes, the Nation's economy should redeem its obligations to these extra employees in the older age or partially disabled categories by facilitating their retirement from the active labor force if they should wish to do so. This does not mean, of course, that in the interests of continued economic growth, the efforts of those who are willing and capable of carrying on part-time productive employment should not be recognized and welcomed.

#### THE UNEMPLOYMENT INSURANCE SYSTEM

Unemployment compensation has long been regarded not only as support to those temporarily displaced by the shifting operations of a dynamic economic system, but as a program beneficial to the entire economy because of its "built in" stabilizing features. Whether or not one believes that the recently rising trend in unemployment will soon right itself or that it threatens to become worse in the months ahead, it is highly desirable that the Federal Government, in cooperation with the States, do everything possible (1) to relieve individual distress from unemployment, and (2) to minimize the loss in consumer demand with its cumulatively bad effects upon the rest of the economy. The committee wishes to underscore the statement contained in the President's message that "unemployment insurance is a valuable first line of defense against economic recession."

The present economic outlook thus presents precisely the situation under which the provision of an adequate unemployment insurance program is most imperative. Under the circumstances there can be little disagreement with the objectives of the President's program. Broader coverage and strengthening the State systems will help maintain consumer demand and aid in forestalling or countering rising unemployment. We commend the President's suggestion that the States should raise the potential duration of benefits and their dollar maximums on weekly benefits so that payments to the great majority of beneficiaries may be restored to a larger percentage relative to their regular earnings.

#### AGRICULTURAL POLICY

While this committee recognizes the difficulties of the agricultural problem, it is also impressed with the fact that unfavorable trends in real farm income offer a serious threat to an expanding and stable economy. Our ideal here as elsewhere must be to preserve the workings of the free markets so far as possible. But the highly competitive agricultural segment of the economy, in which the individual producer is subject to the vagaries of the weather and the alternating demands of war and peace, cannot be left alone to face economic distress and wide fluctuations in its prices and incomes.

Recognizing, as the President does, that solutions to this complex problem have "thus far been elusive," we are doubtful whether any program which seeks to bring about a balance between agricultural production and the consumption of agricultural products through the contraction of acreage can, in the long run, be successful. Our greatest hope for solution seems to lie in the direction of expanded consumption at home and abroad and any program of flexible or inflexible price supports which fails to stress this aspect seems doomed to failure. It is no doubt true, as the President suggests, that we must proceed "a step at a time," and that we must try to establish tolerably acceptable conditions on a year-by-year basis.

For perspective on the problems, it is well to remember that the Department of Agriculture, not many months ago, issued a report which it graphically entitled "The Fifth Plate," which points out that for every 4 people sitting down to a meal in 1950 there will be another person to be fed in 1975. The report dramatizes the vastness of the demands which will be made over the next several decades for expanded agricultural production if we are to do no more than retain present levels of nutrition in this country. With the prospects of an agricultural industry growing less rapidly than the remainder of the economy, the Nation may well grow up to the levels of its present production in the not-too-distant future. Instead of a program of contraction it would seem desirable, therefore, that present policy should be directed to solving surplus problems in the years immediately ahead, scrupulously avoiding all policies which might lead to curtailment of our agricultural productive capacity. On neither a humanistic nor economic basis does it seem wise to limit production or feel unduly concerned over surpluses until all possibilities for expanded markets and increased consumption have been exhausted. We recommend an aggressive policy for discovering added domestic and foreign markets for these surpluses and for future production so far as possible through the discovery of new uses, industrial or

other. The nonmarket disposition of surpluses to institutions for the needy, school lunches, and foreign relief should be stepped up.

In this connection the Economic Report points out that the Commodity Credit Corporation commitments under the program of rigid price supports are already large and growing, while the acreage restrictions imposed on the 1954 crops are an inadequate corrective. The proposal also assumes that \$2.5 billion worth of these stocks can be set aside and insulated from regular domestic and foreign markets. We do not feel that the program goes any substantial way toward solving even the immediate agricultural problem until satisfactory and effective procedures are worked out which (1) will assure the nonmarket distribution of these surpluses which overhang the market in the interim no matter how earmarked or isolated, and which (2) will deal directly with the problem of uses to be made of the diverted acres withdrawn from restricted crops. No solution to the agricultural problem can count on the expectation that the world markets will be blind to the existence of excesses. No program can long be successful which leads to the shifting of acres from one surplus crop to other crops of surplus or threatened surplus.

In spite of the fact that agricultural income has fallen, there is reason to believe that the proposals contained in the Economic Report may actually place the farm family in a worse position in the short run. Whatever the merits of flexible supports and modern parity may or may not be as a long run program it is questionable whether their contribution at this time will act to sustain farm income in the months immediately ahead when the threat to our economic stability is so generally recognized. On the contrary, it seems more likely that the proposed shift to "modernized parity" at this particular time would be an unnecessary disrupting factor.

The President's recommendations conclude with a listing of matters for further study and further action which are indeed formidable, and in many cases go to the very heart of the agricultural problem. This committee's report would fall short if it did not stress the urgency with which long-run policy in this respect must be arrived at. The intrinsic difficulty of the problem must not tempt us into regarding postponement as a solution. We do feel, however, that any satisfactory solution must look not only at the needs of the immediate situation for economic stability, but beyond to the long-run problem of economic and national growth.

[Senator Flanders believes it is obvious to many in both Houses of Congress, as it is to consumers, that our present plan for farm price support breaks down when put under strain. Potatoes earlier and butter now are cases in point. Thoroughgoing changes must be made. These will take careful study and time. It would seem that any plan, just alike to farmer and consumer, must accomplish the following: (1) protect farmers' purchasing power, (2) preserve the complete freedom of the farmer, (3) provide the consumer the advantages of free market prices, and (4) reduce the costs and the complications of administration required by the present law.

He is confident that these conditions can be met and that American farmers are ready to consider plans for long-range stability which can be workable and continued indefinitely.]

[Senators Watkins and Goldwater agree wholeheartedly with the view that the long-run solution of our agricultural imbalances must depend upon expanded consumption and that restrictions or contractions are undesirable and should be avoided. They do not agree with the Report, however, in the view that this is a bad year to take measures calculated to make the adjustments needed to bring production in line with demand. If we are to achieve a stable, prosperous, and efficient agriculture, they do not believe that either the agricultural industry or the economy as a whole will gain by postponement or inaction.]

[Senators Sparkman, Douglas, and Fulbright and Representatives Patman and Bolling point out that the Economic Report frequently refers to the problems created by "high and rigid" price supports for agricultural commodities, as did the Secretary of Agriculture in his testimony. The most troublesome surplus at present is in dairy products—accumulated not under high and rigid price support laws, but under authority of a flexible system, similar to that which is now sought for the so-called basic commodities. In other words, this substantial part of the problem arose by reason of the choice of the Secretary, deliberately made, to support butter at a high and rigid 90 percent of parity.]

Although the Economic Report and the Secretary belabor high and rigid price supports, they do not discuss the serious further drop in farm prices and farmers' incomes which these supports forestalled. It is suggested that had it not been for these supports, this additional drop in farm prices and incomes and the resultant effects on the economy as a whole, would have made the problems of the President and his economic advisors infinitely more difficult. In that event there would have been little room for argument as to the state of our economy.

Net farm income has already—with "high and rigid" supports—dropped sharply. The farmers' per capita income is now lower in relation to per capita income of the nonfarm population than at any time since the beginning of World War II.

The public attacks on the farm program by administration spokesmen have created the impression that price supports have cost much more than they have. The total cost of the farm price-support program covering the whole period since the depression year of 1933 to date averages approximately \$50 million a year, or 35 cents per person. This for a program which was a major factor in pulling the Nation out of a depression, and forestalling serious consequences since.

Net cost of supporting "basic" commodities—the only ones now required to be supported at "high and rigid" levels—has been only \$20 million since 1933.

Subsidies to other elements of the economy greatly exceed the costs of the farm program. However, we question whether any program has been of greater benefit to the whole economy.

The effect of adopting the sliding scale of flexible supports for basic commodities, as well as "modernized parity," inevitably is to reduce the level of supports, with the prospect of further reductions in future years, at the very time when we are concerned with avoiding a serious recession.]

## GOVERNMENTAL AIDS TO HOUSING

The new construction of residential, nonfarm housing has accounted for nearly one-fourth of all private investment in recent years. Aside from the importance of housing as a key factor in our living standards, any program dealing with economic stability and growth must award a high place to housing construction and modernization and to measures which aim to keep that segment of economy active and healthy.

It is quite appropriate, therefore, that the President's Economic Report should make nearly a dozen detailed recommendations toward this end. Since that report was filed, a proposal for the Housing Act of 1954, implementing these suggestions as well as additional ones, has been introduced in both Houses of Congress and will shortly be considered by the legislative committees. For the purpose of this report it accordingly seems necessary only to stress the importance and the great contribution which housing investment can make, not only to the welfare of our people but to bulwarking the economy during the period while defense expenditures are adjusted downward.

Viewed primarily from its potential role as economic stimulus, the Government's program for aid to housing must be flexible and readily adaptable to changing economic conditions. As a program, it should be capable of being expanded in case of need, and indeed contracted should too rapid expansion threaten, which does not seem to be the prospect in the immediate future. We agree that permissive action be given the President to regulate within appropriate statutory limits the maximum loan value ratios, the terms of maturity, and interest rates on Government-insured loans. We believe also that measures should be taken to strengthen the secondary market for mortgages by helping to smooth the flow of investment funds in keeping with the overall objective of providing Government aid for the private housing industry.

During the course of the committee's hearings, the large volume of building activity which looms as a major task in the months ahead by way of "fixing up" existing homes, creating additional rooms, or otherwise improving the basic house was stressed. We note with interest that the proposed Housing Act recognizes this desirability through the broadened provisions of title I for modernization and repair loans and the further provisions authorizing FHA to insure advances made pursuant to an "open end" insured mortgage, thereby facilitating the financing of major home improvements on a longer-term basis.

All housing programs, especially public housing and slum-clearance programs, should recognize that there are times when economic conditions may call for accelerated active efforts. Flexibility in the areas of public housing and slum clearance can make them important sustaining forces in the years ahead.

[Senators Sparkman, Douglas, and Fulbright, and Representatives Patman and Bolling believe that the so-called housing program of the President is deficient in several important respects, among which are the following:

- (1) It is entirely unrealistic (a) in its hope that low-cost housing can be built at such a low cost, and (b) its assumption that persons who might live in such homes can afford the high monthly payments required. Because of these defects the program will prove most inadequate in the

metropolitan areas which are precisely the areas where the program is most needed.

(2) While some flexibility does exist in the public housing authorizations heretofore passed by the Congress, the President's program fails to provide the necessary leadership in setting levels currently appropriate, not only to the welfare of our people, but desirable and necessary in the face of the recent economic declines.

(3) The President's program is also deficient in the substantial neglect of the whole problem of rural housing.

(4) Provisions for direct loans to veterans have been of great benefit in the past and should be continued. They supplement the guaranty features in suburban, rural, and other parts of the country where financial institutions are not handy and available.]

#### INTERNATIONAL TRADE POLICY

By way of stabilizing economic conditions in other countries and assuring the soundest long-run program for the domestic economy, the President urges that the "liberalization of international trade and payments should be continued by vigorous efforts to reduce the remaining barriers that stand in the way." This is traditionally an area in which Americans, agreed upon a common objective, have differed as to the measures making the largest contribution to that end.

By way of advancing international economic stability, we believe that the peoples of the other free-world countries may relieve some of their own anxieties by recognizing the determination of the Federal Government of this country to employ all of its powers to prevent and minimize economic slumps in the future. Upon the significance of this determination we have commented in an earlier section of this report. From their standpoint we can add tangible evidence to these assurances by policies recognizing that in a broad way we must realize that certain imports must be accepted if we are to maintain exports in those fields in which our productive capacity is superior. At the same time we would underscore the importance of actions in other friendly nations to reduce their restraints to production and distribution and their barriers to internal as well as foreign commerce. These impediments to economic progress are summarized in the attached staff materials (appendix H, p. 96).

On the domestic side we emphasize that the problem of foreign trade policy is intimately tied up with the solution of the agricultural problem previously referred to. Solution of the agricultural problem and, in some areas, of unemployment and excesses in industrial capacity, is unfortunately likely to cause strains in some other domestic industries most vulnerable to added imports.

We say these things conscious of the fact that several members of the committee feel that the ability of the domestic system to protect and take care of itself would not be advanced by the program of "trade liberalization." While respecting these views, the consensus of this committee is, nevertheless, that a high level of exports for which payment is made without undue injury to the domestic economy will contribute to the maintenance of stability. Domestic stability and growth are thus, in part, a problem of adjusting ourselves to the

acceptance of increased imports in certain lines, especially of those materials in which we are short or in which the productive advantages of other free countries are greater than ours.

The problem of reducing international barriers is not exclusively a problem of tariff levels. Members of the committee are disturbed by the obstacles to trade presented by quotas and valuation complexities, as well as customs. We note with approval the observation in the President's report that—

Although we have in fact carried out vigorous tariff-reducing programs in recent years, we have undertaken these measures in an atmosphere of constant uncertainty. Our trade policy and customs administration should provide a sense of continuity, stability, and forward movement to the rest of the world.

Certainty and simplification in our trade policy are a necessary element if agriculture is not to be outraded in our trade negotiations.

[Senator Flanders believes that there can be serious repercussions from ill-considered and carelessly selected reduction of import duties. International trade can be liberalized and increased by making selective reductions in import duties on commodities such as (1) those for which American-made goods already have heavy export markets, (2) those for which American industry has, by failure to keep abreast of quality, style, and cost of production, allowed foreign competition to get ahead, and (3) those for which imported goods sell in the American market for more than the comparable American products.]

[Senators Sparkman, Douglas, and Fulbright and Representatives Patman and Bolling note that there appears to be little disagreement in the Report, or anywhere else for that matter, with the view that the maintenance of a high level of exports will contribute to economic stability in the United States economy. That exports and imports move together appears to be more difficult to grasp. They should like to see this committee take a stronger stand on this point, making it clear to all that unless imports are allowed to increase there inevitably will be a drop in exports. In recent years we have been maintaining our large exports by granting direct aid to foreign countries at the rate of about \$5 billion a year. The termination or substantial diminution of this aid will result in a decline of exports unless imports are permitted to increase. The chances of new foreign investment increasing enough to sustain our present high level of exports are quite remote.]

A liberal trade policy is particularly important to American agriculture. It was most disappointing at the recent committee hearings to discover that the Secretary of Agriculture apparently fails to see this connection. Of all administration officials, he should be the most forceful in pressing for a liberalized trade policy. American farmers need foreign markets. It can hardly be expected that other countries will increase their purchases from us, however, unless the way is open for them to earn dollars.]

#### PUBLIC WORKS PLANNING

Public works is another field in which the combined efforts of the Federal, State, and local governments can clearly make a contribution to regularizing employment. A growing population and rising stand-



ards of living bring with them untold requirements for new public facilities of which highways, schools, hospitals, and municipal facilities are only the more obvious examples. Programs for meeting these requirements can, in some measure, be accelerated in times of rising unemployment to overcome existing backlogs and, indeed, to take some forward-looking steps in advance of immediate pressing community needs. It is well, however, to keep public works in proper perspective lest they be overrated as a ready tool quite capable of alone solving the problem of unemployment.

While it is sincerely to be hoped that at no time in the foreseeable future will the maintenance of full employment in this country be abnormally dependent upon increased public works expenditures, we are somewhat disturbed by some of the facts brought out in the President's Economic Report and in testimony before the committee. The report points out that if it should become necessary, outlays for Federal public works could be stepped up within a year, by say, \$2 billion, or one-half of Federal expenditures on that account in 1953, and that similarly, if financial arrangements were adequate, State and local outlays might be expanded by another \$3½ billion. Expenditures in these amounts would, without question, be helpful if we should suddenly find ourselves in a seriously declining economy, but the attainment of even these moderate aggregates would be dependent upon the prompt action of the Congress and other authorizing bodies. The committee finds little confirmation for the hope that Federal public works might be speeded up administratively alone in any important way.

Local communities will undoubtedly use their resources to the utmost when threatened with local unemployment, yet the fact is that most of them are bound by tax, debt, or user-charge limitations. If public works are to make an important contribution in solving unemployment in a serious recession, it seems clear that the Federal Government's credit must be substantially relied upon. Whether this should take the pattern of loans or grants-in-aid is a problem which need not now be settled, although all will agree that reliance on Federal credit must not be allowed to become a basis for encroachment upon the traditional rights of local and State communities.

Because of the substantial time involved in securing the acceptance of a public works program in the local community and in the preparation of engineering and financial blueprints for specific projects, it is unquestionably wise to be prepared with a "works reservoir" as far in advance of need as is feasible and sound.

Despite strenuous effort to bring expenditures in line with Government revenues the need for advanced planning prompted the Bureau of the Budget as early as July 9, 1953 to advise all executive agencies:

Increased emphasis will be given to the development of plans for authorized high priority projects to a stage where these projects could qualify for construction at a time when new construction starts would be consistent with a less restrictive budgetary policy.

As an aid to getting the most possible out of public works as a device with which to counter recessions, the committee recommends proposals which would facilitate the immediate planning and coordination through an administrator, directly responsible to the President, of all Federal public works and community development with the cooperation of the Federal, State, and local governments.

[Senators Sparkman, Douglas, and Fulbright and Representatives Patman and Bolling note with concern the development of a policy by the Bureau of the Budget with regard to multipurpose dams, to require local interests to finance the portion of the cost attributable to power, or, at least, to delay approval pending studies to determine if local interests can finance that portion. This is a change from the previous policy that the power phase be self-liquidating. This has the obvious effect of retarding development in areas most in need of development and it seems inappropriate at a time when public works may be part of the first line of defense against recession.]

#### TAXATION AND TAX POLICY

Regardless of one's views as to the present economic situation and outlook we must clearly place fiscal policy high among the tools available to the Government for dealing with the problem of economic stability and growth. In this connection the committee commends and approves the principle set forth in the President's State of the Union Message which expressly "recognizes that the Federal budget should be a stabilizing factor in the economy." This view has been consistently held by this committee. A major recommendation of the Subcommittee on Monetary, Credit, and Fiscal Policies in the 81st Congress after extensive hearings and careful deliberations was:

\* \* \* that Federal fiscal policies be such as not only to avoid aggravating economic instability but also to make a positive and important contribution to stabilization, at the same time promoting equity and incentives in taxation and economy in expenditures.

Appropriate fiscal policy for the year ahead must be determined in the face of an economic situation which has in recent months receded from its postwar highs. It must also be determined in light of the long-run hope shared by everyone that budget deficits forced upon us by the necessities of depression, war, and defense may as soon as possible give way to budget balance and even surpluses.

The President's program, submitted to the Congress in late January and placing heavy weight upon this latter consideration, was designed to produce a slight excess in total cash receipts from the public in the next fiscal year. This estimate took account of the tax reductions which became effective January 1 and of the increased cash receipts under the social security system. It contemplated also that the reductions of the general tax upon corporations scheduled for April 1 will be deferred for one full year, and that the total yield of excise taxes will similarly be maintained beyond April 1. The President's program counted finally upon passage of a tax revision bill designed primarily in the interests of long-run reforms and equities but carrying with them material tax reductions as well.

The reforms proposed at this time, while not intended primarily as a short-run cure for recession, do place major emphasis upon the encouragement of investment demand for goods and services as the most hopeful way of providing for the restoration and maintenance of conditions favorable to economic stability and growth. The President's recommendations with respect to some of these items are consistent with and carry out recommendations made by the Sub-

committee on Investment of this committee 4 years ago. Among these recommendations the subcommittee specifically recommended:

That added flexibility be permitted administratively, and if need be legislatively, in the rate at which businesses are allowed to write off physical assets for income-tax purposes.

That provisions for the carrying forward of net losses be liberalized.

Supplemental to those recommendations, it was incidentally suggested during the recently concluded hearings of this committee that the depreciation policy might be made a more positive instrument of stabilization by adapting it to varying economic conditions. The privilege of accelerated depreciation as a device stimulating business investment may be enhanced by limiting its availability to a period of several years so that individuals and businessmen would be prompted to seek the advantages of the privilege at times when public policy called for increased private investment.

Another proposal of the President in the area of tax reform recommends that a beginning be made toward elimination of the so-called double taxation of dividends. While we believe that every effort should be made for increasing the long-run incentives for enterprise and investment, we believe that the plans now under consideration for coordinating individual and corporate taxes should be carefully examined to make sure that they accomplish these objectives and make for greatest equity among individual taxpayers.

An important part of the President's program, especially in the area of fiscal policy, recognizes the need for constant vigilance and flexibility. As the President observes:

Economic life continually turns up new problems as fresh developments occur in one or another part of the domestic or international field.

A fiscal policy predicated upon one set of facts must be adapted to circumstances as a new set of facts unfolds.

The committee emphasizes the importance of a flexible tax policy to meet the needs of economic stability and growth. The situation today is unsettled. The President has announced that if unemployment continues upward he will send a supplementary emergency program of action to the Congress. If this step is necessary, it is expected that he will recommend relief for middle- and lower-income groups by reducing the income tax and by reducing excise tax rates. Some of the members of this committee are ready now to urge these tax changes. This committee, as mentioned later, is appointing a Subcommittee on Economic Stabilization to follow economic development and the need for tax action on a day-to-day basis.

#### AREAS FOR FURTHER COMMITTEE STUDY DURING THE COMING YEAR

*Subcommittee on Economic Stabilization.*—The economic situation is obviously very dynamic. The committee and staff will follow economic trends and developments from day to day to make sure that stabilizing action on the part of Government and business is effective. To facilitate expeditious study and action in this field the chairman will appoint a Subcommittee on Economic Stabilization. The subcommittee will hold hearings and conduct meetings as frequently as it deems necessary and desirable, and will report from time to time to the full committee on employment, production, and purchasing power

trends. It will follow particularly the role of fiscal and monetary policy in dealing with the current recession.

*Subcommittee on Economic Statistics.*—On various occasions in the past the committee has indicated its great concern for adequate and accurate economic data upon which public and private policymaking may be founded with the maximum confidence. Evidence presented to the committee during its hearings in respect to the data currently available on unemployment, and already discussed above, emphasizes the importance of adequate and accurate statistics. Furthermore, more information should be gathered regularly with respect to consumer incomes, expenditures, and savings and consumer expectations.

The committee is directing the staff to sponsor an intensive review of its monthly publication, *Economic Indicators*, to make sure that it fulfills the needs of the Congress for important and current economic data. It knows that the Council of Economic Advisers, the Bureau of the Budget, and other executive agencies are interested in cooperating with the staff in this review.

The committee believes the problem of economic statistics is so important that it should pursue the study and analysis of available data even more vigorously than in the past. To provide the leadership and to supervise the activities of the committee in this whole area the chairman will appoint a Subcommittee on Economic Statistics.

*East-West economic trends.*—The committee believes that a thorough-going study of long-run economic trends in the areas of the world under the influence of communistic ideologies and in the remainder of the world should be undertaken. The outcome of the clash between East and West will in large part be dependent upon productivity advances and relative standards of living. A comparison of the success of the two systems in meeting the ultimate need for consumers' goods and a careful reexamination of the impediments to economic growth in the western countries should throw considerable light on the problem of long-run economic stability in this country. The committee staff is directed to survey this problem during the coming year.

*Productivity and economic stability.*—Closely related but distinct is the problem upon which the staff has already been working. Increasing productivity has been a key to American progress historically and the committee's interest is to see that it continues to provide a self-generating force for economic good rather than lead to an embarrassment of surpluses and overproduction. A study of the interrelations of productivity and economic stability and growth should bring together available information on the ways in which the gains of continuing increasing productivity may best be distributed throughout the economy under our free-enterprise system, giving special attention to the employment possibilities or the employment disruptions which may be expected to arise therefrom.

## SUPPLEMENTAL VIEWS OF SENATORS SPARKMAN, DOUGLAS, AND FULBRIGHT, AND REPRESENTATIVES HART, PATMAN, AND BOLLING

In submitting our supplemental views, we do not detract from the report of the committee. In general we agree with it. Under the guidance of our very able chairman, the hearings were conducted in a highly nonpartisan spirit, in a thorough and constructive manner. We have noted with genuine approval the degree of cooperation between the committee, the chairman, and the staff.

The committee report itself, the staff report, the testimony in the hearings, the factual evidence in the President's Economic Report, and economic developments since January clearly demonstrate that the Nation's economy is now, and was in January, in a more serious situation than the Economic Report or the administration admits. It is by no means merely a minor contraction. To provide a democracy of opportunity for all, our economy must expand sufficiently to promote jobs for new workers and those displaced by improvements in productive techniques.

The cornerstone of our national economic policy, therefore, must be based on maximum and widely distributed purchasing power, and effective competition in enterprise. These are prerequisites in order to provide maximum production and maximum employment opportunities as required by the Employment Act of 1946. Only under such conditions can savers, investors, wage earners, farmers, and small-business men enjoy the democracy of opportunity, the fair returns and adequate rewards that are the hallmarks of our way of life. These policies will insure that savings do not lie idle but will be transformed into productive investment. An expanding economy will make possible a balance of the national budget and promote economic stability.

One of the witnesses before the committee estimated that achieving only a moderate growth pattern instead of a program of maximum growth could well involve a loss of \$330 billion by 1960 (Alvin H. Hansen, hearings, February 18, 1954).

Regardless of the question of the precision of calculation, no one can quibble with the large loss to the economy which would result from a failure to achieve sustained economic growth.

Never before in the history of this country did an incoming administration inherit an economy so prosperous and in so strong a financial condition as did the administration that took office in January 1953.

During the preceding 2 years, the economy of the United States was—

(1) Mounting a substantial military offensive in Korea halfway around the world,

(2) accumulating a vast store of military "hardware" for an apparently imminent World War III,

(3) building a broad industrial base for fighting such a war or maintaining \* \* \* the lead in scientific and engineering development, and

(4) doing all that, we still were maintaining a standard of living for the masses of our people higher than that of any previous time or any other country (Edwin G. Nourse, hearings, February 18, 1954).

In that period the American economy underwent an expansion of "solid growth which left the economy strong, in sound financial condition and in good balance" (Alvin H. Hansen, hearings, February 18, 1954).

During 2 years, 1951 and 1952, of solid expansion in employment and output, we also achieved relative price stability. "It would be difficult to find any period in our history where so high a degree of price stability combined with so large a growth in output \* \* \*." (Alvin H. Hansen, hearings, February 18, 1954.)

Indeed, during the 13 years from 1939 through 1952 disposable personal income in real terms (1953 prices) increased from \$1,067 per capita to \$1,517 per capita. This real increase in income after taxes of 42 percent, represented a "sustained improvement in national living standards" of over 3 percent per annum.

With this record of solid, well balanced expansion behind us, we question the President's Report posing the problem of "readjustment," a transition from "war and inflation" to "peace and monetary stability." Inflation of prices resulting from the Korean war had, in fact, subsided in early 1951.

The American economy needed no purging. It did not "have to have a readjustment." There is nothing healthy about more unemployment, less production, and smaller incomes.

The administration's abrupt increase of interest rates in early 1953 to accomplish a "hard money" policy quickly brought a tremendous shock on the economy. This shock was so profound and the action so poorly timed that it was quickly found necessary to reverse this policy. A candid admission of this grave error is contained in the Report, as follows:

The restrictive monetary and debt management policies pursued in the early months of the year had, however, a more potent effect than had generally been expected.

This Congress is confronted with the first serious challenge to carry out the mandate of the Employment Act of 1946, which is contained in the declaration of policy. It reads that—

The Congress declares that it is the continuing policy and responsibility of the Federal Government \* \* \* to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining \* \* \* maximum employment, production, and purchasing power.

An expanding economy requires a policy of action, not inaction, and surely we agree with Senator George, who has said that we should not wait until the economy "falls flat on its face" before taking preventive action. An expanding economy requires a program for the period in between the very short-run outlook and the longer run opportunities that population increases, rising living standards, and technological innovations will make possible.

We have not noted in the Economic Report of the President the same degree of "courage and candor on the part of Government officials" which the Report itself correctly advances as the necessary foundation for any economic program. Quite the contrary tendency prevails, we believe, in the Report—a persistent policy of "glossing over" the economic facts of life.

The American people are hardy enough to face these facts. Mr. Martin Gainsbrugh of the National Industrial Conference Board testified that such facing of facts by business economists had already

had beneficial effects on business decisions. We believe Government officials should display *at least* as much courage in facing realities in the raw. If the administration's advisers persist in hiding from realities they may put us in the position of a man who refuses to admit his illness, or to accept diagnosis, and who is therefore in double danger.

Name calling, charges of treason or near treason, cries about "doom and gloom" only becloud public thought and divide counsel at a time of peril. And we venture that inevitably it will kick back on those who would solve problems by name calling. We who have persisted in pointing out the current dangers claim no monopoly of patriotism, nor do we admit such a monopoly to those who would becloud the true facts.

We have never predicted a depression, and do not now. We recognize that there are sustaining forces in the economy. Moreover, during the past 20 years we have provided for stabilizing factors, euphemistically called "institutional improvements" in the committee report. We are pleased to note that the administration does not propose to repeal any of these.

While there may well be a seasonal upturn in March, there is no assurance that it would mean the end of the recession. In deciding in March whether any upturn has occurred, we must be careful to distinguish between a real and sustainable revival and temporary upward movements due solely to normal seasonal changes.

In the face of the evidence before this committee, prudence demands immediate, effective action to insure against the danger of further deterioration of the national economy.

#### WHAT WE PROPOSE

We propose that we adopt that realistic "courage and candor" advocated in the Economic Report.

In addition to a more effective program of public works including coordination of planning, modernized unemployment compensation, more efficient and humane disposal of farm surpluses, as advocated in the committee report, we believe that the most effective immediate steps to be taken are in the field of taxation.

The Congress should enact, and the President approve, a tax program that will set off a "chain reaction" of consumer buying that will reduce inventories, provide jobs, and renew public confidence. The "trickle down" theory which is the core of the administration tax program is, we believe, wrong in concept, wrong in equity, and incapable of doing the job. We cannot "fatten the herd by feeding the bulls."

A. We advocate an immediate increase of mass purchasing power by increasing the personal income tax exemption from \$600 (current) to \$800. This, at a basic tax rate of 20 percent, would give the average family \$160 a year additional income to spend on goods and services. And the average family would spend it, not sterilize it in banks. This suggestion, a modest one, would immediately release, on an annual basis, \$4.5 billion of consumer purchasing power into the markets and help to restore employment and production.

B. We advocate a drastic reduction of all excise taxes on necessities and semiluxuries to increase the purchasing power of the consumer's dollar. (The excise tax on a moderately priced automobile is sufficient to buy a refrigerator, a radio set, and a wrist watch.)

## ADDITIONAL VIEWS OF SENATOR DOUGLAS AND REPRESENTATIVE BOLLING

Although we approve in general of the committee report, and wholeheartedly of the preceding supplemental views, we believe that the report prepared by the President's Council of Economic Advisers needs somewhat fuller treatment.

To begin with we should like to call attention to the following lines of the Economic Report:

Under the circumstances, governmental policies must either be flexible, adjusting to new and unforeseen developments, or run the peril of courting disaster. But flexible policies, *adapted with promptness and vigor*, require courage and candor on the part of Government officials. (Economic Report of the President, January 1954, p. 51). [Emphasis added.]

As pointed out in the supplementary views referred to above there seems to be almost an utter lack of "courage and candor on the part of Government officials" (see above) which the report itself correctly advances as the necessary foundation for any economic program. On the contrary, "glossing over" economic facts prevails.

The lack of candor and courage in the Economic Report which the President's advisers have furnished him has led to three fundamental defects beyond those specified in the committee report:

(1) A failure to analyze correctly the facts of the rapid recession in economic activity during 1953 as they were known in December 1953 and January 1954 when the report was written;

(2) The prevalence of a pollyannish "prosperity is just around the corner" attitude, which largely ignores present difficulties and talks about some remote long run economic paradise; and

(3) A failure to propose a bold program for dealing with the immediate, pressing, problems of "Operation Big Switch" (see below).

### FAILURES OF ANALYSIS

The basic contradictions, into which the lack of candor and courage in the Economic Report led, are at the very outset in the summary of developments during 1953 in chapter 2. The Report starts correctly by pointing to the continued economic advance during the early months of the year. Then comes the statement:

Perhaps never before in their history have the American people come closer to realizing the ideal of high and expanding employment, without price inflation, than in 1953.

This is promptly followed by this complete contradiction:

But some sections of industry, notably farming, failed to participate in the widespread prosperity. The index of consumer prices inched a little higher in spite of some decline in food prices. And economic activity, taken as a whole, receded somewhat toward the close of the year.

In other words, prosperity wasn't so widespread, prices did go up as far as the consumer was concerned, and economic activity as a whole actually declined during the year. In point of fact, instead of "high and expanding employment" the Report itself (see for example,



table 3, p. 14; table 7, p. 30; table G-16, p. 184; and charts 4 and 5) contains the data to show that employment and production were declining by the year end. The Report itself shows:

(1) Industrial production declined on the average by 6.6 percent between July and December 1953 with declines in individual major industries ranging from 0.6 percent to a high of 13.2 percent (table 3, p. 14).

(2) Unemployment rose from 1.8 percent of the civilian labor force in October to 3 percent in December, an increase in 2 months of 59 percent (table G-16, pp. 184-185).

(3) Employment in nonagricultural establishments, adjusted for seasonal movements, fell by 1 million, or 2 percent, "after reaching a peak in July" (p. 20).

(4) "On a monthly basis, personal incomes reached a peak in July and declined 1 percent by the year's end" (p. 20).

(5) Retail sales were down 3 percent from February to December after allowing for seasonal movements (table G-29, p. 197).

(6) Business failures by December 1953 were 39.5 percent above December 1952 while current liabilities of such failures were up 87 percent (table G-48, p. 218).

The parade of evidence could go on almost indefinitely. The overwhelming weight of the evidence, however, falls in the direction of a reversal from "high and expanding employment" to *lower and declining employment*.

The classical division of the business cycle, as postulated by Dr. Wesley C. Mitchell and accepted by Dr. Arthur F. Burns (present Chairman of the Council of Economic Advisers to the President) is: Revival, prosperity, recession, depression.

In early 1949, we had what all admitted to be a recession. Then came "revival" and "prosperity." Revival began in the second half of 1949 with recovery fully attained before the Communists attacked in Korea and forced us into a war economy in June of 1950.

The present state of affairs, it seems to us, does not at all warrant the use of optimistic or soft-pedal terms which are sowed throughout the Economic Report:

The minor contraction of recent months (p. 19); readjustment, some contraction, imbalance between production and sales (p. 20); curtailing operations, contraction, inventory adjustment (p. 22); structural readjustment (p. 54); settling economic activity, readjustment, slight decreases of production, readjustment process, reducing excessive inventories, and moderate contraction (p. 59).

We cite this brief glossary of glossovers because we feel that the "courage and candor" called for in the Economic Report of the President has not shown up in that document itself. Nowhere in the document do we find a bold analysis of the facts cited in the Report and a courageous admission that as of January 28, 1954, the date of transmittal to the Congress, the Nation's economy *was in a recession*.

The latest data now available amply confirm this conclusion which the President's advisers should have reached in January. For example:

*General index of production (Federal Reserve).*—In July 1953 it stood at 137; January 1954 at 125.

*Automobiles.*—Detroit and Toledo classified as distress areas. Unemployment in Detroit alone in January numbered 107,000. Sales in January 1954 declined about 12 percent from January 1953. Produc-

tion is now about 128,000 per week compared to 146,188 per week in February 1953.

*Farm equipment.*—Production down 29 percent between January 1953 and January 1954.

*Heavy construction.*—Value of engineering contract awards was down 59.4 percent in January 1954 from a year earlier.

*Steel production.*—Down to 1.8 million tons per week from 2.2 million tons in February 1953 or from 99 percent of capacity in February 1953 to 74.4 percent now.

*Textiles.*—Production is down 20 percent from peak of May 1953.

*Farm prices.*—1953 monthly average of prices received by farmers down over 10 percent below 1952 monthly average.

*Mail-order sales.*—Over 13 percent below a year ago.

*Freight car loadings.*—Down 11 percent from a year ago.

*Business failures.*—Weekly number up almost 50 percent during the past 12 months, while liabilities of failures have almost doubled.

*Inventories.*—Total business inventories down \$1 billion between the end of September 1953 and the end of December 1953.

*Unemployment.*—Between October 1953 and January 1954, unemployment rose by 1.2 million—an increase of 100 percent in only 3 months. Under the new census method, unemployment amounted to 3.1 million in January and there are indications that it is still rising.

*Temporary layoffs.*—Census figures, 275,000. These men are to all practical purposes unemployed, though they still have the hope of jobs. But if they were to return uninvited to the factory gates the work would not be available, until called.

*Part-time workers.*—Census estimates 5.2 million persons, or 10 percent of nonagricultural employment, worked less than 30 hours per week, as follows:

(a) Less than 15 hours per week.....	1.9 millions.
(b) 15 to 21 hours per week.....	1.7 millions.
(c) 22 to 29 hours per week.....	1.6 millions.

If we include agriculture, about 1.5 million were working part time involuntarily.

In sum, nearly 5 million persons, or between 7 and 8 percent of the total labor force, are either jobless, laid off, or involuntarily working only part time.

If we haven't on our hands a recession, what is it? Certainly not a depression. No Democrat has ever said that. Certainly not revival, nor prosperity as millions of workers, farmers, automobile dealers, builders, railroad men, and small-business men know well. Conservative business economists, appearing before this committee during our hearings, plainly thought we are in some kind of a recession. Our position is that we cannot Dr. Coué ourselves out of a recession. Dr. Coué was the French psychologist who won fame by arguing that if we kept saying to ourselves "Every day in every way I'm getting better and better," we would really get better. That was tried and failed in 1929-32.

While we believe we are in a very definite recession, we still do not predict a depression. We have erected many safety nets during the past 20 years to prevent the bottom from dropping out of the national economy. We have farm price supports, minimum wages, unemployment compensation, collective bargaining, social security, assistance to the needy aged, blind, and dependent children, insured savings

deposits and housing programs, to mention a few of these safeguards. But while they may very well cushion the heaviest impact of a depression such as the one which began 25 years ago, that is about as far as they can go. They, by themselves, will not stop the economy from getting into a tight situation.

We cannot escape reality. We must face it with "candor and courage."

#### THE POLLYANNA OUTLOOK

Having glossed over the current situation, the administration is led naturally into a Pollyanna outlook toward possible developments and their implications for public policy. The report concludes:

The current readjustment seems likely to be brief and self correcting—and though the present "situation must not be viewed with complacency," nevertheless—

Our economic growth is likely to be resumed during the year, especially if the Congress strengthens the economic environment by translating into action the administration's far-reaching program.

We distinctly disclaim any powers of economic prophecy. But we do believe economic statesmen should follow the dictum stated in the Economic Report:

The best we can hope for is to minimize errors of miscalculation through making full use of available data, and to give due recognition to those elements of uncertainty that attach to both the present and the future.

Unfortunately, the Economic Report does not follow its own advice. Evidence is replete that one prime instance of a policy failure due to lack of "recognition of elements of uncertainty" and to "errors of miscalculation" turned up in the "hard money" policy.

The cursory statement in the Economic Report about this grave error is symptomatic of the attitude of the administration report. It is the case of the soft pedal with the loud push. Had these policies, embarked upon so blithely, not been quickly eased, we might have been in a really serious situation months ago. Such "playing it by ear" is extremely dangerous to a highly complicated, delicately balanced economy.

Even more obvious is the attitude exhibited in analyzing the current situation. We are asked in effect to wait and see. After all, the economy is in a transition from high to lower defense spending—hence, some "readjustment" is to be expected. The recent decline in the "second half of the year was *slight*" [italics added]. The "current economic readjustment seems likely to be brief and self-correcting" so that "our economic growth is likely to be resumed during the year \* \* \*"

This bright optimism leads to a concentration on long-run policies at the expense of measures for short-term stability. Perhaps such optimism will turn out to be justified. But, it clearly does not accord with the rule quoted in regard to allowing for uncertainties nor with the Report's own statements:

Impressive as are the factors which justify confidence that the current settling of business activity will stay within relatively narrow limits, it should be recognized that periods of readjustment *always carry risks with them*. [Italics added.] Continued imbalance could result in cumulative effects, as one sector of the economy reacts upon another. Such reactions are partly psychological in character, but they are nonetheless real. A relatively slight fall in the level of

activity, if interpreted as a harbinger of further declines, could lead consumers whose incomes have remained unchanged to start curtailing their purchases because they either fear a loss of income or hope for bargain prices later. If businessmen regard the first dropping off in orders as an occasion for curtailing their programs of capital investment, they could spread and intensify the difficulties they fear (p. 72).

Prudence as well as zeal for economic improvement require that public policy contribute both to the *immediate strength of the economy* [italics added] and to its long-term growth (p. 75).

Plainly, such prudence was not exercised before the Economic Report was submitted to the Congress. According to Prof. Alvin Hansen of Harvard University, early in 1953 the American economy was basically sound, in no need of purging and did not "have to have a readjustment." But when the decision for quick reductions in defense expenditures was taken, thus creating a temporary problem of "transition," the administration, as pointed out above, simultaneously, if not previously, adopted a policy of "hard money" and credit restriction through debt management. Although this latter mistake was soon too obvious to go on unreversed, nonetheless the administration, even in January 1954, still did not set forth a bold policy to meet the problems of transition—a transition which it had already allowed to reach recession proportions.

It is not enough to point to the risks of uncertainty in economic forecasting. Action must be taken to insure against such risks.

Moreover, the fact that we may, in March or April, experience an upturn, does not rule out such action in the slightest degree. We must be alert not to read a seasonal upturn, which may occur in the overall pattern of recession, as a permanent turn to the better. Most recessions have been marked by varying degrees of fluctuation, while the general pattern was one of a receding economy.

#### "OPERATION BIG SWITCH"

Dr. Edwin G. Nourse, formerly of the Brookings Institution and former Chairman of the Council of Economic Advisers, in testimony before this committee correctly characterized the administration's fundamental premise:

If I may resort to military vernacular, I would suggest that the net effect of the economic report is to portray this situation as "operation little switch" whereas in fact it will prove to be "operation big switch."

The faulty premise that this transition is an easy, self-regulating small magnitude operation lies at the heart of the faulty policy proposals of the administration. Nowhere in the administration's report do we find—

1. A concrete program to boldly move forward *now* to prevent a worsening of present conditions, but rather a tendency to wait until the situation develops further. We wonder, how long?

2. A farsighted conception of the responsibilities for moving forward economically, in order to continue that expansion of purchasing and production necessary to provide jobs for the some 600,000 new members who will probably move into the labor force this year. Rather, there is an implied tendency to talk of the long-run need for sustained economic growth while, without saying so, surrendering in the immediate short run to "contraction" or "readjustment" without

saying how far this process is acceptable before the attainment of long-run goals become a distant mirage.

We agree thoroughly with the basic concept of the report that production and jobs are the primary responsibility of private initiative and industry. We cannot accept, however, the implication that a depression must be upon us before government should take some remedial action, especially when, as at present, a substantial part of the depressive forces grow out of governmental policies.

We regard the Executive's report as wholly inadequate in scope and wrong in the theory of the remedies it proposes. No one quarrels with the sincerity of the administration.

We believe that the administration proposals are so hedged with a series of "ifs" that there is displayed a reluctance to seize the initiative and act resolutely. Economic upheavals do not wait for "certainties" in administrative minds.

In fact, in speaking of the administration program, the Economic Report states (p. 76):

It is not a legislative program of emergency measures, for the current situation clearly does not require one.

We challenge this assumption.

Later (p. 113) the report sets forth the basic principles which it says will guide it in meeting the situation. We call attention to the fact that in some particulars the basic principles do not square with the broad statements quoted above.

The first and foremost principle is to take preventive action as was done during the past year and as is further recommended in this report.

This refers to the tightening, then loosening of the interest-credit screws last year, and passes over the fact that the sum total of the action taken, in timing and other details, seriously jolted the economy.

The second principle is to avoid a doctrinaire position \* \* \*

Nobody questions the broad principle of these words, but taken in total, they amount to a plea in abatement. Actually, they are fine writing and no more.

The third basic principle is to pursue measures that will foster the expansion of private activity, *by stimulating consumers to spend more money and businessmen to create more jobs* [italics ours], so that the economy may resume its growth with new strength.

That is exactly what we Democrats propose to do, if the administration will lend its help with a will and conviction. But we are convinced that the administration program will never achieve this noble objective, and we shall soon show why.

The fourth principle is to *act promptly and vigorously if* [italics added] economic conditions require it.

Agreed. If not now, when? Must a depression be storming down upon us before that "if" time is reached? We think not.

The Democratic Party has traditionally stood for prosperity, and fought against depression no matter which party held power. We believe all Democrats will give the President support on prompt and vigorous action. We would rather have prosperity and have the Republican Party in power forever than have this Nation undergo the catastrophic upheaval of another depression, with all its terrible social consequences.

The objectives above, read against the business conditions we have recited from official sources, and against the very uncertain fate of the President's foreign trade expansion program in this Republican Congress, compel us to believe that remedies are due NOW.

#### TAX PROGRAM

We have discussed the "trickle down" theory which is the core of the administration tax program in the supplemental views of the minority. It was tried in 1926-27-28-29-30, and everyone knows the results. They were disastrous. This concept is to give tax relief to the upper brackets, who will save more, invest more, expand industrial plant, create more jobs, and therefore expand purchasing and consumption.

In normal times, this concept has a reasonable working validity. There will be some expansion.

But these are not normal times. In periods of business uncertainty, savings flow into the banks, and there tend to become sterilized. Under increased business hazards, banks do not lend, and borrowers will not seek loans. Both sit tight and ride out the uncertainties. We also urge this additional thought; the inventory situation shows that presently we do not need plant expansion so much as we need more purchasing power to absorb the products existing plants are capable of producing. This point is completely admitted by the language of the Economic Report, third basic principle underlined above.

On a full year basis, about \$2 billion capable of plant investment was released to corporations by expiration of the excess-profits tax as provided by law by the 82d Congress; another \$3 billion to individuals by expiration of the income tax 10 percent increase, offset, however, by an increase of \$1.3 billion in the social security tax, which became effective simultaneously on January 1, 1954.

Now the administration proposes to revive business by a "trickle down" program of additional tax cuts for the higher brackets, and for business for investment and plant expansion.

The administration tax program briefly provides this—

(1) \$250 million of reductions for individuals through more liberal credits for medical charges, baby sitters' deductions for working widows and widowers, income-splitting for heads of households, and other small similar benefits.

(2) \$1.8 billion of relief for business.

(3) \$1.2 billion of reductions for recipients of dividends.

Investors and business would get 12 times as much tax relief as individuals on salaries and wages. But that doesn't tell the whole story. The average individual would get \$6 in tax relief, while the average dividend recipient would get \$200 (\$1.2 billion divided by 6 million stockholders). That is 33 times as much. But it should be noted that less than 4 percent of the taxpayers receiving dividends (the group with incomes over \$10,000) get more than 75 percent of all dividends. (See Treasury Release No. H-266, October 8, 1953). Moreover, recent studies have shown that less than 1 percent of all American families own 80 percent of all publicly held stock.

We regard as unconscionable the provision for a 15 percent credit against taxes (in the third year) to dividend recipients. If the credit were against taxable income, there would be less inequity in the pro-

posal. But, this credit is so arranged that a man earning \$12,000 a year from dividends (4 percent on \$300,000 of stocks), with a family of 3 (wife and 2 children) would have a credit of \$1,800 (15 percent of \$12,000). This would not be credited against his \$9,600 taxable income (\$12,000 minus \$2,400 personal exemptions under current law). It would be subtracted from the approximately \$2,100 of taxes due, leaving him \$300 to pay. But his neighbor—a lawyer, doctor, merchant—with the same family, the same income, and working hard for it, would have to pay the full \$2,100 of taxes.

This is "trickle down" with a capital T. It outdoes anything of the 1920's. It is inequitable and grossly so.

It will never solve the problem of "stimulating consumers to spend more money and businessmen to create more jobs;" it will not add basically to purchasing power, because, as we have shown, the \$1.2 billions of tax relief to dividend earners will go mostly to the 4 percent of taxpayers who have incomes of over \$10,000. The \$1.8 billions of deductions for business will go primarily to a segment of the economy that has already received \$2 billion of relief on the excess-profits tax, and that is already searching for markets for the products of present plants rather than worrying about expanding capacity.

We suggest that those who take a rosy view of the potentialities of this tax program consult across the country with the farmers and dealers in the products of Ford, General Motors, International Harvester, Caterpillar, machinery and appliances, as to which is most needed: consumer buying power or more productive expansion.

We believe that what is needed now is a sound tax program, one which is fair to all taxpayers and one which will build up mass purchasing power and help to get this Nation out of its current recession. We advocate an immediate increase in the personal income tax exemption of from \$600 (current) to \$800 and drastic reductions in excise tax rates. Such a program would pour additional purchasing power into the economy and hence increase sales, production, and employment.

#### OTHER REMEDIAL ACTION

There are other steps we can take.

Congress has appropriated \$83 million for advance planning of State and local public works. In addition, it is estimated that by the end of the current fiscal year, \$1.2 billion of authorized Federal civil public works projects will be planned to the stage where construction could be started. Another \$3.5 billion is in the planning stage. Other plans should be ready for a worthwhile program of highways, roads, schools, hospitals, and other needed projects when they are needed to sustain the economy. We note with deep approval the constructive section of the committee report on the necessity of having these programs ready to go. We believe that the Congress should seriously consider one further step in this field: The enactment of legislation to create a specific agency to harmonize Federal-State-local plans, to keep such plans up to date, and to manage and direct public construction programs when they are instituted. Such agency should be under the direction of the President, and should have the cooperation and facilities of all other Federal agencies at its support. Perhaps we shall need an additional appropriation for this purpose.

The appropriate committees of the Congress should consider legislation to encourage the States and give them incentives to modernize unemployment compensation payments under a standardized procedure. This modernization might include 26 weeks of compensation at 50 percent of a worker's average pay in the 3 months preceding layoff, with a maximum of \$35 to \$40 a week, should the committees, after hearing evidence, decide that this standard was desirable.

We should have energetic governmental efforts to remove the overhanging farm surplus without disrupting domestic or foreign markets.

A. Authorize the use of commodities to *supplement* the rations of those on relief, aged pensioners, and those in hospitals, orphanages, and public and private eleemosynary institutions.

B. Provide an expansive foreign relief program through such private and/or public agencies as Congress may find suitable to handle this program.

C. Authorize and provide for the extensive exchange of commodities for strategic minerals: uranium, tin, manganese, rubber, mica, etc. Amendment of the law is necessary to expand the program and provide for processing and shipping.

D. Use surplus commodities as a means of psychological warfare wherever deliverable by various means.

These are definite steps which we can employ to stop the economic downtrend and put the Nation back on the track of prosperity. We are firmly convinced of the basic economic health of the country and that we should not look at the future with trepidation. But we must keep alert to the danger signs and move to counteract them as they arise. For if we ignore them, we can get ourselves into real trouble.



## ADDITIONAL VIEWS OF REPRESENTATIVE PATMAN

The President's Economic Report's attempt to rationalize the latest in a long series of disastrous attempts to curb real or imagined "booms" by interest rate and monetary manipulation is a sorry spectacle, full of contradictions, inconsistencies and significant omissions.

Before documenting these shortcomings, I believe that it is in the public interest to chronicle the dismal history of discretionary monetary policy starting with the post-World War I depression.

Late 1919-spring 1920: The Federal Reserve instituted a tight-money policy to curb inflation and produced a farm recession instead.

Spring 1920-mid-1921: Despite the drastic decline in activity and prices the Federal Reserve continued its high discount rates and restricted bank credit which aggravated the recession.

1923-spring 1924: Considering the recovery from the excessive 1919-21 deflation an unhealthy boom the Federal Reserve hardened credit and a recession promptly ensued.

1928-29: To curb the stock market boom the Federal Reserve indiscriminately restricted all credit and pushed commercial banks into substantial debt.

Mid-1931-spring 1932: Despite a rapid deterioration of the economic situation tight money was maintained.

1936-1938: Federal Reserve moved again to curb a "boom"—though over 7 million were unemployed—and doubled bank reserve requirements. The shock on the economy was sufficient to wipe out most of the recovery gains of the previous 4 years.

September 1948: Although inflationary pressures had abated in July and there were clear signs of a fundamental weakening in agriculture, the Federal Reserve raised reserve requirements substantially and reimposed regulations on consumer installment credit terms. A recession promptly ensued.

Early 1953: On the eve of transition from a period of rising to declining Government expenditures, the Federal Reserve raised the rediscount rate—a signal to all commercial banks to raise rates and tighten up on credit. The Treasury promptly followed through with a series of rate increases on public debt offerings and debt-management policies that produced, in the President's own words, "fears" and "new and startling" reactions among lenders and borrowers.

The record since 1919 shows that the monetary authorities have either moved at the wrong time, moved too vigorously, or failed to reverse their policies when conditions clearly indicated this was necessary.

To put it mildly, the case for flexibility or discretionary action on monetary policy, in view of the record, is very weak.

The hard-money policies initiated by the administration in early 1953 were clearly unwarranted. The Economic Report states (p. 21):

\* \* \* production and sales gradually fell out of balance in the early months of 1953.

To this clear and unequivocal description of production exceeding effective demand the Report adds the following:

The sluggishness of retail sales in the early months of 1953, together with excessively sanguine production schedules, brought about a condition that could not long continue. The reshaping of the defense program also affected inventories, which here and there became redundant in relation to the reduced military production rates in prospect (p. 21-22).

Surely there were no inflationary signs here. But turn now to page 49 of the Economic Report where we are told:

Economic life in a dynamic society is in constant flux. As the economy undergoes changes, first one problem, then another, comes to the surface and requires attention. During the first months of the year, when the economy *seemed to be* entering a new phase of inflation, the immediate concern of the Government was the protection of the value of the people's money. [Italics added.]

Economic life, as viewed by the authors of this report, not only is in a state of constant flux but is also capable of simultaneous movement in opposite directions. At least this is what "seemed to be" happening in the "first months of 1953."

On the basis of somebody's guess that there "seemed to be" a possibility of a "new phase of inflation," the discount rate was raised from 1¼ percent to 2 percent, signaling all banks to raise rates; pressure was brought to bear on member banks' reserves, leading to forced sales of Government bonds; with Federal Reserve support withdrawn their market prices fell sharply, Treasury harmonized its policy with Federal Reserve by bringing out a 30-year bond at 3¼ percent; forcing an increase to 4½ percent in the maximum interest rates on FHA and VA backed mortgages, and an increase from 3½ percent to 4 percent on Commodity Credit Corporation backed price-support loans; Treasury competed with the borrowers for the fixed supply of loanable funds.

In the language of the Report. "Interest rates of all sorts rose steadily and the rise, up to a point, was salutary" (p. 49).

Whether the rise was "salutary" depends upon whose interests were being served. Certainly it was "salutary" from the standpoint of lenders. But was it salutary for the taxpayer who will have to pay the higher cost of Federal, State, and local government financing for 20 to 30 years? Or for the home purchaser who will have to pay one-quarter to one-half percent higher interest rates for 20 to 25 years? Or for the farmer who, despite lower prices and falling income is paying one-half percent more interest on his crop support loan?

Was it "salutary" for thousands of small banks who saw the price of United States Government bonds they had bought with the assurance they would be supported at par value, fall to 89 and seriously threaten the narrow margin of capital available to absorb such losses in asset values?

Undoubtedly it was "salutary" to those who bought the new 3¼'s and are now enjoying a book profit of \$8 per \$100.

Similarly it was salutary to banks who could engage in switching operations which enabled them to write off losses from the sale of old securities against their tax liability and reinvest the proceeds in new high yielding securities.

The Report acknowledges that the results produced were exactly the opposite of those intended. Chairman Martin of the Board of Governors has admitted there was a miscalculation. At the time I introduced House Concurrent Resolution 98 to require the Federal

Open Market Committee to stabilize the Government bond market, and was joined by many other Democrats prominent in the party, including former Speaker Sam Rayburn, former Majority Leader John McCormack, and a majority of the Democratic members of the House Banking and Currency Committee, we were bitterly denounced as inflationists. I am inserting herewith excerpts from House Concurrent Resolution 98 as follows:

Whereas millions of loyal and patriotic American citizens supported their Government during World War II by buying Government bonds and have continued to do so since the end of World War II;

Whereas the Federal Reserve System has been pursuing a policy of refusing to do its part in supporting the credit of the United States of America by buying its proper share of Government bonds and other Government securities;

Whereas the credit of the United States of America has been impaired thereby;

Whereas, as a consequence, Government securities have fallen below par and the capital position of those with investments in previously issued Government securities has been seriously impaired;

Whereas this policy of the Federal Reserve System has made it easier for banks, insurance companies, corporations, and private investors to obtain higher interest rates, and thus higher profits, on money loaned to the Government;

Whereas the increased interest rates on Government securities will result in vast additional expenditures by the Federal Government and a substantial and unnecessary increase in the national debt;

Whereas this policy of the Federal Reserve System has increased interest rates not only on funds borrowed by the Federal Government, but has also helped to bring about a dangerous rise in interest rates on funds borrowed by (1) farmers, (2) foreign purchasers of American agricultural products, (3) home builders, (4) veterans who are buying homes and all other home buyers, (5) businessmen (particularly small-business men), and (6) local governments for the construction of schools, roads, water supply and sewerage systems, and other essential public facilities;

Whereas this policy of the Federal Reserve System will tend, in combination with other factors, to bring on a decline in business activity throughout the economy and to accentuate the deflationary trend in American agriculture;

Whereas this policy of the Federal Reserve System is an ineffective and inappropriate substitute for soundly conceived measures to control the supply and use of credit and to maintain the value of the American dollar;

Whereas whatever flexibility is needed in the prices of Government bonds should take place above par under the alternative policy of Federal Reserve System support of Government bonds at par;

Whereas this policy of the Federal Reserve System undermines the ability of the United States of America to meet the financial problems that would inevitably result from a new international emergency;

Whereas this policy of the Federal Reserve System violates the purposes of the Congress in the creation of the Federal Reserve System;

Whereas this policy of the Federal Reserve System is inconsistent with the maintenance of maximum employment, production, and purchasing power as called for in the Employment Act of 1946; and

Whereas a policy of supporting United States Government securities at par will not only cost the taxpayers nothing but will also result in a saving to the taxpayers and a profit to the Treasury: Now, therefore, be it

*Resolved by the House of Representatives (the Senate concurring), That the Federal Reserve Board and the Open Markets Committee of the Federal Reserve System should support the price of United States Government securities at par, but not exceeding par, as was done before the so-called Treasury-Federal Reserve accord which was announced March 4, 1951.*

The resolution was circularized May 4, 1953 and the Federal Open Markets Committee began stabilizing purchases May 11 and purchased about a quarter of a billion dollars worth before the end of May in outright transactions although no outright purchases had been made since January 1, 1953.

Rising interest rates created fears of even higher rates and thereby caused the demand for credit to rise insistently. But lenders expecting higher rates became reluctant to lend at existing rates.

Thus, policies not of themselves highly restrictive "had a more potent effect than was generally expected" (p. 50).

If changes which are not highly restrictive can produce unanticipated and more potent effects than the monetary authorities desire, does not the risk of flexible monetary policy outweigh any benefits that may be claimed from such methods.

Put another way, what conceivable beneficial results can we expect from a policy which is so intimately tied to uncertainty and psychological reactions.

The experience of 1953 added to the prior dismal record since 1919 raises serious questions about the desirability of both flexibility in monetary policy as well as discretionary powers for the monetary and debt-management authorities. Indeed the committee might well consider bringing up to date the views of the experts on monetary, credit, and debt-management policies in the light of the 1953 experiences.

I recommend that serious consideration be given to developing a set of mandatory rules including rules of timing that would compel the monetary and debt-management authorities, in their credit and interest-rate policies, to resolve questions of judgment in favor of stability and economic growth, rather than uncertainty and economic contraction.

The President's Economic Report overestimates the effectiveness of flexible credit policies. It states: "The Federal Reserve authorities responded to the insipid, and possibly dangerous, scramble for liquidity with a degree of promptness and vigor for which there is no close parallel in our central bank history" (p. 50).

This merely serves to reinforce the case against untimely flexibility. Despite the mildness of the restrictive measures, and the unprecedented reversing action, the monetary authority could not undo the deflationary effects of the restrictive policies. Business enterprise contracted by a general denial of credit, will not necessarily expand though credit is eased.

In part, this is due to the fact that a revival of business activity is dependent upon actual income changes, not changes in the availability of loanable funds.

In part it is due to the fact that the cost of credit actually continues to rise even after the supply of credit has been eased. A witness before this committee stated this is similar to the general reluctance of all businessmen to reduce their prices, once they have raised them.

Flexibility in action, moreover, was more quickly evidenced by the Federal Reserve System than by the Treasury. The Treasury continued to pay the peak 1953 rates on its new and refinancing issues until late 1953 when the first reduction was made by the Treasury in interest rates paid on Government securities.

Even after this belated response to declining market rates, the Treasury has continued to push its deflationary objectives of lengthening the maturity of the debt and attempting to shift a larger portion into the hands of nonbank investors.

The relative inflexibility in the Treasury attitude on interest-rate policy is also seen in the failure of lending and loan-guaranteeing

agencies who raised interest rates with Treasury approval in 1953 to reduce them in 1954.

I, therefore, recommend that interest rates on small-business loans, on VA- and FHA-backed mortgage loans, on CCC crop-support loans and Export-Import Bank loans be reduced to their 1952 levels.

The lesson of 1953 points to the necessity for a policy of low and stable interest rates and an ample but not excessive credit supply. Contracyclical action should be based primarily upon flexible fiscal policy coupled with selective credit controls when these are necessary.

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THE ECONOMIC OUTLOOK AND OTHER MATERIALS

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PREPARED  
FOR THE  
JOINT COMMITTEE ON THE  
ECONOMIC REPORT  
BY THE  
COMMITTEE STAFF

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## LETTERS OF TRANSMITTAL

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FEBRUARY 22, 1954.

*To Members of the Joint Committee on the Economic Report:*

For the information of members of the Joint Committee on the Economic Report there is transmitted herewith materials on the economic outlook prepared by the committee staff. The basic information was drawn from Government and private statements and reports, from the recent hearings of the committee on the President's Economic Report, and from staff conferences with technicians inside and outside the Government. This arrangement of economic trends, plans, and expectations of consumers, business, and governments has been prepared for the committee periodically since 1950, by the committee staff.

These materials, as well as other staff memoranda and information prepared during the past months, are submitted to members of the committee for their consideration preliminary to the preparation of the committee's report on the President's Economic Report, as provided by the Employment Act of 1946. It is understood, of course, that these materials do not necessarily represent the views of the committee or any of its individual members.

JESSE P. WOLCOTT,  
*Chairman, Joint Committee on the Economic Report.*

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FEBRUARY 22, 1954.

HON. JESSE P. WOLCOTT,  
*Chairman, Joint Committee on the Economic Report,  
House of Representatives, Washington, D. C.*

DEAR MR. WOLCOTT: Transmitted herewith are committee staff materials on the economic outlook. These projections of estimated present public and private trends, plans, and expectations are presented in keeping with past practices and with a full awareness of the limitations of such analyses. They are not, for example, forecasts or predictions of actual economic developments for the next year. Furthermore, they are not intended to present either an "optimistic" view or a "pessimistic" picture of future prospects.

The Employment Act of 1946 declares that the Federal Government has a "continuing policy and responsibility" to promote "maximum employment, production, and purchasing power" in "a manner calculated to foster and promote free competitive enterprise and the general welfare," with the assistance and cooperation of industry, agriculture, labor, and State and local governments. This pledged public and private agencies and groups to put forth their best efforts. It was not expected that these efforts would necessarily result in achieving fully the Employment Act's objectives every year but



rather that the attempt would be made at corrective action if at any time it became apparent that the objectives were not being attained.

The recent trend upward in unemployment and downward in industrial production raises questions as to whether present private and recommended Federal programs, if carried out, will result in a Nation's economic budget of "maximum" employment, production, and purchasing power for the next fiscal year 1955—the period of immediate concern to the Congress at this session.

A method for evaluating these trends, plans, and expectations is found in the Employment Act. The act provides that the President transmit an Economic Report to the Congress at the beginning of each session. This report is to set forth "(1) the levels of employment, production, and purchasing power obtaining in the United States and *such levels needed to carry out the policy* [of the act]; (2) *current and foreseeable trends in the levels of employment, production, and purchasing power* [emphasis added]; (3) a review of the economic program of the Federal Government and a review of economic conditions affecting employment in the United States or any considerable portion thereof during the preceding year and of their effect upon employment, production, and purchasing power; and (4) a program for carrying out the policy declared [in the act], together with such recommendations for legislation as he may deem necessary or desirable."

The staff has examined and quantified to the best of its ability the present trends, plans, and expectations of consumers, business, and Government economic activity for the next fiscal year—using the procedures suggested in the Employment Act. This was done on the basis of: (1) study of the Economic Report and other Executive messages; (2) analysis of testimony received at recent committee hearings; and (3) consultation with technicians. The committee staff has prepared similar Nation's economic budget projections each year for several years. The most recent published projection was attached to the committee's report on the President's Economic Report, March 1952 (82d Cong., 2d sess., report No. 1295). Appendix A of that report describes the methods and concepts used.

There is obviously no implied criticism of the Economic Report for not publicizing a detailed quantitative projection of the Nation's economic budget, although it is assumed that such projections are prepared and used by economics staffs in the executive branch. But the Congress is called upon to make specific decisions with respect to Federal economic programs also, and needs some quantification of the trends, plans, and expectations with respect to employment, production, purchasing power, and assumptions underlying the President's proposed program. Such information was obtained from administration witnesses and others at the recent committee hearings and panel discussions.

The need of policymakers—public and business—for explicit economic projections is generally recognized today. It is no longer a question of "projecting" or "not projecting," but rather a question of improving projecting methods. The latest illustration is the *Journal of Business*, published by the University of Chicago, which devotes the entire January 1954 issue to the methods and uses of economic "forecasting."

*Our present analysis suggests that increases in the ratio of private consumption to disposable income and increases in presently planned*

*private investment will be required during the next fiscal year if "maximum" employment and production are to be maintained. The President's economic program proposes to create an environment favorable to adjustments in private economic plans.*

The materials leading to these conclusions are presented under the following headings: (1) An estimate of total national output under conditions of "maximum" employment and production during the next fiscal year; (2) an estimate of likely demand for this output by each major sector of the economy as revealed by presently known trends, plans, and expectations and by recommended programs; (3) a synthesis of these demand estimates and a check of their consistency with "maximum" employment and production projections; (4) the President's economic program for increasing private demand; (5) additional possible steps; (6) the sustaining forces in the transition; and (7) statistics on labor force, employment, and unemployment.

Assumptions and notes with respect to present public and private trends, plans, and expectations are shown in appendix A. A budget for the Nation is shown in table I, indicating the possible incomes and expenditures of consumers, business, and Government if adjustments are made increasing private demand sufficiently to maintain "maximum" employment and production.

Other appendix materials summarize the legislative recommendations contained in the President's Economic Report and outline committee and staff studies and publications of the past 2 years, including the reproduction of some of the more important recent staff memorandums.

These staff materials are submitted as the composite views of James W. Knowles, John W. Lehman, William H. Moore, and myself. Respectfully submitted.

GROVER W. ENSLEY, *Staff Director.*

## THE ECONOMIC OUTLOOK

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This analysis suggests that increases in the ratio of private consumption to disposable personal income and increases in presently planned private investment will be required during the next fiscal year if "maximum" employment and production are to be maintained. The President's economic program proposes to create an environment favorable to adjustments in private economic plans.

### "MAXIMUM" EMPLOYMENT AND PRODUCTION DURING THE NEXT FISCAL YEAR

The levels of employment and production needed during the next fiscal year to carry out the objectives of the Employment Act were estimated by making the following assumptions:<sup>1</sup>

- (1) Average prices of finished products will stabilize at January 1954 level;
- (2) The ratio of labor force to population 14 years old and over will remain constant through June 1955;
- (3) Unemployment will continue at the seasonally adjusted rate of January 1954;<sup>2</sup>
- (4) Average hours of work will continue to decline slightly;
- (5) Private output per man-hour will continue to increase about 2.5 percent per year;
- (6) Federal expenditures and revenues will proceed as set forth in the President's budget; and
- (7) International conditions will not change significantly.

The above assumptions imply a rise in gross national product from about \$360.4 billion in fiscal 1953 (in 1953 current prices) to \$365 billion (in January 1954 prices) in fiscal 1954, and to \$373 billion (in January 1954 prices) in fiscal 1955. The projection, under these assumptions, for fiscal 1955 is about the rate attained during the second quarter of calendar 1953. These are projections of levels of output required to maintain "maximum" employment and production objectives, not forecasts of levels of gross national product which will actually be realized.

### DEMAND FOR NATIONAL PRODUCTION DURING THE NEXT FISCAL YEAR

In estimating total demand for production, the following assumptions are made with respect to present public and private plans:<sup>3</sup>

<sup>1</sup> See appendix A (p. 51) for explanation of basis for these assumptions, summary of pertinent testimony presented at the recent committee hearings, and official statements bearing on these points.

<sup>2</sup> This assumption does not imply that the staff believes that this is necessarily the level of unemployment consistent with the "maximum" employment goal of the Employment Act. Such a determination would be a value judgment beyond the scope of staff responsibilities. This level was used as a convenience in analyzing possible implications of developments and programs extending forward from this time. For further details see appendix A.

<sup>3</sup> See appendix A for explanation of basis for these assumptions, summary of evidence presented at the committee hearings, and official statements bearing on these points.

(1) Federal Government demand for national production will amount to \$57.0 billion in fiscal 1954 and to \$51.4 billion in fiscal 1955, amounts implied in the President's budget;

(2) State and local government expenditures to increase at the rate of recent years, about \$2 billion per year;

(3) The demand for residential nonfarm construction in fiscal 1955 is assumed to average about 7 percent below the level of calendar 1953 accompanied by about 1 million new starts per year.

(4) Present indications are that business plans investment in new plant and equipment in calendar 1954 about 5 percent below calendar 1953—we have assumed a slightly higher level than this for fiscal 1955 as a whole;

(5) Business inventory liquidation of \$2 billion in fiscal 1954 (this would require an annual rate of liquidation of about \$4 billion per year in the first half of calendar 1954) and unchanged in fiscal 1955;

(6) Net foreign investment to be minus \$1 billion in fiscal 1954 and zero in fiscal 1955;

(7) Personal income to average \$285 billion in both fiscal 1954 and fiscal 1955;

(8) Disposable personal incomes to average \$250 billion in fiscal 1954 and \$251.7 billion in fiscal 1955, allowing for tax changes as recommended by the President; and

(9) Personal savings to continue at about 7.5 percent of disposable personal income.

#### SYNTHESIS OF ECONOMIC PROJECTIONS

On the basis of the assumed labor force, employment, hours, and productivity, national production in fiscal 1954 could total \$365 billion and in fiscal 1955, \$373 billion.

Demand for national production, on the basis of estimated present trends, plans, and expectations, however, is estimated to total \$363 billion in fiscal 1954 and \$360 billion in fiscal 1955, as follows:

[In billions of dollars]

Item	Actual fiscal 1953	Estimated	
		Fiscal 1954	Fiscal 1955
National production (consistent with "maximum" employment).....	360.4	365.0	373.0
Demand for gross national product:			
Consumer.....	224.9	231.8	233.2
Business.....	53.9	48.0	47.0
State and local government.....	24.2	26.2	28.4
Federal government.....	57.5	57.0	51.4
Total.....	360.4	363.0	360.0

This summation of projections indicates the possibility of inadequate total demand to sustain "maximum" employment and production amounting to \$2 billion in fiscal 1954 and \$13 billion in fiscal 1955.<sup>4</sup> If this estimate of public and private programs is in the correct order of magnitude, for the first time in several years these programs add up

<sup>4</sup> The meaning given to "maximum" in this report is explained in footnote 2.

to less demand than the economy can satisfy at "maximum" levels of employment and production.<sup>5</sup>

This analysis suggests that if present consumer-savings patterns and estimated business investment programs are not changed, they will lead to one, or a combination of, the following results:

(1) A further voluntary reduction of the labor force. It is conceivable that additional numbers now in the labor force will choose to return to school, to the household, and to the retirement rolls as they have in the past year. Furthermore, it is possible that a decline in hours of work per employee might occur instead of some of the reduction in employment. If such withdrawals alone were to bring about the adjustment, they would have to amount to about 2 million individuals or a reduction of hours sufficient to reduce total man-hours of work by about the same amount. Unless offset by higher wage rates, this would reduce total take-home pay, and hence cause a further fall in consumer purchasing power and probably some decline in demand for goods and services.

(2) An increase in unemployment. If all or most of this adjustment is expressed in unemployment alone, there would be an increase of perhaps 2 million from present levels. This could raise total unemployment in the winter of 1954-55 to between 4 and 4½ million on a seasonally adjusted basis—approximately the same as during the 1949-50 adjustment on the Census Bureau "old sample." On the "new sample" it could amount to about 5 million. The secondary effects of such unemployment are difficult to measure.

(3) Adjustments in price levels. In a private competitive economy an excess of supply over demand tends to work toward a decline in prices and costs.

It is emphasized that we are not forecasting that one or a combination of these alternatives will take place. *These estimates of demand do not reflect the changes which may be made in private plans by business and consumers as a result (1) of Congress adopting the President's program or a modified program; or (2) of a reappraisal of the outlook.*

#### THE PRESIDENT'S ECONOMIC PROGRAM FOR INCREASING PRIVATE DEMAND

The President recommends a program to provide incentive for business and the consumer to increase aggregate private demand sufficient to restore economic growth. The President states: "The minor readjustment under way since mid-1953 is likely soon to come to a close, especially if the recommendations of the Administration are adopted" (President's Economic Report, p. 114). He goes further by saying: "Our economic growth is likely to be resumed during the year, especially if the Congress strengthens the economic environment by

<sup>5</sup> By their nature the Nation's economic accounts, viewed in retrospect, are always in balance. The incomes received from production on one side of the accounts must equal the expenditures of the economy for production on the other side. This means that any apparent "gap" resulting from an analysis of estimated future economic activity must in the end be eliminated by a compensatory change somewhere in the economy. This balance may be achieved by shifts in any one or all of the areas covered by the assumptions previously listed, as well as those listed subsequently in the text. One word of caution: While it is necessary to use detailed and precise figures to arrive at an economic budget which will check internally, it must be emphasized that the purpose of such a budget is to show the general order of magnitude and direction of possible major economic developments on the basis of stated assumptions.

translating into action the Administration's far-reaching program" (Economic Report, p. iv). The President's program for strengthening the economic environment is summarized in appendix B. Legislative recommendations are made with respect to the statutory debt limit, old-age and survivors insurance, the unemployment insurance system, agricultural policy, Government aid to housing, international trade policy, public works planning, taxation and tax policy.

The President's report does not spell out the nature and the magnitude of the adjustment needed in private programs. However, if individual savings decline to about the rates of the post-World War II high employment years, or to about 5½ percent of disposable personal income, consumer spending would increase approximately \$5 billion in fiscal 1955 above present expectations. Accumulated liquid savings of \$200 billion could be dipped into by consumers as during the immediate postwar period.

If private investment provides the remaining demand for fiscal 1955, it must increase some \$8 billion over estimated present plans. This would mean continuing investment at or slightly above present rates. Such levels of private investment during the next 18 months would be warranted in light of the needs for housing, for plant modernization, for rounding out the industrial base for a national defense, and for preparing to meet the future needs of a rapidly growing population.

The Nation's economic budget for fiscal years 1954 and 1955, table I, sets forth both incomes and expenditures of consumers, business, and governments on the assumption that private demand increases, as indicated above, sufficiently to balance the economy at "maximum" employment and production levels.

TABLE I.—Summary of Nation's economic budget and production, "maximum" employment and production, actual fiscal year 1953; estimated 1954 and 1955

(Billions of dollars)

Incomes from national production	Actual, 1953 <sup>1</sup>	Estimated, 1954 <sup>2</sup>	Estimated, 1955 <sup>2</sup>	Expenditures for national production	Actual, 1953 <sup>1</sup>	Estimated, 1954 <sup>2</sup>	Estimated, 1955 <sup>2</sup>
<b>INDIVIDUAL CONSUMERS</b>							
Disposable personal income.....	243.2	250.0	251.7	Durable goods.....	28.5	29.8	31.0
Personal savings (—).....	-18.2	-17.2	-13.7	Nondurable goods.....	120.8	121.5	122.0
				Services.....	75.6	81.5	85.0
Total.....	224.9	232.8	238.0	Total.....	224.9	232.8	238.0
<b>BUSINESS</b>							
Corporate undivided profits.....	10.2	11.0	11.5	New construction.....	24.3	25.0	26.0
Inventory valuation adjustment and statistical discrepancy.....	-2	-3.8	+1.2	Residential nonfarm.....	11.6	11.8	12.0
Capital consumption allowances.....	28.1	30.6	33.2	Other.....	12.7	13.2	14.0
Dissavings (+).....	+15.8	+11.2	+9.3	Producers' durable equipment.....	25.9	26.0	27.2
				Change in business inventories.....	+5.7	-1.0	2.0
				Net foreign investment.....	-2.0	-1.0	0
Total.....	53.9	49.0	55.2	Total.....	53.9	49.0	55.2
<b>STATE AND LOCAL GOVERNMENT</b>							
Personal tax and nontax receipts.....	3.7	3.9	4.1	Purchases of goods and services.....	24.2	26.2	28.4
Business tax and nontax liabilities.....	18.6	20.6	22.0				
Contributions for social insurance.....	1.2	1.3	1.4				
Payments other than for goods and services.....	+1.0	+1.1	+1.0				
Savings (—).....	-3	-7	-1				
Total.....	24.2	26.2	28.4	Total.....	24.2	26.2	28.4
<b>FEDERAL GOVERNMENT</b>							
Personal tax and nontax receipts.....	32.0	31.1	29.2	Purchases of goods and services:			
Business tax and nontax liabilities.....	32.8	32.1	31.5	Major national security.....	51.2	50.4	45.5
Contributions for social insurance.....	7.7	7.9	8.7	All other.....	6.9	7.2	6.3
Payments other than for goods and services (deduct).....	-18.1	-20.8	-22.5	Less Government sales.....	.6	.5	.4
Dissavings (+).....	+3.1	+6.7	+4.5				
Total.....	57.5	57.0	51.4	Total.....	57.5	57.0	51.4
Grand total.....	360.4	365.0	373.0	Grand total.....	360.4	365.0	373.0

<sup>1</sup> Current prices.   <sup>2</sup> Constant January 1954 prices.

NOTE.—Estimated present trends, plans and expectations as noted in appendix A, modified to provide \$1 billion and \$5 billion additional consumer demand and \$1 billion and \$8 billion additional business investment in fiscal 1954 and 1955, respectively, thus maintaining "maximum" employment and production.

Source: Actuals, Department of Commerce; estimates, staff Joint Committee on the Economic Report.

ADDITIONAL POSSIBLE STEPS <sup>6</sup>

If it develops that private consumption and investment do not increase in the immediate weeks ahead as contemplated in the President's report, the committee and the Congress should consider carefully the implications of the resulting employment and price adjustments. The analysis should concentrate on whether or not the economic decline will be mild and self-correcting without further Government action, as was largely the case in 1949, or whether the economic decline is of a more serious, more widespread, and spiraling kind. If the latter, the Congress could consider proceeding on three fronts mentioned in the Economic Report, additional to those spelled out in the President's program:

First, the Congress could authorize a further easing of the money and credit markets, with consequent declines in interest rates, relaxation in lending terms, and loan and guaranty programs, as inducements to private expansion and to State and local financing of needed public works.

Second, the Congress could consider tax reductions beyond those contemplated in the President's program. The nature of this tax action, of course, would depend upon the situation and outlook at the time. If the principal deficiency in demand appeared in the consumer segment, emphasis could be given to reducing excises, to raising personal exemptions in the individual income tax, and to adjusting income tax rates. If private investment needs further stimulation the Congress could weigh the possible effects of permitting the April 1 reductions in the corporate income tax rate to take place, and proceed with other improvements in the business and personal tax structure.

Third, the Congress could increase Federal expenditures for needed public works and at the same time encourage and assist State and local governments to improve their facilities, particularly in areas most seriously affected by unemployment.

The combined effects of such actions, of course, would be to unbalance the Federal cash budget. This is an important step and should be taken only after it is clear that the adjustment will either not be self-correcting or will bring hardships to the people if left to run its course. On the other hand, it must be realized that a decline in incomes resulting from a recession or depression would also result in budget deficits, by reducing receipts and increasing certain expenditures automatically.

## THE SUSTAINING FORCES IN THE TRANSITION

The problem facing the Nation and the Congress for the next 2 years is that of making the transition from a position which may well have been above the long-term growth trend of the economy to a position on the long-term growth trend from which a sustained economic growth can take place into a prosperous decade of the 1960's. This transition problem was discussed in our memorandum to the committee last summer entitled "The Years Between." (See appendix F, p. 78.)

<sup>6</sup> It has been indicated by one reviewer of these materials that inflation in the coming year is a possibility resulting from the stimulating effects of adopting the President's program. While inflation is always a possibility, testimony at the recent committee hearings suggested that it was not a probability unless the international situation deteriorates. If inflationary pressures develop, present monetary and fiscal flexibility should be sufficient to provide the desired economic stability.



For the longer run, studies by the committee staff and others suggest that public as well as private economic expansion can be very large.<sup>7</sup> The major sustaining forces which are seen ahead may be summarized as: (1) the additional goods and services to provide even present per capita living standards to about 15 million additional people between now and 1960; (2) the continued high levels of investment in plant and equipment to make this production possible; (3) the technological advances, such as atomic energy, bringing cost reduction and new products; (4) the backlog of highways, schools, hospitals, and other public facilities which must be constructed if we are to maintain even the minimum level of services the average citizen considers acceptable; and (5) the improved position of consumers who still have a significant portion of their income to spend or save above what would be required to meet their basic living costs.

A factor which is much more difficult to measure, but equally important, is the characteristic determination of the average American citizen to set for himself a constantly improving standard of living and a willingness to work for it. It provides the stimulus for the development of new and improved products, for better ways of making them, and for constantly improving private and public services.

#### STATISTICS ON LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

The apparent inconsistencies and inadequacies in the separate but related data on labor force, employment, and unemployment throw doubt upon the accuracy of appraisals of the current economic situation.

It is of utmost urgency that immediate steps be taken to strengthen the data published by the Government in this vital area. Space permits only the mere outline of some major objectives.

Information on the labor force, employment and unemployment collected by the Departments of Labor and Commerce should be brought together, and analyzed in one integrated report regularly published, which would clearly set forth the information given in these separate sets of data.

Continuous research and study are necessary to reconcile differences which arise from time to time in the several series of data and for a better understanding and analysis of trends in employment and labor-market conditions. The information supplied by each of the series measures different aspects of the employment problem. However, necessary or inadvertent differences in concepts, definitions and procedures should not be allowed to cause confusion.

A rounded program should supply monthly information on the flow of people into and out of the labor force and the character and location of the unemployed as well as of the employed. Particularly useful would be additional information on the number of unemployed who are heads of families and whose idleness might threaten the well-being of their families.

<sup>7</sup> Joint committee print, *The Sustaining Economic Forces Ahead*, materials prepared for the Joint Committee on the Economic Report by the committee staff, 82d Congress, 2d session. See also *Markets After Defense Expansion*, U. S. Department of Commerce, Washington, D. C., December 1952; *A Program for Expanding Jobs and Production*, report of the committee on economic policy, United States Chamber of Commerce, Washington, D. C., June 1953; *Maintaining Prosperity*, committee on economic policy, Congress of Industrial Organizations, Washington, D. C., June 1953; and *The American Economy in 1960*, staff report, National Planning Association, Washington, D. C., December 1952.

Study should also be given to the seasonal influences upon variations in employment and the labor force. Regular publication of seasonally adjusted data should be arranged to accompany publication of unadjusted data. Emphasis should also be placed on the adequate development of data measuring employment and under employment in terms of man-hours. Such measures may be more useful in measuring total employment than number of persons employed, since the latter might conceal partial involuntary unemployment manifested in reduced hours due to work sharing.

The basic information outlined above will contribute to economic policy decisions by the Government and the public in a way which would more than justify the additional expenditures involved.

# APPENDIXES

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## APPENDIX A

### ASSUMPTIONS AND NOTES

This appendix sets forth in brief form the considerations underlying the assumptions utilized by the staff in projecting the supply-demand situation for fiscal years 1954 and 1955. These assumptions have been outlined in the text. As indicated in the letter of transmittal and in the text, these assumptions are made to enable the staff to set forth the tendencies and general order of magnitude important to the evaluation by the committee and the Congress of public and private plans and programs: They are in no sense the staff's predictions as to what may occur.

Under each assumption we have, wherever possible or necessary, excerpted or summarized (a) the recent hearings of the committee, and (b) executive statements or documents.

#### "MAXIMUM" EMPLOYMENT AND PRODUCTION

The levels of employment and production which would be needed during fiscal 1954 and fiscal 1955 to carry out the "maximum" employment and production objectives of the Employment Act were estimated by making the following assumptions:

(1) *Average prices of finished products will stabilize at January 1954, level*

The staff's practice has been to estimate supply and demand in constant prices with the price level stabilized at the most recent value at the time of making an analysis. This has the advantage of eliminating the need for making varying assumptions of how prices of various types of goods and services might change. It has the further advantage that the procedure enables one to analyze the possibility that underlying real forces may be making for price change or for price stability among other possibilities. In the present instance, the staff's usual methodology was reenforced by testimony presented at the hearings indicating a likelihood of price stability and that Government policies have been constructed on the assumption that prices would remain relatively constant.

Looking forward in 1954, there appears to be no reason to anticipate any marked change in the general level of prices of consumer goods and services. We must expect some ups and downs in the cost of the family budget from month to month, in response to particular market situations. Charges for services and rents can be expected to continue to edge up slowly, while for most commodities, the supply situation is likely to be the dominant force in 1954. Arynness J. Wickens, Bureau of Labor Statistics, hearings, February 9, 1954.

A similar view was expressed by Mr. Hughes, who expected that prices will remain stable during the calendar year 1954. Rowland R. Hughes, Bureau of the Budget, executive session (included in printed hearings) February 1, 1954.

(2) *The ratio of labor force to population 14 years old and over will remain constant through June 1955*

In the hearings on February 5, 1954, Mr. Eckler of the Census Bureau, under questioning, stated that the increase in the labor force between calendar 1953 and 1954 would be about 500,000 to 600,000 and the same increase would occur between calendar 1954 and 1955 if one assumes "purely demographic consideration. By that I mean assuming in each age-sex class you had the same rates of participation in the labor force as you had the year before." He also said that based on past experience it would be "reasonable to assume that it [withdrawal of people from the labor force] would be pretty well over by this time."

Under the assumption of a prosperous peacetime economy, the Nation's labor force would be expected to expand to approximately 72 million by 1960, as compared with 64 million in 1950, and an estimated 41 million in 1920. (The actual number in April 1953 was 66.3 million.) These figures imply an average annual increment of 800,000, or 1.2 percent, during the present decade, a rate of growth somewhat under that for the past 3 decades. As the large crop of babies from World War II and the early postwar period attains working age, an annual increment of 1.2 million, or 1.6 percent, would be anticipated during the 1960's. A. Ross Eckler, Bureau of the Census, hearings, February 5, 1954.

(3) *Unemployment will continue at the seasonally adjusted rate of January 1954*

In order to estimate the level of output that would result if the Employment Act objective of "maximum" employment and production were attained, it is necessary to make some assumption regarding unemployment. The determination that a particular level is consistent with the objectives of the act would be a valued judgment. In the absence of such a determination, the staff has assumed the most recent seasonally adjusted levels will continue. This is a matter of convenience but it is also believed to be consistent with the assumptions underlying the President's budget message, as is shown by the following testimony from committee hearings:

Our estimates of activity and employment are in accordance with their [Council of Economic Advisers and the Treasury Department] assumptions of a continuation of somewhat the same level that we have had, with some slight margin there for unemployment \* \* \*. I think [unemployment is estimated at] two to two and a half million, about that much. Rowland R. Hughes, Bureau of the Budget, executive session (included in printed hearings) February 1, 1954.

We are preparing a revision of the workloads for the last half of fiscal year 1954 based on the assumption that unemployment, for this period, will average 2.6 million. During the first 6 months of the current fiscal year, unemployment averaged 1,400,000.

With respect to fiscal year 1955, the workload estimates were based upon the assumption that employment will expand enough to absorb an increase of 400,000 in the civilian labor force and that unemployment will average 2 million for the year as a whole. Robert C. Goodwin, Bureau of Employment Security, hearings, February 5, 1954.

This assumption and above testimony are consistent with the data shown by the "old sample" of the current population survey of the Bureau of the Census. As reported in the Department of Commerce release of February 16, 1954, the "new sample" would indicate unemployment in January 1954 on an unadjusted basis of 3,087,000 compared to the 2,359,000 shown by the "old sample." If we accepted the levels indicated by the "new sample" both as to labor force and as to unemployment, we would have substantially the same employment, and hence the same total output. On the other hand, if we kept our

assumption of unemployment as stated above (2 to 2.5 million unemployed), but increased our labor force as shown by the "new sample," this would increase the potential "maximum" output by a little over 1 percent, or from \$373 billion to about \$377 billion.

*(4) Average hours of work will continue to decline slightly*

There seems to be widespread opinion as well as evidence leading to the conclusion that the economy was operating on an overtime basis in the last couple of years up through the second quarter of calendar 1953, at least. The staff has therefore assumed that the recent reduction in hours of work will not be reversed and that on the average some slight further declines may occur.

\* \* \* The peak hours per week in 1953 occurred in March, which was a little better than 41 hours.

There was a slight decline in April, which might have been just seasonal, but it was quite significant to us when that was followed up by a further decline in May. In other words, this was one of the earliest indicators that the top of the employment had been reached, although employment still continued in terms of employees to rise \* \* \* for some months afterward.

In August the lines crossed each other, and toward the end of the year you will see that we were working about 40 hours per week in manufacturing industries. That was about an hour and a half less than it was in December of the previous year. Ewan Clague, Bureau of Labor Statistics, hearings, February 5, 1954.

*(5) Private output per man-hour will continue to increase about 2.5 percent per year*

The long-term trend in private output per man-hour has tended to increase about 2 percent per year. Recent increases appear to have been appreciably above this, perhaps 3 percent and even more per year. The very large investment in recent years in modern plant and equipment and the prospect of continued substantial investment in modernizing our plant and equipment, even if investment is somewhat below recent levels, would tend to imply that output per man-hour would increase at a rate well above the long-term trend. After consultations, the staff assumed a moderate figure of 2.5 percent per year.

\* \* \* Increases in productivity and labor force suggest an advance of not less than 3½ percent per annum. Indeed, some economists, impressed by modern technological research, would put the figure at 4 percent. But no one would challenge, I believe, the feasibility of the 3½ percent rate. \* \* \* Alvin H. Hansen, hearings, February 18, 1954.

*(6) Federal expenditures and revenues will proceed as set forth in the President's budget*

Of particular significance in estimating potential output is the budget statement that:

Total military personnel is scheduled to be reduced from the present level of more than 3.4 million to approximately 3.3 million by June 30, 1954, and a little over 3 million by June 30, 1955. On this basis, this budget provides for an average of 3.2 million military personnel during the fiscal year 1955, compared with an average of 3.4 million during the fiscal year 1954 (The Budget of the United States Government for the Fiscal Year Ending June 30, 1955, pp. M43-M44).

*(7) International conditions will not change significantly*

We have assumed there will be no change in the international situation that would affect the President's recommendation as to desirable size of the armed services and of the necessary supporting military budget.

In summary, these assumptions imply a rise in gross national product from about \$360.4 billion (in 1953 current prices) in fiscal 1953 to \$365 billion (in January 1954, prices) in fiscal 1954 and to \$373 billion (in January 1954, prices) in fiscal 1955. The projection, under these assumptions, for fiscal 1955 is about the rate of production attained during the second quarter of calendar 1953. These are projections of levels of output required to achieve the Employment Act's objectives, not forecasts of levels of gross national product which will actually be realized.

Items	Actual fiscal 1953	Estimated	
		Fiscal 1954	Fiscal 1955
Total labor force (millions of persons) <sup>1</sup> .....	67.3	66.9	67.5
Armed services (millions of persons) <sup>1</sup> .....	3.6	3.4	3.2
Civilian labor force (millions of persons) <sup>1</sup> .....	63.7	63.5	64.3
Unemployed (millions of persons) <sup>1</sup> .....	1.6	1.9	2.3
Employed (millions of persons) <sup>1</sup> .....	62.1	61.6	62.0
Hours of work (per week).....	40.4	39.7	39.5
Output per man-hour (index, fiscal 1953=100).....	100.0	102.3	104.7
Gross national product (billions of 1939 dollars).....	176.5	176.3	180.3
Prices index (1939=100).....	204.1	207.0	207.0
Gross national product (billions of current dollars).....	360.4	365.0	373.0

<sup>1</sup> Labor force data are based on the "old sample" rather than the tentative "new sample" of the Bureau of the Census.

#### DEMAND FOR NATIONAL PRODUCTION

In estimating total demand for production in fiscal years 1954 and 1955, the following assumptions are made:

- (1) *Federal Government demand for national production will amount to \$57 billion in fiscal 1954 and to \$51.4 billion in fiscal 1955, amounts implied in the President's budget*

These assumptions as to Federal demand for goods and services reflect the staff's calculations adjusting the figures contained in the President's budget of January 1954 to the conceptual basis used in the national-income accounts. Federal finances, according to the various accounting definitions and consistent with the President's budget, are as follows:

[In billions of dollars]

Fiscal years	Administrative basis			Cash basis			Nation's economic account basis		
	1953	1954	1955	1953	1954	1955	1953	1954	1955
Income.....	64.6	67.6	62.7	71.3	74.9	70.8	54.4	50.3	46.9
Expenditures.....	74.0	70.9	65.6	76.6	75.2	70.7	57.5	57.0	51.4
Deficit.....	9.4	3.3	2.9	5.3	.2	1.1	3.1	6.7	4.5

<sup>1</sup> Surplus.

- (2) *State and local government expenditures to increase at the rate of recent years, about \$2 billion per year*

"State and local governments, on the other hand, will probably increase their expenditures by \$1 or \$2 billion. Gerhard Colm, hearings, February 9, 1954.

Since the end of the war, State and local expenditures have risen on an average of \$2 billion a year. Adjusted for the rise in prices, the average annual increase equaled about \$1.3 billion.

But the general conclusion can be drawn that State expenditures will in the next 2 years almost maintain the rate of increase they have shown in recent years. This is probably also true of local government expenditures. Roger A. Freeman, hearings, February 10, 1954.

\* \* \* Even if prices generally are stabilized, some further rise in average pay rates for State and local personnel may well occur during the next year or so. Any such change would add to the increase of perhaps 3 to 5 percent annually that may otherwise be expected in operating expenditures of these governments.

The total of more than \$3 billion annually which State and local governments spend in this form may be expected to move up slightly with a stable economy.

Despite the existence of sizable needs for capital improvements, it would seem doubtful that—with a stable economy and price level but lacking any drastic financing change, such as sharply increased Federal grants for construction purposes—State and local outlay spending will increase annually by more than perhaps around 10 percent. Allen D. Manvel, Bureau of the Census, hearings, February 10, 1954.

(3) *The demand for residential nonfarm construction in fiscal 1955 is assumed to average about 7 percent below the level of calendar year 1953 accompanied by about 1 million new starts per year*

For roughly 3 years there has been a gradual downtrend in new residential construction from an officially recorded peak in housing starts of about 1,400,000 in 1950 to approximately 1,100,000 units last year. More than 8 million new homes built since the end of World War II obviously have improved national housing conditions substantially from the early postwar years of acute shortages. Fewer new families and the current lack of urgency among prospective home purchasers point to a somewhat lower volume of new housing starts, perhaps off 10 percent, during the year ahead.

\* \* \* \* \*

Overemphasis upon new homebuilding activity, however, can be very misleading at the present time. For, in my opinion, a tremendous opportunity now exists for private initiative to maintain a high and healthy level of total residential construction by combining a historically good, but somewhat reduced, volume of new homebuilding with expanding work in the "fix-up" field. Walter Hoadley, hearings, February 8, 1954.

Private spending for new dwelling construction (at \$9.7 billion) is expected to be under this year's volume by about 7 percent, because of a moderate decline in nonfarm housing starts. On the other hand, dollar outlays for home improvements, in the form of additions and alterations, may advance by almost a fifth, reflecting among other things the need for remodeling small homes to accommodate growing families, as well as a stepping up of programs to rehabilitate declining neighborhoods. Altogether, expenditures for private residential building (housekeeping and nonhousekeeping) will probably amount to over \$11.2 billion, about 4 percent below estimates for 1953, and will account for almost half of total private volume. "High Construction Levels To Continue in 1954," United States Departments of Labor and Commerce, November 13, 1953.

(4) *Present indications are that business plans investment in new plant and equipment in calendar 1954 at 5 percent below calendar 1953—we have assumed a slightly higher level than this for fiscal 1955 as a whole*

As matters stand right now, American business as a whole is planning to spend more for new plant and equipment in the first quarter of 1954 than in any first quarter on record. (In American business as a whole I include manufacturing, mining, transportation, public utilities, and commercial establishments.) The planned annual rate of expenditure—about \$28 billion—was exceeded slightly in the last 2 quarters of 1953, but there has never been a higher first quarter since the Commerce Department and the SEC started to collect the figures—in 1946.

For the balance of the year American business is now planning to continue the purchase of capital equipment at a very high rate, but a rate which will decline moderately as the year advances. If capital investment were carried out for the balance of the year as at present planned, the expenditure would be from \$1 billion to \$1.5 billion less than the alltime recordbreaking total of \$27.8 billion attained in 1953.

*Business capital expenditures, calendar years*

[Billions of dollars]

	Estimated, 1953 <sup>1</sup>	Planned, 1954 <sup>2</sup>
Manufacturing and mining.....	\$13.30	\$12.25
Electric and gas utilities.....	4.50	4.30
Transportation.....	2.70	2.45
Commercial and miscellaneous.....	\$ 7.35	\$ 7.50
<b>Total</b> .....	<b>27.85</b>	<b>26.50</b>

<sup>1</sup> Latest quarterly survey, Department of Commerce and SEC.<sup>2</sup> McGraw-Hill, Electrical World and American Gas Association surveys.<sup>3</sup> Commercial and miscellaneous, estimated.

If the table correctly portrays the situation—and I am confident it comes pretty close to it—business as a whole is planning to invest only 5 percent less in new plant and equipment in 1954 than it invested in the alltime recordbreaking year 1953. As the table indicates, most of the decline is concentrated in manufacturing. Dexter M. Keezer, hearings, February 8, 1954.

Last year's inventory accumulation indicated that productive capacity and output had increased by more than consumers were willing or able to buy at existing prices.

We should not forget that, by and large, business cannot be expected to expand unless markets are growing. It is true, some forward looking businessmen are not discouraged by minor fluctuations in the market. One of the most encouraging aspects of the present scene is the tendency of some business firms to orient their investment programs in the light of long-run market prospects. Nevertheless, this does not alter the fundamental relationship between expansion and modernization of business on the one hand, expansion of consumer markets on the other. While obstacles which stand in the way of desirable business expansion should be removed, we should not forget that nothing stimulates expansion as much as growing markets. Gerhard Colm, hearings, February 9, 1954.

(5) *Business inventory liquidation of \$2 billion in fiscal 1954 (this would require an annual rate of liquidation of about \$4 billion per year in the first half of calendar 1954) and unchanged in fiscal 1955*

Business accumulated inventories at an annual rate of \$3.1 billion per year in the first quarter of fiscal 1954 and liquidated them at a rate of \$3 billion per year in the second. If, as seems likely, inventories were still too high by at least \$2 billion on December 31, 1953, then to bring inventories into line with final demand by July 1954 would require an annual rate of inventory liquidation of about \$4 billion per year during the period January to June 1954.

If this analysis is correct, one would conclude that stocks stood in balanced position—or at most were but moderately on the low side—at the end of 1952. Now in the first half of 1953 substantial growth in stocks took place—the annual rate running about \$4.3 billion in the first quarter and rising to \$7.1 billion in the second. Output cuts reduced the rate to \$4.3 billion in the third quarter despite a slight fall in sales. Production was lowered further in the fourth quarter. The preliminary official estimate is that stocks were held constant during that period.

My guess is that they fell off by \$1 to \$2 billion annual rate. Due to the strength of sales, output cuts have thus been translated largely into changes in the rate of inventory investment. The question, however, is whether at the sales rate prevailing in fourth quarter 1953 this level was satisfactory or whether at that time the inventory-sales ratio was such as to call for stock reduction.

The historical record will not support unqualified conclusions on this point. If, however, the results cited above are reasonably valid, it would appear that one could expect further inventory disinvestment. This is what one would infer from analysis of the behavior of GNP components during 1953.

In first quarter 1953 the value of gross output sold for purposes other than additions to business stocks ran about \$359 billion. In fourth quarter 1953 the total was \$365 billion. However, outlays for goods seem not have changed much if at all between the two periods.



Against this at the close of 1953 stocks were around \$3.7 billion—between 4 percent and 5 percent—larger than at the year's opening. The implicit inventory-sales ratio had thus risen significantly.

On the basis of the Paradiso-Wimsatt analysis, it would appear conservative to assume that stocks were \$2 billion to \$3 billion too high in relation to sales at year end.

It is possible that decumulation would come to a halt some time in the third quarter and be replaced by positive accumulation in the fourth. On the other hand, continuance of output reduction at a moderate rate would permit some additional decumulation—say at the annual rate of \$2 billion in the third quarter and \$1 billion in the fourth—and perhaps bring us to a point at which sellers are willing to settle for the going stock-sales ratio even though this would still exceed the indicated 1927-40 average relationship, adjusted to give effect to the apparent inverse relation between secular growth in sales and the "normal" inventory-sales ratio. Edwin B. George, hearings, February 8, 1954.

\* \* \* In almost all industries that inventory recession is proceeding in an orderly way, and is now accomplishing its purpose of inventory adjustment at a relatively rapid rate. In the fourth quarter of 1953, the book value of business inventories declined by \$1 billion, with about 80 percent of the decline in durables lines. Apparently more than half of this change in book value reflected an absolute decline in the physical volume of stocks. This suggests a decline in physical stocks at an annual rate of over \$2 billion. Martin Gainsbrugh, hearings, February 18, 1954.

(6) *Net foreign investment to be minus \$1 billion in fiscal year 1954 and zero in fiscal year 1955*

The judgment of various experts consulted by the staff seemed to be that net foreign investment would continue the rise started in the fourth quarter of 1953 and hence would reach zero by fiscal year 1955.

(7) *Personal income to average \$285 billion in both fiscal 1954 and 1955*

The estimates of budget receipts for the fiscal year 1955 \* \* \* are in accordance with my recommendations for taxes, and are based upon the continuation of business conditions, personal income, and corporation profits at substantially the present high levels. The Budget of the United States Government for the Fiscal Year Ending June 30, 1955.

\* \* \* They [basic economic assumptions] are all on a consistent basis, both with Economic Council and with the Treasury and the Budget Bureau, so that, as stated in the budget document itself, it assumes fairly stable conditions internally and externally during the period it covers. Rowland R. Hughes, hearings, February 1, 1954.

On personal income, the same document shows that the total personal income has fluctuated, in July of 1953 through November 1953, between \$287.5 billion and \$285.4 billion. We are assuming in our estimates a personal income of \$285 billion. Marion B. Folsom, Department of the Treasury, hearings, February 2, 1954.

In making these estimates, corporate profits were assumed to average \$43 billion.

We estimate that the year 1953 as a whole will be close to \$44 billion. Our assumption for corporate profits for the year 1954 is \$43 billion. Marion B. Folsom, hearings, February 2, 1954.

(8) *Disposable personal income to average \$250 billion in fiscal 1954 and \$251.7 billion in fiscal 1955, allowing for tax changes as recommended by the President*

These estimates are consistent with the personal-income estimates given above, allowing for changes in personal taxes as shown in the January 1954 budget.

First and foremost, is the trend of disposable income and the general financial condition of consumers. Estimates made by my organization reveal that disposable income during 1954 should show little change to a very slight increase over 1953. These estimates take into account the reduction of overtime payments and the increase in unemployment. These depressing factors, occurring

during the early part of the year, will be offset by tax relief. During the latter part of the year employment will gain. A. W. Zelomek, hearings, February 9, 1954.

(9) *Personal savings to continue at about 7.5 percent of disposable personal income*

Personal savings and personal consumption are the two alternative ways in which disposable personal income can be used. Thus this assumption amounts to saying also that consumers, on the average, will continue to spend about 92.5 percent of their income after taxes. Testimony on this point presented during the committee hearings follows:

But if the available statistics such as indicated above are trustworthy, a large proportion of liquid savings is now in the hands of that segment of the population which is already well supplied with automobiles, home furnishings and appliances and satisfactory housing. Major stimulus to retail trade over the near term from dis-saving by this group does not appear likely. Gordon B. Hattersley, hearings, February 9, 1954.

A more normal relationship between expenditures on durable and on nondurable goods is, therefore, anticipated. This suggests a slight decline in hard-goods volume and an increase in expenditures for various types of apparel, including shoes, for the fiscal year beginning July 1, 1954. For the fiscal year ending June 1954 consumers' nondurable goods expenditures will also be the same as in the previous fiscal year ending June 1953.

With prices slightly lower than last year, dollar volume will remain unchanged to moderately higher than a year ago, whereas unit movement of these goods will show healthy advances. A. W. Zelomek, hearings, February 9, 1954.

In summary, the readjustment so far in consumer buying of cars seems to have been primarily a readjustment to more normal market conditions. For other consumer durables, little readjustment was required because buying in 1953 was not at abnormally high rates. Some curtailment has occurred because of the readjustment in general business activity and employment. If, as seems likely, the worst of the decline in general business activity has already taken place, the outlook for at least a seasonal expansion in consumer expenditures for durable goods is good. For the year as a whole, these expenditures will probably be at 5 to 10 percent below the abnormally high rate of 1953, but at least as high as in 1952. George P. Hitchings, hearings, February 9, 1954.

Among the different questions which we have asked consumers, the one which has yielded answers showing the most marked relationship to expenditures is: "Considering the country as a whole—Do you think that during the next 12 months we'll have good times or bad times, or what?" The answers to this question \* \* \* indicate that consumers were less optimistic in October 1953 than they were at the end of 1952 but about the same as in June 1952.

It is important, however, that the consumers with above average incomes were appreciably more optimistic in their outlook for the next 12 months than were the consumers with low incomes. Those income groups who have the greatest purchasing power are, therefore, those whose economic outlook is most likely to lead them to maintain substantial purchases of consumer durable goods.

\* \* \* more people at all income levels felt *now* was a better time to buy large items than was the case the previous year. It was only among the higher income groups, however, that more people felt that *now* was a good time, rather than a bad time, to buy. Rensis Likert, hearings, February 9, 1954.

I feel that they [liquid savings] will not decline during this coming year. I think that many people have put forward the proposition that they can rely on the use of savings to maintain business activity in this year, and that they have therefore drawn the conclusion that liquid savings will decline.

I do not think that liquid savings react in that manner. I think it takes at least a year and possibly 2 years of declining business activity before the total of liquid savings will decline due to people dipping into them. And that is borne out by what happened in 1949, for instance. No appreciable decline of liquid savings occurred then.

\* \* \* we feel that liquid savings generally will be maintained during this coming year at approximately their present level. We think that savings through life insurance companies, because of their contractual nature and because of the increased sale of life insurance, will rise.

\* \* \* the percentage of personal income saved in the form of liquid savings will remain about as it has in the past few years. Gordon W. McKinley, hearings, February 16, 1954.

\* \* \* The high level of consumption in the fourth quarter of 1953 apparently was not maintained at the expense of savings, according to estimates contained in the Council's report. Personal savings in that quarter were running at an annual rate of nearly \$19 billion, actually somewhat above the corresponding rate of savings in the first half of 1953. This was equivalent to about 7.5 percent of personal income after taxes. Martin Gainsbrugh, hearings, February 18, 1954.

\* \* \* A return to a normal saving ratio permitted a large growth in consumption. Today consumers are saving only 7.5 percent. This is, however, perhaps 3 percent above normal and we might get some small increase in the propensity to consume. Alvin H. Hansen, hearings, February 18, 1954.

Summarizing these assumptions as to demand for gross national product on the basis of present trends, plans, and expectations, leads to a total demand of \$363 billion in fiscal 1954 and \$360 billion in fiscal 1955. The components are as follows:

*Demand for gross national output*

(In billions of dollars)

Items	Actual fiscal 1953	Estimated	
		Fiscal 1954	Fiscal 1955
Business investment.....	53.9	48.0	47.0
New construction.....	24.3	25.0	23.0
Residential nonfarm.....	11.6	11.8	11.0
Nonresidential.....	12.7	13.2	12.0
Producers' durable equipment.....	25.9	26.0	24.0
Change in business inventories.....	5.7	-2.0	0
Net foreign investment.....	-2.0	-1.0	0
Federal purchases of goods and services.....	57.5	57.0	51.4
State and local government purchases of goods and services.....	24.2	26.2	28.4
Consumer.....	224.9	231.8	233.2
<b>Total demand.....</b>	<b>360.4</b>	<b>363.0</b>	<b>360.0</b>

SYNTHESIS OF ECONOMIC PROJECTIONS

As stated in the text, the projections indicate the possibility of inadequate total demand amounting to \$2 billion in fiscal 1954 and \$13 billion in fiscal 1955. If this interpretation of public and private programs is in the correct order of magnitude, for the first time in several years these programs add up to less demand than the economy can satisfy at "maximum" levels of employment and production.

(In billions of dollars)

Item	Actual fiscal 1953	Estimated	
		Fiscal 1954	Fiscal 1955
Supply of gross national product.....	360.4	365	373
Demand for gross national product.....	360.4	363	360
Excess of supply.....	0	2	13

The staff projections might err on the conservative side. Several experts stated that the excess of supply during fiscal 1954 and fiscal 1955 might be greater than is indicated by the above estimates.

These are the words of the Employment Act of 1946, and I want to emphasize them: "*maximum employment, production, and purchasing power.*" [Emphasis supplied.] Indeed the act specifically says that the economic report shall set forth the levels of employment, production, and purchasing power needed to carry out the policy of the Act as declared in section 2—the section which contains among other things the goal referred to above. These levels or targets are, however, as far as I can discover, nowhere set out in this report.

For the year 1954, our GNP, therefore, ought to be about \$380 billion, and for 1955, around \$395 billion.

Now, I know it will not be easy to reach this goal, and I suggest that it takes a good deal more than is envisaged in the economic report. At best, we shall certainly not reach our goals each single year. That is just not possible. For 1954, it is already too late. But we could make a substantial recovery even now and then move on to our full potential in 1955. Alvin H. Hansen, hearings, February 18, 1954.

If my analysis is correct, the maladjustment between agriculture's productive capacity and market outlets and between plant capacity and labor force in the steel, automobile, and some other important industries cannot be corrected within that time span. Conditions in these strategic areas will probably get worse or at least difficulties become more apparent before stabilizing adjustments have been made and full activity restored. Edwin G. Nourse, hearings, February 18, 1954.

\* \* \* This would leave us with a needed increase of about \$20 billion in private purchases in order to achieve the desirable economic growth. That means \$20 billion increase in either private investment outlays or consumer expenditures or both together.

It is difficult to say how much business investment might increase under healthy economic conditions. Under the stimulus of the buildup phase of the defense program investment has been very high. As that stimulus is coming to an end, investment in defense-related industries may tend to fall. On the other hand, there are many indications that investment in nondefense industries will continue high, particularly as older plants are modernized and recent technological advances put into use. The program for easier terms for home financing may favorably affect residential construction. The most optimistic assumption would be that business investments in the fiscal year 1955 will not be lower than they have been running in the 4th quarter in 1953. From this it would follow that consumption would have to increase by about \$20 billion if the economy is to operate at a full employment level. These estimates are certainly subject to question but, rough as they are, they drive one to the conclusion that we should not be satisfied if consumer income and expenditure are to remain at the level of last year. Gerhard Colm, hearings, February 9, 1954.

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## APPENDIX B

### RECOMMENDATIONS FOR LEGISLATIVE ACTION IN THE JANUARY 1954 ECONOMIC REPORT OF THE PRESIDENT<sup>1</sup>

#### INCREASING THE FEDERAL DEBT LIMIT

A higher Federal debt limit is necessary not only for the efficient conduct of the Government's current operations, but also for acting promptly and vigorously if economic conditions require that additional steps be taken in the interests of economic stability (p. 113).

#### THE OLD-AGE AND SURVIVORS INSURANCE SYSTEM

1. Coverage in the Federal Old-Age and Survivors Insurance System should be extended to bring into the System some 10 million additional workers (p. 99).

2. Old-age and survivors insurance benefits should be increased; first, by eliminating from the earnings base the 4 lowest years of

<sup>1</sup> Page references are to the Economic Report of the President, January 1954.

earnings; second, by raising the benefit to 55 percent of the first \$110 of the average monthly wage, plus 20 percent of the balance; third, by increasing the minimum benefit from \$25 to \$30; fourth, by raising from \$3,600 to \$4,200 the annual maximum above which wages are not counted in computing benefits or taxes (p. 100).

3. As regards the retirement test, the earnings permissible without loss of benefits should be put on a yearly basis for all beneficiaries, and liberalized in amount (p. 100).

4. For those with substantial OASI work records who suffer total and extended disability, benefit rights should be preserved without diminution or loss until they reach age 65 (p. 100).

#### THE UNEMPLOYMENT INSURANCE SYSTEM

1. Include the 2.5 million Federal civilian employees in the unemployment insurance system, and the Federal Government should reimburse to the States the amount of the cost, estimated at \$25 million for fiscal 1955 (p. 97).

2. Add to the unemployment insurance system some 200,000 persons engaged in operations involving the processing, packing, etc., of agricultural products (p. 97).

3. Amend the unemployment insurance law to cover employees of businesses with fewer than eight employees (p. 97).

4. Shorten from 3 years to 1 year the period required to qualify for rate reduction under unemployment insurance (p. 97).

5. Congress should provide machinery for granting non-interest-bearing loans to States whose unemployment reserves may be near exhaustion. Such loans should not be repayable until at least 4 years unless the State's fund rises above a safe minimum or its contribution rate is not sustained at a level reflecting its financial responsibility (p. 98).

#### AGRICULTURAL POLICY

1. The 1949 price-support legislation should take effect for "basic" crops, as presently scheduled, on January 1, 1955 (p. 93).

2. Congress should avoid further postponement (beyond the present effective date of January 1, 1956) of the application of the "modernized" parity price formula to basic commodities—corn, wheat, cotton, and peanuts—for which the old parity price is above the new price (p. 93).

3. CCC borrowing authority should be increased from \$6.75 to \$8.5 billion (p. 94).

4. Congress should authorize the setting aside of up to \$2.5 billion of CCC stocks, with the objective of insulating them from regular domestic and foreign markets (p. 94).

#### GOVERNMENTAL AIDS TO HOUSING

1. Broaden the area of permissive action by authorizing the President to regulate within appropriate statutory limits, the maximum loan-value ratios, terms to maturity, and interest rates on FHA-insured and VA-guaranteed loans of all types (p. 84).

2. Raise maximum insurable loan under title I of the National Housing Act for repair or modernization of single-family structures

from \$2,500 to \$3,000 and the maximum maturity from 3 to 5 years. Make comparable changes in title I loans for the repair and modernization of multifamily and commercial structures (p. 85).

3. Make FHA mortgage-insurance terms on existing houses more nearly comparable with those available on new houses (p. 85).

4. Give FHA explicit authority to insure loans in renewal areas for both new and existing structures (p. 86).

5. Make funds available, on a cost-sharing basis, under title I of the Housing Act of 1949 to assist cities having workable plans of urban renewal (p. 86).

6. Make mortgage-loan insurance available on especially liberal terms for families displaced as a result of slum clearance or urban-renewal activities (p. 86).

7. Continue the public-housing program (p. 86).

8. Raise mortgage-insurance ceilings under FHA (sec. 203) from \$16,000 to \$20,000 with appropriate differentials for larger-size units (p. 86).

9. Establish an institution for discounting mortgage investments in good standing. It would help make mortgage funds available in areas where there may be transient shortages of capital. It should also be authorized to purchase insured and guaranteed mortgages of specified types when the President directs that such action is in the public interest. While the proposed agency should be financed with private funds to the greatest extent practicable, the Federal Treasury should be authorized to provide it with financial support, in order that it may have access to adequate resources (p. 87).

#### INTERNATIONAL TRADE POLICY

The progress already made toward liberalization of international trade and payments should be continued by vigorous efforts to reduce the remaining barriers that stand in the way (p. 108).

#### PUBLIC WORKS PLANNING

1. Extend and strengthen the federally aided highway system (p. 106).

2. The Federal Government should encourage studies of the economic feasibility of toll-road projects, together with engineering surveys, by making advances available to the States for these purposes (p. 106).

3. To assist localities in building an inventory of drawings and specifications for high priority projects, it would be desirable to make interest-free loans for this purpose (p. 107).

#### TAXATION AND TAX POLICY

1. Inequities that are present in the structure of the personal income tax should be removed promptly, e. g., for widows and widowers who employ assistance for child care; families with dependent children who earn more than \$600 per year; widows and widowers, with dependents, who should get the same privileges of "split income" as married couples; persons having heavy medical expenses; employers who contribute to medical insurance and pension plans; annuitants,

who should be able to recover within their life span, free of income tax, the savings they have invested (p. 78).

2. The period during which individuals and business corporations may "carry back" net business losses should be increased from 1 to 2 years (p. 79).

3. Elimination of the double taxation of dividends should be begun by permitting the stockholder to credit part of the taxes paid by the corporation against his personal income-tax liability (p. 79).

4. A business should be allowed to write off the major part of the cost of a capital asset during the first half of its useful life, if it desires to do so (p. 80).

5. In the interest of fostering rapid technological progress, companies—especially small businesses—should be permitted to treat unusual research or development outlays as currently deductible business expenses (p. 80).

6. Handicaps to the accumulation of corporate earnings for expansion should be removed by placing on the Government the burden of proving that a given retention is unreasonable (p. 80).

7. Encourage investment abroad by taxing the business income of foreign subsidiaries, or of segregated branches of American corporations which operate or elect to be taxed as subsidiaries, at a rate somewhat below the current corporate rate; widening the types of foreign taxes that may be credited against the United States income tax; removing the overall limitation on foreign tax credits; permitting regulated investment companies concentrating on foreign investment to pass on to stockholders the credit for foreign taxes now available for direct individual investments (pp. 80–81).

8. Take steps to move toward a current basis of payment of corporate income taxes (p. 81).

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## APPENDIX C

### COMMITTEE STUDIES AND PUBLICATIONS

The last report on committee studies and publications was contained in the Joint Economic Committee's Report on the January 1952 Economic Report of the President (S. Rept. No. 1295, 82d Cong., 2d sess.). Since that date the committee has issued several additional publications, mostly in committee print form, and the staff has prepared a number of memorandum studies for the use of committee members.

#### COMMITTEE PUBLICATIONS ISSUED SINCE MARCH 1952

The Joint Committee on the Economic Report, in addition to its report on the January 1952 Economic Report of the President, issued the following publications from March 1952 through February 1954:

The first of these studies was a committee print of materials prepared by the staff on the Taxation of Corporate Surplus Accumulations. This study was prepared as a result of a recommendation of the Subcommittee on Investment, which conducted hearings in 1950 on the volume and stability of private investment. During these hearings several critics of section 102 of the Internal Revenue Code

were heard by the committee. It was the general feeling of the witnesses that a thorough study should be made of the effects of this section of the code. Dr. James K. Hall, professor of economics, University of Washington, was made available to the committee to undertake the task. Arrangements were made with the Secretary of the Treasury for the Bureau of Internal Revenue to provide original data on the administration of section 102, and a questionnaire was sent by the Joint Economic Committee to selected corporations to ascertain the economic effects of this provision of the Internal Revenue Code. This study contains a detailed analysis of the general economic effects on the volume and stability of private investment, the relationship of provisions in section 102 to the tax structure as a whole, the administration of section 102, and a review of alternative methods of accomplishing results sought by this provision of the Internal Revenue Code.

The second study issued by the committee was a report of the Subcommittee on General Credit Control and Debt Management. This report contains the subcommittee findings based on hearings held from March 10 through March 31, 1952, and on a series of questions addressed to the principal officers of the Federal Government who are concerned with monetary policy and debt management and to numerous persons in the private economy. The results of the questionnaire, which were published by the subcommittee in February 1952 in a two-volume document entitled "Monetary Policy and the Management of the Public Debt: Their Role in Achieving Price Stability and High-Level Employment," served as a basis for the hearings of the subcommittee. The report of the subcommittee, which was issued originally as a committee print and later as Senate Document No. 163 (82d Cong., 2d sess.), presents findings in regard to fiscal and monetary policy since the outbreak in Korea, fiscal and monetary policy for the future, bank reserve requirements, the machinery for the determination of monetary policy, and the gold standard. The report also contains a separate statement of views by individual members.

In November 1952, the Joint Economic Committee, in response to a number of requests for such information, released a committee print prepared by the staff on "Federal Tax Changes and Estimated Revenue Losses Under Present Law." The report sets forth (1) a timetable of Federal tax changes scheduled to take place under existing tax law; (2) a brief description of each tax change; and (3) a summary of estimated revenue losses in connection with four major items—excess-profits tax, corporate income tax, individual income tax, and excise taxes.

A joint committee print entitled "The Sustaining Economic Forces Ahead" was prepared for the committee by the staff and released in December 1952. The study, which was described under the heading "Long-Term Economic Adjustments" in the committee's report on the January 1952 Economic Report of the President, attempts to provide materials on the needs and opportunities to which the Nation can devote itself as the defense buildup is completed. The report examines our changed population outlook, the need for housing, the outlook for private investment other than residential construction, and accumulated public-works needs, with particular reference to the shortages existing and in prospect in school housing, hospital construc-



tion, and highway construction and maintenance. An additional section of the report discusses the economic climate in which these needs can be met.

A study of the effects of public and private pension programs on the national economy, which was recommended by the Subcommittee on Low-Income Families and begun in 1951, was completed and issued as a committee print in December 1952, under the title "Pensions in the United States." The analysis was prepared by the staff of the National Planning Association on invitation from the Joint Committee on the Economic Report. The study presents a review of the present status of private and public pensions and their effects, examines the problems and explores with a number of informed sources the areas of agreement on what should be done. It also provides a comprehensive list of research being undertaken in the field of pensions and indicates the institutions or individuals conducting this research.

A consolidated index of all publications of the Joint Economic Committee was issued as a committee print on January 2, 1953. The index covers all publications of the Joint Economic Committee from January 1947 through December 1952, a period which begins with the 1st session of the 80th Congress and runs through the 82d Congress. This index, which may be supplemented periodically as necessary, makes it possible for committee members and staff and researchers generally to turn quickly to committee statements and materials on any given subject or to be sure that any list of citations of committee studies and hearings is complete.

The most recent publication of the Joint Economic Committee is a Historical and Descriptive Supplement to Economic Indicators completed in December 1953. This supplement, which was prepared by the committee staff with the assistance of the Bureau of the Budget and agencies compiling the data for the monthly Economic Indicators, contains for each series in the monthly publication a description and reference to additional technical explanations and a table of historical data. The report is intended to answer most of the requests for general information which cannot be carried each month in the committee's publication but which is often essential to the interpretation and use of the current materials. The descriptive material shown for each series in Economic Indicators attempts in a nontechnical way to explain how the series is derived, what its limitations are, and the uses for which it is appropriate or, in some cases, warning of uses for which it is especially inappropriate. Both the historical data and the descriptions which are included in this supplement are designed for general users of the data rather than for technicians. The Supplement to Economic Indicators is printed under Public Law 120, 81st Congress, chapter 237, 1st session, which authorizes the publication of the monthly Economic Indicators.

#### COMMITTEE HEARINGS

The Subcommittee on General Credit Control and Debt Management held hearings on monetary policy and the management of the public debt on March 10-14, 17-21, 24-28, and 31, 1952. In addition to hearing from representatives of a number of interested institutions and specialists in various aspects of the problem, the subcommittee held panel discussions on "How should our monetary and debt man-

agement policy be determined"; "The role of business, labor, and agriculture in the determination of monetary and debt management policy"; "The role of the banking system in a dynamic economy"; and "What should our monetary and debt management policy be?"

Hearings were held January 31 and February 1-5, 8-11, and 15-18, 1954, in connection with the committee's review of the 1954 Economic Report of the President. The Chairman of the President's Council of Economic Advisers and the Deputy Director of the Bureau of the Budget appeared before the committee in executive session on the first 2 days of the hearings; these meetings were followed by a series of public hearings and panel discussions. Key officials in the administration discussed the economic situation and outlook and the President's economic program. Panel discussions were held with outstanding technicians on the economic outlook and implication for Federal economic policy in private investment, consumption, State and local government activity, agriculture, foreign economics, and savings and finance. Two additional panel discussions were held. The first provided an opportunity for discussion by representatives of economic groups who had been asked to present their views, either as part of this panel or in written comment to the committee. The final panel summarized the overall economic outlook and appraised the President's economic recommendations.

#### STAFF STUDIES AND MEMORANDUMS

In addition to the formal publications listed above, the staff has from time to time prepared in mimeograph form memorandum studies for internal use by the committee. The following studies have been carried on while the Congress was in recess or as time has permitted over the past year.

An annotated list of current studies in economic and public administration which have a bearing on the work of the committee was prepared in October 1953, and includes the major studies undertaken or authorized in the legislative and executive branches of the Government. This list also covers in some detail the work of the several special commissions which were created by legislation during the last session of the Congress. (See appendix D.)

The earlier study on Federal Tax Changes and Estimated Revenue Losses Under Present Law was brought up to date (October 30, 1953) in a brief memorandum to the committee. The same kind of information is provided as in the earlier study, namely, (1) the dates on which the Federal tax changes are scheduled to take place; (2) a brief description of the change; and (3) a summary of estimated revenue losses in connection with the major items. (See appendix E.)

Late in August the staff prepared for distribution to committee members information which it had been assembling on the possible kinds of adjustments the economy would face between the prevailing high levels of activity and meeting the underlying sustaining forces which provide the basis for economic stability and growth in the long run. These materials include an examination of the 1949 experience and its relevancy to such possible adjustments. (The Years Between, see appendix F.)

The committee staff as part of its continuing analysis of the Nation's economic health develops from time to time a Nation's economic

budget both in its current status and with projections for varying periods ahead. These analyses have been submitted in detailed form in connection with the staff materials included in the committee's annual reports on the President's Economic Report. They have also been used to prepare brief analyses in connection with the economic outlook. Both in July 1952 and 1953 the staff provided members of the committee with a short mimeographed statement on the economic outlook for the fiscal year.

In addition to the more general statements listed above, the staff has from time to time provided the committee with memorandums on special economic situations. In April 1953, at the request of the vice chairman, a tentative analysis of the possible economic consequences of a Korean truce was prepared for the consideration of committee members at a time when the talks were begun which eventually led to such a truce. (See appendix G.)

The staff also provides for committee use summaries of findings on special economic problems. Examples of this service include a memorandum on farm prices and the agricultural outlook, summaries of speeches and reports on monetary policy, the budget, etc.

#### STUDIES UNDERWAY AND STILL PENDING

The committee of New England, which was organized and sponsored by the National Planning Association in response to a request of the Joint Economic Committee, has completed a number of the studies undertaken by its seven working panels, which cover the problems of management and research, capital and credit, human resources, natural resources, tax and fiscal policy, transportation and communication, and information and education. Three of these reports have been printed and seventeen are in process of publication.

#### STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

In addition to conducting formal studies and arranging hearings for the committee, during the past months the staff has participated on a number of occasions in discussions of economic problems and research techniques with outside groups. The objectives of such discussions are twofold: to keep abreast of the latest findings and methods of technicians in the field; and to bring to the committee, in the spirit of the policy declaration of the Employment Act of 1946, the reaction of qualified persons to current economic issues. Participation in such meetings has taken the form of presenting the committee's findings and reports in speeches before business, university and other public groups, leading seminars on committee materials, and joining in discussions of current economic problems.

The following list of meetings and conferences attended during 1952 and 1953 illustrates this activity: School of banking conducted by the University of Wisconsin; University of Pennsylvania seminar for investment bankers; University of Denver forum on economic forecasting; annual economic outlook session of the Association of State Tax Administrators; National Industrial Conference Board Economic Forum; Annual Conference of the Association of University Bureaus of Economic and Business Research; outlook and economic seminars at Stanford University, University of California, University

of Washington, and Washington State College; conference on savings, sponsored by the University of Minnesota; conferences on economic forecasting and input-output analysis technique conducted by the National Bureau of Economic Research; West Virginia School of Banking; conference on policies to combat depression, Princeton; Hansen-Williams seminar, Harvard University; foreign economic policy seminar of the Merrill center for Economics of Amherst University; Midcentury conference on resources for the future; national conference on highway financing of the Chamber of Commerce of the United States; annual meetings of the American Farm Economics Association, the American Statistical Association, the American Economic Association, and the American Society for Public Administration, and meetings of local chapters of these groups; meetings of business groups, civic organizations, and university classes.

During the week of September 6, 1953, the staff director served as United States delegate to the 28th session of the International Statistical Institute at Rome and attended the opening sessions of the General Agreement on Tariffs and Trade (GATT) at Geneva. On the basis of these meetings and interviews with informed persons in a number of European countries, a memorandum (in November 1953) was sent to the committee which included general observations on economic trends and problems in Western Europe and detailed information on the sessions of GATT and the statistical meetings at Rome. (See appendix H.)

The staff has also continued to maintain effective working relationships with experts, both in and out of Government, in an effort to minimize duplication of research and to provide the committee with information and objective analysis on the wide range of economic problems its work requires. While this has enabled the staff to broaden the base of its service to the committee, it has not affected the independence of operation and thinking of the staff.

A publications check list of the Joint Economic Committee appears as appendix I.

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## APPENDIX D

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON THE ECONOMIC REPORT

MEMORANDUM

OCTOBER 27, 1953.

To: Mr. Jesse P. Wolcott, Chairman.

From: Grover W. Ensley, Staff Director.

Subject: Checklist of major Government studies and study groups which may result in legislative proposals affecting the economy.

As indicated in my August 19 memorandum on committee staff assignments, several members of the Joint Economic Committee have expressed interest in having the staff bring them up to date periodically on Government studies or study groups authorized or underway in fields which are related to the work of the committee. The attached list, prepared by John Lehman, is our first attempt to meet this need.

We have not tried to include all the current Government studies but only those dealing with problems of a type or scale directly affecting overall economic policy. Nor have we listed the usual analyses that are prepared in connection with the regular statistical reports of the Government.

A source for additional information is given for each of the studies and commissions covered in the list.

## CHECKLIST OF MAJOR GOVERNMENT STUDIES AND STUDY GROUPS WHICH MAY RESULT IN LEGISLATIVE PROPOSALS AFFECTING THE ECONOMY

## AGRICULTURE

Problems of farm price-support legislation are the subject of a detailed inquiry by the Department of Agriculture among farmers and other agricultural leaders. The Secretary of Agriculture has sent letters asking how present farm programs could be improved to more than 60 persons at agricultural colleges and research institutions. Major farm organizations have also been asked to participate and have solicited opinions from their members on present farm price-support programs.

Special study groups have been established within the Department to review the materials submitted and to organize them for use by the National Agricultural Advisory Commission. The results are to be ready for the Commission this fall.

DON PAARLBERG,  
*Assistant to the Secretary.*

The National Agricultural Advisory Commission is an 18-member group appointed by the President established to review agricultural policies and the administration of farm programs and to make recommendations to the Secretary of Agriculture for the improvement of such programs. It is a continuing group replacing the Interim Agricultural Advisory Committee. The Commission is expected to call upon the Department of Agriculture for its staff work and special studies. Its first task is to review the results of the survey described above and make recommendations with respect to current legislation.

The Commission was authorized by Executive Order No. 10472, July 20, 1953. To assure better continuity in its work, the terms of 5 of the members appointed will expire on January 31, 1955; 5 on January 31, 1956; and five on January 31, 1957. The Executive order stipulates also that the membership shall represent the geographic areas of the country, that at least 12 members of the Commission must be representative farmers and that not more than 9 can be of any one political party. Members appointed to date are: William I. Myers, Ithaca, N. Y. (Chairman); W. W. Andrews, Goldsboro, N. C.; Delmont L. Chapman, Newport, Mich.; Homer R. Davison, Chicago, Ill.; Milo K. Swanton, Madison, Wis.; Sterling J. Swigart, Sidney, Mont.; D. W. Brooks, Atlanta, Ga.; James Hand, Jr., Rolling Ford, Miss.; Chris Milius, Omaha, Nebr.; Don A. Stevens, Corvallis, Oreg.; Tom J. Hitch, Columbia, Tenn.; Albert Mitchell, Albert, N. Mex.; Mrs. Raymond Sayre, Ackworth, Iowa; Jesse W. Tapp, San Francisco, Calif.

Hearings on agricultural policy are being held in all the principal agricultural regions of the country from August to November. Chairman Hope states that it is the intention of the committee to study all phases of the present agricultural program and any new proposals for solving the problems of agriculture. The hearings will be open to farmers and others interested in agriculture. The principal agricultural products will be covered in each region in terms of production and market outlook, price policy, credit, and conservation.

Hearings in New England, the Pennsylvania-New Jersey vegetable-producing area, and the Southwest, were completed in August and September. Hearings will be held in the Middle West during October and in the Far West early in November. The committee's findings are to be used in the formulation of the legislative program for agriculture in the coming session of Congress.

HOUSE COMMITTEE ON AGRICULTURE,  
GEORGE L. REID, JR., *Clerk.*

## ECONOMIC GROWTH AND STABILITY

An Advisory Board on Economic Growth and Stability has been established to assist the Council of Economic Advisers in keeping the President informed about the state of the national economy and the various measures necessary to aid in maintaining a stable prosperity. The Board is composed of representatives of the Departments of Treasury, Agriculture, Commerce, and Labor, the Board of Governors of the Federal Reserve System, the Bureau of the Budget, and the Council of Economic Advisers. Depending upon the issues that come under consideration, the representatives of other interested departments and agencies will be invited to join in the deliberations of the Board. Dr. Burns, Chairman of the Council of Economic Advisers, is Chairman of the Advisory Board on Economic Growth and Stability.

The Advisory Board was outlined in Reorganization Plan No. 9 of 1953, which was submitted to the Congress on June 1, 1953. The Board has established an auxiliary staff committee to assist in the preparation of its materials in special subject fields, for consideration in connection with the President's Economic Report.

Present membership of the Board is Under Secretary Marion B. Folsom, Treasury Department; Gov. A. L. Mills, Jr., of the Federal Reserve System; Under Secretary True Morse of the Department of Agriculture; Under Secretary Walter Williams of the Department of Commerce; Leo Werts, Deputy Assistant Secretary for Manpower and Employment of the Department of Labor; Assistant Director Paul Morrison of the Bureau of the Budget; and Gabriel Hauge, Administrative Assistant to the President.

JOSEPH L. FISHER, *Secretary.*

#### FOREIGN ECONOMIC POLICY

The Foreign Economic Policy Commission is making a comprehensive study of the relationship between foreign economic policy and total foreign policy, the effect of foreign aid and the defense buildup on international trade, the foreign markets of trading nations and the effect on world trade of wars and international emergencies.

The Commission, which was authorized by Public Law 215, 83d Congress, chapter 348, 1st session, is required to make a report of its findings and recommendations within 60 days after the second regular session of the 83d Congress is convened. Members of the Commission are: Clarence B. Randall (Chairman), Jesse W. Tapp, John Hay Whitney, David J. McDonald, Cola G. Parker, John H. Williams, Lamar Fleming, Jr., Senators Eugene D. Millikin, Bourke B. Hickenlooper, Prescott Bush, Harry Flood Byrd, and Walter F. George; Representatives Daniel A. Reed, Richard M. Simpson, John M. Vorys, Jere Cooper, and Laurie C. Battle.

ALFRED C. NEAL,  
*Director of Research.*  
CHARLES P. DAKE,  
*Administrative Officer.*

Expansion of foreign investments is being investigated by the Senate Banking and Currency Committee through a series of hearings. The committee is conducting a field study in South America this fall, with particular reference to the part played by the Export-Import Bank and the International Bank for Reconstruction and Development in the expansion of foreign investment and international trade.

The committee is also seeking advice from a group of outstanding authorities who will act as a citizens advisory committee in developing agenda and ways of approach. The study is authorized by Senate Resolution 25, 83d Congress, 1st session, and funds are provided through January 31, 1954. The committee expects to present its first findings by this date.

SENATE BANKING AND CURRENCY COMMITTEE,  
IRA DIXON, *Clerk.*

#### GOVERNMENT RELATIONSHIPS AND ORGANIZATION

The Commission on Organization of the Executive Branch of the Government is directed to "study and investigate the present organization and methods of operation of all departments, bureaus, agencies, boards, commissions, offices, independent establishments and instrumentalities of the Government except the judiciary and the Congress of the United States" to determine what changes are necessary to "promote economy, efficiency, and improved services in the \* \* \* executive branch of the Government."

The target date for the Commission's report is the end of 1954, but studies of some agencies are expected to be completed before then. Study groups are to be established on independent agencies, civil service, accounting, budgeting, water and power resources, medical services, lending agencies, subsistence services, and surplus property use and disposal.

The Commission was authorized by Public Law 108, 83d Congress, chapter 184, 1st session. Its members are: Former President Herbert Hoover (Chairman), Herbert Brownell, Arthur S. Flemming, James A. Farley, Solomon Hollister, Robert G. Storey, Joseph P. Kennedy, Sidney A. Mitchell, Senators Homer

Ferguson and John L. McClellan, and Representatives Clarence J. Brown and Chet Holifield.

JOHN HOLLISTER,  
*Executive Director.*  
FRANK BRASSOR,  
*Executive Secretary.*

The Commission on Intergovernmental Relations is authorized to (1) make a broad study of the proper role of the Federal Government in relation to the States and their political subdivisions in the entire field of intergovernmental relations with a view to defining these relations, allocating functions to their proper jurisdiction, and adjusting intergovernmental fiscal relations so that each level of government discharges the functions which belong within its jurisdiction; (2) study and investigate all of the present activities in which Federal aid is extended to State and local governments, the interrelationships of the financing of this aid, the sources of financing of governmental programs, and problems in the field of intergovernmental tax immunities; and (3) determine and report whether there is justification for Federal aid in the various fields in which such aid is extended; whether there are other fields in which such aid should be extended; whether Federal control with respect to these activities should be limited, and, if so, to what extent; whether Federal aid should be limited to cases of need; and all other matters incident to such Federal aid, including the ability of the Federal Government and the States to finance activities of this nature.

The Commission was authorized by Public Law 109, 83d Congress, chapter 185, 1st session. A final report is to be filed before March 1, 1954, after which the President is expected to make his recommendations to the Congress. Major fields now selected for study are taxation and social security. Members of the Commission are: Clarence E. Manion (Chairman), Govs. Allan Shivers, of Texas, John S. Battle, of Virginia, Alfred E. Driscoll, of New Jersey, and Dan Thornton, of Colorado; Marion B. Folsom, Mrs. Oveta Culp Hobby, Val Peterson; Senators Robert C. Hendrickson, Andrew F. Schoepel, Guy Cordon, Clyde Hoey, and Hubert H. Humphrey; Representatives Noah M. Mason, James I. Dolliver, Harold C. Ostertag, John D. Dingell, and Brooks Hays; John E. Burton, Mrs. Alice K. Leopold, Lawrence A. Appley, William Anderson, Samuel H. Jones, Charles Henderson, and Clark Kerr.

FRANK A. JACKSON,  
*Administrative Officer.*

#### HOUSING

The President's Advisory Committee on Housing Programs and Policies is a citizens' group established to advise the Housing Administrator on existing and proposed programs and legislation dealing with housing. Subcommittees have been established to study housing credit facilities, Federal Housing Administration and Veterans' Administration operations, urban redevelopment, rehabilitation and conservation, low-income housing, and organization of Federal housing activities.

The committee was authorized by Executive Order No. 10486, September 12, 1953. It is expected to have its first overall report ready by about January 1, 1954. There are 22 members on the committee, representing industry, finance, labor, and professional groups.

W. HUBERT WELCH,  
*Executive Secretary.*

#### RESOURCES

A study of critical raw materials by the Senate Committee on Interior and Insular Affairs is going into the accessibility of critical raw materials to the United States during the time of war and will recommend methods of encouraging developments to assure the availability of supplies of such critical raw materials adequate for the expanding economy and the security of the United States. Preliminary studies of 38 minerals, 3 fuels, and 30 essential nonmineral materials have indicated the need for this study of critical raw material sources essential to the industrial plant of the United States, particularly in wartime.

The present study is authorized by Senate Resolution 143, 83d Congress, 1st session. Funds are now provided to January 5, 1954, for preliminary work. The final report is expected to be made not later than January 3, 1955.

MINERALS, MATERIALS, AND FUELS ECONOMIC  
SUBCOMMITTEE,  
GEORGE B. HOLDER, *Staff Member.*

The industrial uses of atomic energy have been covered in a series of hearings completed by the Joint Committee on Atomic Energy. The committee now plans to combine this information with certain supplementary materials which it is gathering for incorporation in a report. The printed hearings and committee report are expected to be available by January 1954.

A study of the parallels between international control problems and industrial control and developments of atomic energy has been prepared, to be submitted to the Joint Committee on Atomic Energy late this year for possible publication after committee review and approval. The research was done by the Legislative Reference Service of the Library of Congress for the use of the committee.

A report on utilization of atomic energy is required from the Atomic Energy Commission whenever "in its opinion any industrial, commercial, or other non-military use has been sufficiently developed to be of practical value." The Commission is asked to state all the facts with respect to such use and give its estimate of the social, political, economic, and international effects therefrom.

The Joint Committee on Atomic Energy expects to receive a report by January 1954. Release of the report will not be decided until that time. The report is authorized by section 7 (b), Atomic Energy Act of 1946 (42 U. S. C. 1807).

JOINT COMMITTEE ON ATOMIC ENERGY,  
CORBIN C. ALLARDICE, *Clerk.*

#### TAXATION

The revenue revision hearings of 1954, which were begun this past summer, are essentially devoted to proposals for improving the organization and administration of the tax system. They are expected to provide the basis in Congress for writing the revenue bill of 1954. A Preliminary Digest of Suggestions for Internal Revenue Revision has been prepared by the staff of the Joint Committee on Internal Revenue Taxation and released as a committee print.

HOUSE WAYS AND MEANS COMMITTEE,  
RUSSELL TRAIN, *Clerk.*

A comprehensive study of the tax system, which is underway by the Treasury Department, parallels to some extent the hearings listed above. The study involves a detailed review of the entire tax code and will provide the basis for Treasury recommendations in connection with the revenue bill of 1954.

TREASURY DEPARTMENT,  
LEON M. SILER,  
*Director of Information.*

### APPENDIX E

#### CONGRESS OF THE UNITED STATES

#### JOINT COMMITTEE ON THE ECONOMIC REPORT

#### MEMORANDUM

OCTOBER 30, 1953.

To: Mr. Jesse P. Wolcott, chairman.  
From: Grover W. Ensley, staff director.  
Subject: Federal Tax Changes and Estimated Revenue Losses Under Present Law.

For the information of members of the Joint Committee on the Economic Report, there is transmitted herewith a report on Federal Tax Changes and Estimated Revenue Losses Under Present Law.

These materials represent a revision as of October 1953 of a similar report which the staff prepared 1 year ago. They contain a brief description of scheduled tax changes, with a chronological listing of effective dates under present law, and a summary of estimated major revenue changes.

Of the scheduled major changes, net reductions of \$3.7 billion on a full-year consolidated cash basis, allowing for the increase in the social-security tax, take effect on January 1, 1954. There is general agreement that these changes will take place. Further reductions of \$3 billion scheduled for April 1, 1954, are not certain of becoming effective since for budgetary reasons the President has recommended rescission of the provisions making these changes. For the fiscal year 1954 this means an almost certain net reduction, on a consolidated cash basis, of \$0.6 billion beginning January 1, 1954 and a less certain later reduction of \$0.2 billion.



In terms of the administrative budget, the scheduled changes of \$8 billion on a full-year basis take effect \$5 billion on January 1 and \$3 billion on April 1—the latter changes being, as previously indicated, less certain.

Aside from the revenue estimates which are the responsibility of the committee staff, the schedule of changes was initially prepared by Raymond E. Manning, senior specialist, Legislative Reference Service, Library of Congress, and has been submitted to the Treasury Department for review. The estimates of revenue loss are the staff's independent calculations based upon information contained in such official statements as are available, supplemented by discussions with informed experts. The committee staff work on this report was done by William H. Moore.

## FEDERAL TAX CHANGES AND ESTIMATED REVENUE LOSSES UNDER PRESENT LAW

Revised October 1953

### I. CHRONOLOGICAL LISTING OF TAX CHANGES PROVIDED FOR UNDER PRESENT LAW

#### *November 1, 1953*

Increased rate of capital gains tax so far as applicable to individuals, trusts, and estates (not applicable to taxable years commencing on and after November 1, 1953. (See item 5.)

#### *January 1, 1954*

Increased rate of tax on individuals not applicable to taxable years commencing on and after January 1, 1954. (See items 1-2.)

Excess-profits tax not applicable to taxable years commencing on and after January 1, 1954. (See item 4.)

Temporary formula for taxing life insurance companies not applicable after 1953. (See item 6.)

Right of election with respect to treatment of war loss recoveries terminates. (See item 8.)

Concession with respect to nonrecognition of gains in certain corporate liquidations not applicable after 1953. (See item 10.)

Concession for late filing by China Trade Act Corporations expires. (See item 14.)

Social-security tax rises become effective. (See item 22.)

#### *April 1, 1954*

Increased rate of income tax on corporations not applicable to taxable years commencing on and after April 1, 1954. (See item 3.)

Increased rate of capital-gains tax so far as applicable to corporations not applicable to taxable years commencing on and after April 1, 1954. (See item 5.)

Increased rates of tax on alcoholic beverages, automobiles, cigarettes, gasoline, and sporting goods terminate. (See items 15-19.)

#### *July 1, 1954*

Exemption of copper and certain scrap metals from import duties and taxes expires. (See item 21.)

#### *January 1, 1955*

Exemption of income of servicemen in Korea terminates. (See item 7.)

Concession for exclusion of income from discharge of railroad debt not applicable to taxable years beginning on or after January 1, 1955. (See item 11.)

Right as to election with respect to excessive depreciation taken prior to January 1, 1955 expires. (See item 12.)

Exemption of estates of servicemen killed in Korea terminates. (See item 23.)

#### *January 1, 1956*

Concession for replacing inventory involuntarily depleted during present emergency expires. (See item 9.)

#### *January 1, 1957*

Accelerated amortization not available for grain-storage facilities constructed after December 31, 1956. (See item 13.)

#### *July 1, 1957*

Tax under Sugar Act expires. (See item 20.)

## 11. DESCRIPTION OF FUTURE TAX CHANGES PROVIDED FOR UNDER PRESENT LAW

*A. Income tax changes*

1. *Individual income tax rates [I. R. C., sec. 12 (b), (f), 108 (j), 400, 1622].*—Section 101 of the Revenue Act of 1951 increased the surtax rates on individuals to range from 19.2 percent to 89 percent, replacing the then existing rates of 17 percent to 88 percent. The act made no change in the normal tax rate of 3 percent. The higher rates of surtax are applicable to the surtax net income of every individual (other than the head of a household, for which see item 2 below) for taxable years beginning after October 31, 1951, and before January 1, 1954. The old lower rates will be restored for taxable years beginning after December 31, 1953. The rates of tax—normal tax and surtax—under both schedules are as follows:

TABLE 1.—*Combined marginal normal tax and surtax rates applicable to individuals for taxable years beginning after Oct. 31, 1951, and before Jan. 1, 1954; and for taxable years beginning after Dec. 31, 1953*

Surtax net income brackets <sup>1</sup>	Years beginning before Jan. 1, 1954	Years beginning after Dec. 31, 1953	Surtax net income brackets <sup>1</sup>	Years beginning before Jan. 1, 1954	Years beginning after Dec. 31, 1953
	Percent	Percent		Percent	Percent
Not over \$2,000.....	22.2	20	\$26,000 to \$32,000.....	67	62
\$2,000 to \$4,000.....	24.6	22	\$32,000 to \$38,000.....	68	65
\$4,000 to \$6,000.....	29	26	\$38,000 to \$44,000.....	72	69
\$6,000 to \$8,000.....	34	30	\$44,000 to \$50,000.....	75	72
\$8,000 to \$10,000.....	38	34	\$50,000 to \$60,000.....	77	75
\$10,000 to \$12,000.....	42	38	\$60,000 to \$70,000.....	80	78
\$12,000 to \$14,000.....	48	43	\$70,000 to \$80,000.....	83	81
\$14,000 to \$16,000.....	53	47	\$80,000 to \$90,000.....	85	84
\$16,000 to \$18,000.....	56	50	\$90,000 to \$100,000.....	88	87
\$18,000 to \$20,000.....	59	53	\$100,000 to \$150,000.....	90	89
\$20,000 to \$22,000.....	62	56	\$150,000 to \$200,000.....	91	90
\$22,000 to \$26,000.....	66	59	Over \$200,000.....	92	91

<sup>1</sup> After deductions and exemptions. Assumes no income from interest on partially exempt Government bonds.

Individuals whose taxable year includes months beginning before and after December 31, 1953, are subject to the higher and lower rates on income for such year in proportion to the number of months falling into each period. In effect, an individual operating on a fiscal year ending June 30, 1954, and subject to a tax at a rate no higher than the first bracket would pay a rate of 21.1 percent.

The law further provides that the combined normal tax and surtax shall never exceed 88 percent of net income for taxable years beginning after October 31, 1951, and before January 1, 1954, and 87 percent for taxable years beginning after December 31, 1953.

2. *Head of household income tax rates [IRC, sec. 12 (c), (f)].*—Section 301 of the Revenue Act of 1951 adopted a new concept in tax rate schedules by providing a special set of rules applicable to individuals who, though not married, maintain a household for (a) their children or grandchildren, or (b) certain other relatives with incomes less than \$600 and who receive more than half of their support from the taxpayer. The rates are designed to give the heads of households approximately one-half of the benefits of income splitting now permitted to married couples.

The law as enacted in 1951 provided 2 sets of rates for individuals in this status, 1 applicable to taxable years beginning after October 31, 1951, and before January 1, 1954, and the other to taxable years beginning after December 31, 1953.

TABLE 2.—Combined marginal normal tax and surtax rates applicable to heads of households for taxable years beginning after Oct. 31, 1951, and before Jan. 1, 1954; and for taxable years beginning after Dec. 31, 1953

Surtax net income brackets <sup>1</sup>	Years beginning before Jan. 1, 1954	Years beginning after Dec. 31, 1953	Surtax net income brackets <sup>1</sup>	Years beginning before Jan. 1, 1954	Years beginning after Dec. 31, 1953
	Percent	Percent		Percent	Percent
Not over \$2,000.....	22.2	20	\$28,000 to \$32,000.....	60	54
\$2,000 to \$4,000.....	23.4	21	\$32,000 to \$35,000.....	63	58
\$4,000 to \$6,000.....	27	24	\$35,000 to \$44,000.....	66	62
\$6,000 to \$8,000.....	29	26	\$44,000 to \$50,000.....	71	66
\$8,000 to \$10,000.....	34	30	\$50,000 to \$60,000.....	72	68
\$10,000 to \$12,000.....	35	32	\$60,000 to \$70,000.....	73	71
\$12,000 to \$14,000.....	41	36	\$70,000 to \$80,000.....	77	76
\$14,000 to \$16,000.....	44	39	\$80,000 to \$90,000.....	79	76
\$16,000 to \$18,000.....	47	42	\$90,000 to \$100,000.....	81	80
\$18,000 to \$20,000.....	48	43	\$100,000 to \$150,000.....	85	83
\$20,000 to \$24,000.....	52	47	\$150,000 to \$200,000.....	88	87
\$24,000 to \$28,000.....	54	49	\$200,000 to \$300,000.....	91	90
	57	52	Over \$300,000.....	92	91

<sup>1</sup> After deductions and exemptions. Assumes no incomes from interest on partially exempt Government bonds.

Individual heads of households whose taxable year includes months beginning before and after December 31, 1953, are subject to the higher and lower rates on income for such year in proportion to the number of months falling into each period. In effect, the head of a household operating on a fiscal year ending June 30, 1954, and subject to a tax at a rate no higher than that of the first bracket, would pay a rate of 21.1 percent.

The maximum effective rate applicable to individuals also applies to heads of households, so that the combined normal tax and surtax shall not exceed 88 percent of net income for taxable years beginning after October 31, 1951, and before January 1, 1954, and 87 percent for taxable years beginning after December 31, 1953.

3. *Corporation income tax rates* [IRC, sec. 13 (b), 15 (b), 26 (b), (i) 108 (k), 207, 362, 421].—At the present time, and until March 31, 1954, corporations pay a normal tax of 30 percent and an additional surtax of 22 percent on that part of their income in excess of \$25,000. Beginning April 1, 1954, the 30 percent normal rate will drop to 25 percent; the surtax rate will remain unchanged. However, the foregoing simplified statement applies only to corporations whose fiscal year actually ends on March 31, 1954. Corporations whose taxable year includes months beginning before and after March 31, 1954, are subject to the 30-percent rate and the 25-percent rate on income for such year in proportion to the number of days falling into each period. Thus a corporation whose fiscal year ends June 30, 1954, will pay a normal tax rate of approximately 28.75 percent while a corporation on a calendar-year basis will pay a rate of approximately 26.25 percent. In these 2 cases the combined normal tax and surtax rates on income over \$25,000 will be approximately 50.75 percent and approximately 48.25 percent instead of the present 52 percent. Adjustments are made in several provisions of law with respect to rates and credit decreases in order to conform with the foregoing rate changes:

4. *Excess profits tax* [IRC, sec. 430-474; Public Law 125, approved July 16, 1953].—An excess profits tax was adopted by the act of Congress approved January 3, 1951 (64 Stat. 1137). Numerous amendments were made by the Revenue Act of 1951, Public Law 183. The rate of tax on excess profits is 30 percent, but the total excess-profits tax may not exceed 18 percent (there are other special ceiling rates for new corporations) of the so-called excess-profits net income (i. e., income determined for excess-profits tax purposes before deducting the excess-profits credit and any unused excess profits credit carryover). The tax will not apply to income earned after December 31, 1953.

5. *Capital gains tax rate* [IRC, sec. 117 (c)].—Sections 123 and 322 of the Revenue Act of 1951 raised the maximum effective rate on long-term capital gains from 25 percent to 26 percent. However, the higher rate shall not apply to gains in taxable years commencing after October 31, 1953, in the case of individuals, trusts, and estates and for taxable years commencing after March 31, 1954, in the case of corporations.

6. *Life insurance companies* [IRC, sec. 201; Public Law 287, sec. 105, approved August 15, 1953].—The temporary special formula for levying income taxes on life-insurance companies for taxable years commencing in 1951 and 1952 is continued for taxable years commencing in 1953.

7. *Income of members of the Armed Forces in Korea* [IRC, sec. 22 (b) (13), 154, 1621; Public Law 213, approved August 7, 1953; Public Law 287, sec. 104, approved August 15, 1953].—Internal Revenue Code, section 22 (b) (13) exempts the pay of enlisted men and warrant officers for active service in combat zones, as well as the first \$200 per month paid to commissioned officers, and also the compensation paid to such persons while hospitalized as a result of wounds, disease, or injury incurred while serving in the combat zone. The provision applies only to service pay, injuries, etc., received prior to January 1, 1955.

Internal Revenue Code, section 154, provides for abatement of income taxes of individuals in the military service dying before January 1, 1955, while serving in the combat zone or as a result of wounds, disease, or injury incurred while so serving. The income taxes of the year of death and prior taxable years of service in the combat zone, as well as income taxes of other years which were unpaid at the date of death, are forgiven.

8. *Election with respect to war-loss recoveries* [I. R. C., sec. 127 (c) (5); Public Law 287, sec. 103, approved August 15, 1953].—The Revenue Act of 1951 established a new method for treating war losses, and gave taxpayers and election with respect to the treatment of war-loss recoveries. They had until December 31, 1952, to make the election. The 1953 amendment extends the period for making the election until December 31, 1953.

9. *Involuntary liquidation and replacement of inventory* [I. R. C., sec. 22 (d) (6)].—A taxpayer using the last-in first-out method of inventory has until the close of its taxable year ending prior to January 1, 1956, to make replacements of inventory involuntarily depleted during the present emergency (i. e., after June 30, 1950, and prior to January 1, 1954).

10. *Election as to recognition of gain in certain corporate liquidations* [I. R. C., sec. 112 (b) (7) (A) (ii), Public Law 287, sec. 101, approved August 15, 1953].—The gain in certain corporate liquidations occurring during 1951, 1952, and 1953 will not be recognized for tax purposes.

11. *Discharge of railroad debt* [I. R. C., sec. 22 (b) (10)].—Amounts of income attributable to the discharge of any indebtedness of a railroad corporation shall be excluded for income-tax purposes to the extent that such income is deemed to have been realized by a modification or cancellation of indebtedness pursuant to an order of the court in a receivership proceeding or a proceeding under section 77 of the National Bankruptcy Act. Under the law as amended by section 304 of the Revenue Act of 1951, this provision is not applicable to any discharge occurring in a taxable year beginning after December 31, 1954.

12. *Election as to excessive depreciation allowed for periods before 1952* [I. R. C., sec. 113 (d), Public Law 287, sec. 102, approved August 15, 1953].—Under Public Law 539, approved July 14, 1952, which reversed the effect of the Virginia Hotel case, the basis of property was not required to be reduced by the amount of excessive depreciation previously taken unless the taxpayer received a tax benefit therefrom. The 1952 law granted the taxpayer the privilege of making an election to apply this new treatment retroactively to the period 1913–51, provided the election was made by December 31, 1952. The 1953 amendment extends until December 31, 1954, the right to make this election.

13. *Amortization deduction for grain-storage facilities* [Public Law 287, sec. 206, approved August 15, 1953].—Taxpayers constructing new grain-storage facilities between January 1, 1953, and December 31, 1956, are allowed to deduct the costs thereof over a 60-month period in lieu of regular depreciation.

14. *Due date for returns by China Trade Act corporations* [I. R. C., sec. 3805].—Because of the situation growing out of hostilities and unsettled conditions in the Far East, China Trade Act corporations are given until the end of 1953 to file income-tax returns or make payments of tax for any taxable year beginning after December 31, 1948, and ending before October 1, 1953, in order to get a special tax benefit accorded such corporations, provided the Secretary of the Treasury deems such postponement reasonable under the circumstances.

#### B. Excise tax changes

15. *Alcoholic beverages* [I. R. C., sec. 1656, 2800, 3030, 3150, 3250 (1) (5)].—The tax on distilled spirits, which was raised from \$9 to \$10.50 per gallon by the Revenue Act of 1951, is to be reduced to \$9 per gallon on and after April 1, 1954. The drawback on distilled spirits used for medicinal purposes, food products, flavoring extracts, etc., will be reduced simultaneously from \$9.50 to \$8 per gallon.

The tax on still wines containing 24 percent or less of alcohol, which was increased to range from 17 cents to \$2.25 per wine-gallon by the Revenue Act of 1951, will be reduced to range from 15 cents to \$2 per wine-gallon on and after April 1, 1954.

The tax on sparkling wines and champagne, which was increased to 17 cents per half pint by the Revenue Act of 1951, will be reduced to 15 cents per half pint on and after April 1, 1954. The tax on artificially carbonated wine, as well as liqueurs, cordials, etc., which was increased to 12 cents per half pint by the Revenue Act of 1951, will be reduced to 10 cents per half pint on and after April 1, 1954.

The tax on fermented malt liquors, which was increased to \$9 per barrel by the Revenue Act of 1951, will be reduced to \$8 per barrel on and after April 1, 1954.

16. *Automobiles, trucks, and parts or accessories* [I. R. C. sec. 3403].—The taxes on manufacturers of automobiles, trucks, and parts and accessories, which were increased by the Revenue Act of 1951, will be reduced on and after April 1, 1954. The taxes are applied to the manufacturers' price as follows:

Item	Rate until Mar. 31, 1954	Rate on and after Apr. 1, 1954
	Percent	Percent
Trucks, buses, etc. ....	8	5
Passenger cars, motorcycles, etc. ....	10	7
Parts or accessories .....	8	5

17. *Cigarettes* [I. R. C., sec. 2000].—The tax on cigarettes, which was raised to \$4 per thousand (8 cents per standard pack) by the Revenue Act of 1951, is to be reduced to \$3.50 per thousand (7 cents per standard pack) on and after April 1, 1954.

18. *Gasoline* [I. R. C., sec. 2450, 3412].—The tax on gasoline, which was raised to 2 cents per gallon and the tax on diesel fuel which was imposed at the rate of 2 cents per gallon by the Revenue Act of 1951, will both be reduced to 1.5 cents per gallon on and after April 1, 1954.

19. *Sporting Goods* [I. R. C., sec. 3406].—The tax on manufacturers of sporting goods, which was raised to 15 percent of the manufacturers' price by the Revenue Act of 1951, is to be reduced to 10 percent on and after April 1, 1954.

20. *Sugar* [I. R. C., sec. 3500, 3508].—The tax on sugar derives from legislation originally passed in 1934, under which payments are made to sugar growers who comply therewith. The rate of tax on sugar testing 92° is 0.465 cents per pound plus 0.00875 cents per pound for each additional degree. The tax is scheduled to expire June 30, 1957.

21. *Import taxes on copper and certain metal scrap* [64 Stat. 1093; 65 Stat. 45; Public Law 4, approved February 14, 1953; Public Law 221, approved August 7, 1953].—The import taxes on copper and those on certain metal scrap (excluding lead and zinc scrap) have been suspended through June 30, 1954.

#### C. Social security tax changes

22. *Rate of tax for old-age security* [I. R. C., sec. 480, 1400, 1410].—The 1.5 percent tax on wages paid by employers and the 1.5 percent tax on wages received by employees are scheduled to rise automatically to 2 percent on January 1, 1954. Similarly the 2.25 percent tax on incomes from self-employment will rise to 3 percent. Additional increases in these taxes automatically take effect on January 1, 1960, January 1, 1965, and January 1, 1970.

#### D. Death tax changes

23. *Estate taxes on servicemen killed in Korea* [I. R. C., sec. 939, Public Law 287, approved August 15, 1953].—The "additional estate tax" (for which no credit is given for State death taxes) is not to apply to the estate of a serviceman who is a citizen or resident of the United States killed in action while serving in a combat zone or who dies as a result of wounds or other injuries, or a disease, suffered while serving in a combat zone and while in line of duty by reason of a hazard to which he was subjected as an incident of such military service. The provision is effective with respect to deaths occurring after June 24, 1950, and before January 1, 1955.

III. SUMMARY OF REVENUE LOSSES IN FISCAL YEARS 1954, 1955, AND IN A FULL YEAR UNDER PRESENT LAW

While each of the scheduled tax changes has some revenue aspects, the Joint Economic Committee staff has estimated the probable revenue effects in connection with only the five major items—the corporate excess profits and normal tax, the individual income tax, excise taxes, and the increase in the rate of tax for old-age security.

Estimates, as of October 1953, of the net effect of the scheduled changes upon Federal revenues for fiscal years 1954, 1955, and in the tax liability of taxpayers for a full year arising in the five categories are summarized as follows:

[In billions of dollars]

Tax category and scheduled date of change	Fiscal year 1954	Fiscal year 1955	Full year liability
Corporations:			
Excess-profits tax (expires Dec. 31, 1953)-----		1.7	2.0
Normal tax (reduced Apr. 1, 1954)-----		1.3	2.0
Individual income tax (reduced Jan. 1, 1954)-----	1.1	3.0	3.0
Excise taxes (reduced Apr. 1, 1954)-----	.2	1.0	1.0
Estimated effect upon administrative budget.....	1.3	7.0	8.0
Less estimate of increased collections resulting from increase in rate of tax for old-age security (increased Jan. 1, 1954)-----	.5	1.3	1.3
Estimated effect upon cash budget.....	.8	5.7	6.7

In making these estimates the staff has assumed personal income payments and corporate profits before taxes at approximately current levels.

Given the difficulties of forecasting income levels and the yields derived from them, it appears that if post-Korean tax increases are allowed to expire according to present statutes, the tax receipts of the Federal Government will, when changes are fully effective, be reduced in a full year by approximately \$8 billion, and in the fiscal year 1954 by approximately \$1.3 billion.

The reduction in total cash receipts from the public, however, will be lessened by \$1.3 billion in a full year by reason of the scheduled increases in the rate of tax for old-age security on January 1, 1954. Correspondingly, on a cash basis the net decrease in receipts is estimated at \$0.8 billion in fiscal 1954.

Of the scheduled changes, net reductions of \$3.7 billion on a full-year basis (allowing for the increase in the social-security tax) take effect on January 1, 1954. There is general agreement that these changes will take place as scheduled. The April 1, 1954, reductions of a further \$3 billion are not certain since the President has, for budgetary reasons, recommended continuation of present rates. For the fiscal year 1954 this means an almost certain net reduction estimated at \$0.6 billion from changes scheduled for January 1, 1954, and a less certain later reduction of an additional \$0.2 billion. In terms of the administrative budget, the scheduled changes of \$8 billion on a full-year basis take effect \$5 billion on January 1 and \$3 billion on April—the latter changes being, as previously indicated, somewhat less certain.

## APPENDIX F

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON THE ECONOMIC REPORT

MEMORANDUM

AUGUST 29, 1953.

To: Mr. Jesse P. Wolcott, chairman.  
 From: Grover W. Ensley, staff director.  
 Subject: Attached materials on The Years Between.

There is considerable conjecture with respect to economic trends during the next 2 years as we move to lower levels of national security expenditures. The committee staff has prepared the attached materials dealing with possible trends in this period. Appendix materials analyze the 1949 economic adjustment.

In the preparation of these materials we have consulted with technicians in the executive agencies, and with outside economists. They are intended for the

confidential use of the members of the committee and were listed as item 4 in my memorandum of August 19 outlining staff assignments for the recess.

### THE YEARS BETWEEN

Most economic analysis today leads to the conclusion that high levels of production and employment may be expected to continue for the remainder of 1953 if not, indeed, well into 1954. There is general agreement, too, that over the longer run, specifically during the late 1950's, strong underlying forces exist which can provide the basis for sustaining the economy and calling for unprecedented private and public investment. In spite of these confident feelings about the immediate outlook and the longer term, there is some feeling of uneasiness lest the present situation contains elements which may give rise to important economic disturbances during the next 2 or 3 years. This memorandum presents a brief analysis of the kind and magnitude of the economic adjustments which may occur when, and as, the stimulus of defense expenditures and Federal budgetary deficits declines or wears off. Attached is also an analysis of the 1949 Economic Adjustment.

### CURRENT LEVELS OF ECONOMIC ACTIVITY

Economic activity at the end of the first half of 1953 was at a very high level. Total civilian employment of 63,172,000 was an all-time high and unemployment of 1,562,000 was the lowest for any June since the end of the war. Record levels of disposable income and the strong financial condition of consumers were reflected in the Federal Reserve Board's 1953 survey of consumer finances in early 1953 when consumers were reported to be in more of a mood to make major durable-goods purchases than they had been since 1950. The financial condition of consumers had, it appeared, improved in 1952 not only as a result of higher real incomes but also as a result of a large net addition to their liquid asset holdings. Although aggregate consumer debt has continued to rise, many of the individual consumers who are in debt also hold substantial amounts of liquid assets. By any measure, net personal savings have been high the past 2 years.

The farm segment of the economy was the only major group which failed to keep pace in 1952 and the first half of 1953. While record employment and incomes contributed to a fairly strong domestic demand for farm products, exports of agricultural products have been reduced about one-third below the 1951-52 season. Prices received by farmers are down about 12 percent. Cash receipts in the first half of this year were about 6 percent lower than last year, inasmuch as farm marketings were heavier.

With higher incomes prevailing in most parts of the economy and cash farm incomes sustained fairly well by increased production, retail sales were near record levels, 7 percent above 1952. Inventories, which increased at the abnormally high annual rate of \$8.5 billion a year during the fourth quarter of 1952, slowed down to a rate of \$2.9 billion in the first quarter of this year, but again increased in the second quarter to a rate of \$8.8 billion per year. Most of the accumulation in recent months occurred in durables although nondurables inventories increased significantly in the second quarter.

Estimates of gross national product for the second quarter of 1953 are at an all-time high of about \$372 billion. The Federal Reserve Board's index of industrial production was maintained during the second quarter at 241, only slightly below the postwar monthly high of 243 recorded in March of this year, although this is still higher than at any time since 1945.

Construction operations were at a seasonally adjusted monthly rate of \$2.9 billion in June, near the highest level ever recorded. Public construction outlays were about 5 percent above a year earlier, while private construction work was up 11 percent. Housing starts by June had declined from a seasonally adjusted annual rate of about 1,215,000 in February and March to about 1,063,000, which was fractionally above June a year ago. Contract awards for public construction rose about 10 percent in the second quarter, suggesting a large volume of public building in the second half.

Federal expenditures at a level of \$74.6 billion for the fiscal year ending June 30, 1953, have provided an expansionary force as receipts fell short of outlays by \$9.4 billion. Defense spending in the second quarter was running at an annual rate of about \$53 billion, only slightly lower than was anticipated at the beginning of the year.

## THE REMAINDER OF 1953

While much of the post-Korean inflationary force has gone out of the economy it seems clear that there are enough expansionary forces left to assure that the economy will continue to operate at a high level for at least the remainder of the calendar year 1953.

The Federal Government deficit is expected to be about \$3.8 billion in fiscal 1954, and because of seasonal tax patterns under the Mills plan will be substantially greater during the first half of the fiscal year than for the fiscal year as a whole—perhaps \$10 billion. This will necessitate Federal borrowing at a time when funds are normally in high seasonal demand for private business expansion.

Private investment plans for the months ahead continue to keep pace with the actual rate of investment of the past 6 months; even if investment declines somewhat in the fourth quarter, it still promises to be high.

Although stocks of many goods in the hands of consumers have been replenished and the merchandising pipelines filled, consumer demand can be expected to hold up well during this period on the basis of present levels of employment and income. The large amount of liquid savings in the hands of consumers will tend to bolster consumer demand. Real estate and consumer credit, while high in relation to disposable income, does not appear out of line in view of the high rate of consumer savings.

While the overall outlook for the next few months is good, this does not preclude the possibility that adjustments of one type or other will take place affecting particular industries or areas. The case of agriculture, where carryovers and reduced unit prices have brought about a 5-percent reduction in farm income, while disquieting, may be taken from present evidence as typical of such readjustments which have already overtaken the textile, leather, and coal industries. Agricultural economists agree that the present slump in agriculture is not likely to precipitate a general depression. On the other hand, agricultural income is particularly susceptible to conditions elsewhere in the economy so that any worsening of general conditions might well react unfavorably on agriculture itself.

## LONG-RUN SUSTAINING FORCES

A series of studies, beginning with this committee's staff report of last fall on *The Sustaining Economic Forces Ahead*, have spelled out the factors upon which a strong and healthy economy can be built in the next decade.<sup>1</sup> These studies were careful to point out that there is no guaranty that such factors will combine to reach this goal although there are built into both the private and public sectors of the economy an increasing number of institutional bulwarks which will help.

The major sustaining forces which are seen ahead may be summarized: (1) The additional output to provide even present per capita living standards to about 15 million additional people between now and 1960; (2) the continued high levels of investment in plant and equipment to meet growing consumer demands; (3) the backlog of highways, schools, hospitals, and other public facilities which must be constructed if we are to maintain even the minimum level of services the average citizen considers acceptable; and (4) the improved position of consumers who, in spite of price increases, still have a significant portion of their income to spend or save above what would be required to meet their basic living costs.

A factor which is much more difficult to measure but equally important is the characteristic determination of the average American citizen to set for himself a constantly improving standard of living. It provides the stimulus for the development of new and improved products and better ways of making them, and for constantly improving private and public services.

## ECONOMIC CHANGES IN THE YEARS BETWEEN

In spite of confident prediction respecting the immediate future and the existence of these long-range factors favorable to economic growth, there is concern over the nature and extent of the economic adjustments which might be required in the next 2 or 3 years. The directions and magnitudes of the changes possible in such a period are, needless to say, extremely varied as well as unpredictable.

<sup>1</sup> Joint committee print, *The Sustaining Economic Forces Ahead*, materials prepared for the Joint Committee on the Economic Report, 82d Congress, 2d session. See also, *Markets After Defense Expansion*, U. S. Department of Commerce, Washington, D. C., December 1952; *A Program for Expanding Jobs and Production*, report of the Committee on Economic Policy, United States Chamber of Commerce, Washington, D. C., June 1953; *Maintaining Prosperity*, Committee on Economic Policy, Congress of Industrial Organizations, Washington, D. C., June 1953; and *The American Economy in 1960*, staff report, National Planning Association, Washington, D. C., December 1952.



## CHANGES IN GOVERNMENT ACCOUNTS

Present plans, unless affected by shifts in international conditions, seem pointed toward holding Government expenditures to \$72.1 billion for fiscal 1954 and to achieving further reductions in succeeding years—perhaps to \$66 billion for fiscal 1955. This would mean a reduction in Government demand upon the economy in the amount of perhaps \$8 billion over the next 2 years if we assume that we can reach the \$66 billion level some time in fiscal 1955. At the same time, the demand for goods and services by State and local governments is likely to continue to rise under the influence of the large backlog for local public works and needed services for a growing population, possibly as much as one-half a billion to \$1 billion a year in constant prices.

Any depressive effect resulting from a reduction in the Federal demand for goods and services will, moreover, be substantially, perhaps fully, offset by the stimulating effects of reductions in Federal taxes which now seem in prospect beginning January 1, 1954. Unless business activity rises sharply, the scheduled reductions in rates almost certainly mean that the Federal budget will continue to show a deficit for several months. Those who would predict declines in business activity over the next year and a half to 2 years as a result of declining Government demand must not overlook the compensatory effects of probable increases in State and local government expenditures.

## UNBALANCES BETWEEN RATES OF SAVINGS AND INVESTMENT

Surveys of private investment intentions made by SEC, the Department of Commerce, and McGraw-Hill Publishing Co. indicate that at the end of calendar 1954 the rate of investment in private domestic industrial plant and equipment might be down about \$6 billion or \$7 billion per year, which would bring the rate down from current record levels to about the level which prevailed in 1948. Including a possible decline in residential construction and inventory buildup, the decline in the annual rate of investment may be in the neighborhood of \$12 billion. Statements on business intentions for periods far ahead must, of course, be viewed with caution. In recent years actual expenditures have tended to outrun plans and predictions but we have no assurance that this will continue to be the case in the event of any general slackening of economic pace.

Personal net savings have averaged between 7 and 8 percent of disposable personal income for over 2 years. Such a rate was attained previously only during war years and must perhaps be regarded as excessive over the long run, especially as large portions are being retained in the form of liquid funds. Continuation of disposable personal income at recent levels, coupled with a persistent disposition to save, would supply personal net savings of between \$15 and \$20 billion per year. Based on present profit and dividend rates, corporations may retain about \$10 billion per year, while depreciation reserves (including both corporations and unincorporated business) may amount to as much as \$30 billion per year. Personal and corporate savings of, say, \$25 billion plus reinvestment of the depreciation allowances, thus seem ample to support private domestic investment at recent levels of \$58 to \$61 billion. The unbalance most likely and most disturbing if we have a downturn in the rate of national security expenditure is that private investment may fall to a point where it fails to make full use of the available savings. Such an unbalance would, of course, contribute further to the deflationary tendencies.

## UNBALANCES IN INVENTORY STOCKS

In the short run the aspect of investment which is particularly important to economic stability is the tendency at one time to an overly optimistic accumulation of inventories or at another time the overly pessimistic liquidation of inventories, which alternately carry stocks too high or too low relative to existing and prospective rates of demand and general economic activity. This type of unbalance includes not only the familiar case of varying business inventories as related to sales, such as proved depressive in 1949, but the case of excessive accumulation (or liquidation) of consumer stocks of durable goods or housing.

Business inventories now are at a high level but, with the exception of some nonautomotive consumer durable goods, not unduly so in relation to present levels of sales. Substantial inventories of agricultural products have, however, been accumulating, particularly in the stocks held by the Commodity Credit Corporation. Purchases of soft goods have, with few exceptions about balanced production for the past 8 months. While purchases of consumers, durable goods

so far this year have been strong, the pipelines of distribution are now relatively full so that there have been net additions to dealers' stocks in certain lines of goods. Some of this increase, it appears, may have been deliberate in anticipation of larger sales, changeovers, or other interruptions in production.

#### UNBALANCES BETWEEN PRICES OR PRICES AND COSTS

Adjustments of market prices to higher cost levels or to changes in production facilities or methods occurring after World War II and since Korea have already been made in most lines. As evidence, one may observe that with the exception of farm products and food, wholesale prices of other commodities, taken as a whole, have shown little variation in the last year. Consumer prices have been particularly stable for nearly 9 months. The effect of recent increases in the price of steel and some other basic commodities has yet to be fully reflected through the economy but there is some evidence that competition will require industries to absorb much of this increase before it reaches the consumer. How successfully this can be done, with the help of increased productivity and continued high levels of operation, will be a key factor in achieving economic stability and growth.

#### CHANGES IN FOREIGN DEMAND

At present falling foreign demand is of particular importance in agriculture. Exports of domestic farm products are now well below the high levels reached during and following World War II. Dollar shortages combined with recovery of agricultural production in other countries imply a continuation of these recent lower levels of farm exports. As a result of the dominant role which the United States has come to occupy in the world economy, conditions in this country are themselves largely controlling in establishing the levels of foreign demand.

#### THE OVERALL ECONOMIC OUTLOOK FOR THE YEARS BETWEEN

Though a listing of the possible areas of threatening unbalances is far from conclusive, there seem to be supporting forces within the economy as well as others which may be moving down. On the face of things, none of these forces seem either formidable or powerfully controlling. Not caution, but analysis of the facts, drives us, therefore, to the seemingly dull and unexciting conclusion that, economically, the possibilities for the next 2 or 3 years are likely to be either in the direction of stability or slight rises such as have prevailed for the last 2 years, or, at worst, something of a rather mild and selective decline.<sup>2</sup>

This, of course, does not rule out the possibility that private and public policies might bring about unbalances of such magnitude or cumulative force that they can be relieved only by a severe and sharp downturn in business activity. But if private business, for example, pursues an inventory and investment policy designed to stimulate jobs, markets, and production, if credit conditions are maintained in a sound ratio to the needs of a growing but stable economy, and if there are no anticipatory speculative movements to upset our price-cost and debt structure more than is evident now, then it would seem there is little cause to fear a severe setback during the years between.

Reinforcing this assessment of the possibilities is the fact that the best evidence we have seems to indicate that our stocks of residential property and of business investment goods are not now excessive in relation to our present and rapidly growing population and to present real incomes per capita. Vacancy rates in residential structures are not near the levels at which previous severe downturns occurred and present capacity of industrial plant and equipment does not seem out of line with the long-term secular rate of growth relative to the size of population, the labor force, real incomes, and Government demands. Business investment will, moreover, be supported for some time to come by the continued rise in the level of capital expenditures needed for modernization of old plant and equipment under the pressure of cost factors which render equipment obsolete short of its normal span of life. Opportunities for capital investment, employment, and profits in new product fields are inestimably large, we may be sure.

<sup>2</sup> The type of decline in prospect inevitably suggests comparison, as to magnitude and selectivity, to the so-called decline of 1949, differing, of course, as to specific industries and areas affected. Mindful of the erroneous conclusion which might be drawn from drawing parallels, the staff of the Joint Committee on the Economic Report has analyzed the 1949 adjustment in some detail. This description of the 1949 adjustment is attached as an addendum to this report.

## POLICY AND STRATEGY FOR MAINTAINING STABILITY

## STRATEGY AND TOOLS FOR A MILD AND SELECTIVE DECLINE

If the foregoing analysis of economic expectations proves correct and the adjustment to a reduced level of defense expenditure leads to nothing worse than a mild but selective decline in economic activity, it would appear that governmental economic policy may be limited to dependence upon the so-called built-in automatic stabilizers and to corrective actions in the realm of monetary and fiscal policy. While cautioning again against the danger of concluding too much about the future from the experience of 1949, we can find reassurance in the evidence that in the 1949 instance action of this type was quite effective in restoring the economy to equilibrium when recession threatened.<sup>3</sup>

This would mean that, for keeping the economy on a reasonably even keel, chief reliance would be placed on (1) automatic stabilizers such as unemployment compensation, agricultural price supports, reduced tax collections as corporate and personal incomes fall, etc.; (2) a shift in monetary policy in the direction of easier credit through open-market operations or reduced reserve requirements; (3) repeal of business-dampening, wartime excise taxes; (4) easing of the budgetary and policy restrictions which have called for postponement of needed Federal, State, and municipal construction during boom conditions; (5) special relief policies for areas of chronic or unusual distress.

## STRATEGY AND TOOLS FOR AN INTERMEDIATE BUT GENERAL DECLINE

If it becomes apparent that a more severe decline, spreading generally throughout the economy, is in the making, or if it becomes evident that the mild downturn is being aggravated into a more general downturn, a shift to more active policy would become desirable.

All of the implements outlined above should, of course, be used. In addition, a special effort should be given (1) to accelerating public works of an essential and beneficial character, and (2) to making further reductions in tax rates in such manner as to encourage consumption and investment. Reductions in individual and corporate income-tax rates and special-tax amortization for capital investment would seem to be directions of special priority. The effectiveness of such policies depends not only on making funds available but on the impact which they have on the private inclination to spend or to invest the funds thus made available. Without detracting from the importance of an aggressive public-works policy, it may be noted that in view of the lag between inception and execution of public works, tax-adjustment programs offer attractive devices for combating any intermediate and general downturn calling for measures going beyond the scope of the automatic offsets and monetary policy.

## STRATEGY AND TOOLS FOR THE DEEP, GENERAL, AND SPIRALING DECLINE

Unfortunately, it may at some point become evident that business and consumer expectations are becoming extremely and cumulatively pessimistic; that investment and consumption are falling downward in an accelerating spiral, threatening deeper and more prolonged depression. Our best protection against such depression is to have stopped the disease in its early stages; to have recognized and acted promptly during the selective phase and the more general decline. In any case all the tools and strategy that have been employed for the milder declines are still in order.

Once serious unbalances have developed, many of our tools may provide only ameliorative effects. In particular, we run into the dilemma of monetary policy. While a rise in speculation or inflation may well be stopped by restrictive monetary policy, investment and consumption cannot be similarly assured during a decline by liberal monetary policy calculated to turn the tide in the opposite direction. Credit can be made more freely available but there is no assurance that mere availability and lowered interest rates will of themselves encourage the desired expansion.

In these circumstances, strategy of economic policy may well proceed in two directions: (1) Sharp reductions in taxes at the lower- and middle-income levels, particularly where this will encourage consumption and ameliorate the effects of the downturn on consumption demand. Tax adjustments beyond those already mentioned should aim at further encouragement of investment. (2) Every effort might be expended to throw into the breach against falling demand all of the

<sup>3</sup> See the accompanying description of the 1949 experience.

backlog of needed public works that might have been built up during the preceding prosperity. Even beyond this it might well be desirable to anticipate needs somewhat at the lower costs of the depressed period. The danger, of course, is that in the process the public works may degenerate into the kind of make-work projects which have little stimulative value and social return. A further danger is that they may proceed in the direction of investment in facilities that normally would be built by private enterprise and thus would discourage the recovery of private investment which is essential to a sustained recovery.

#### CONCLUSION

From the brief preceding analysis it is evident that so far we have developed tools reasonably adequate for dealing with relatively mild or intermediate types of turns, either upward or downward. There is a need for investigation as to the strategy and tools that are useful in preventing or dealing with extremely depressed conditions and cumulative depression influences. About the only thing known for sure is that since our tools are not adequate, preventive action will be a lot cheaper and a lot more successful than attempts to repair the damage of severe depression (or of severe inflation) after it is done.

Little knowledge exists as to the exact contribution which the so-called automatic stabilizers can actually make toward restraining fluctuations in economic activity. More work is needed, not merely in quantifying the stabilizing effects, if any, of our existing automatic devices, but also in the direction of devising new flexibilities that might be built into the system to increase its tendencies toward automatic correction of displacements from a trend of balanced economic growth. For example, what changes in our tax system, especially in our taxation of business enterprise, might contribute in this direction? What are the possibilities in the direction of a different tax policy on amortization of capital equipment?

Because of the special duties and interests of this committee, this statement has concentrated on how public policy can be made to contribute to economic stability and growth in the years immediately ahead. Of more crucial importance will be the actions of private business and consumers. In the next 2 or 3 years the private economy may have the opportunity for the first time in several years to significantly expand its utilization of goods and services and, indeed, must expand if "maximum employment and production" are to be maintained. In view of this possible challenge to the private enterprise system and to the objectives of the Employment Act, not only Government but private organizations and individual businessmen must search the opportunities for, and eradicate obstacles to, maintaining or increasing private investment and consumption in the next 2 or 3 years.

#### THE 1949 ECONOMIC ADJUSTMENT

This addendum presents a brief analysis of the 1949 economic adjustment. Measured in terms of unemployment nationally, the 1949 downturn involved at its low point over 4 million persons, or about 6.6 percent of the total civilian labor force (allowing for seasonal influences). Industrial production dropped from 195 to 161 (1935-39=100) and gross national product [in current dollars] declined from \$267 billion to \$256.8 billion. Over three-quarters of the decline in gross national product was accounted for by a shift from accumulation to liquidation of inventories, with the remainder coming from some decline in other forms of private domestic investment, and in foreign trade.

Partially offsetting these declines were increases in Government purchases of goods and services, particularly State and local, and a rise in personal consumption expenditures as individual consumers were willing to reduce their savings to continue their high level of purchases. Residential construction remained high as underlying demand for homes was stimulated by price and cost reductions plus the continuing pressure of rapid growth in population. Accumulated liquid assets together with increased payments for unemployment compensation and farm price supports enabled both consumers and business to sustain demand even in the face of the drop in income.

The existing programs of Government demonstrated their ability under these circumstances of strong underlying demand to prevent a necessary adjustment in prices and production from spiraling into a general depression. The automatic stabilizers of unemployment insurance, old-age insurance, agricultural price supports, bank-deposit insurance, etc., coupled with a shift to an aggressively expansive credit policy and an increase in public works to try to meet some accumulated deficiencies, precluded the need for any comprehensive program of direct action by Government.

## I. THE SEQUENCE OF EVENTS LEADING UP TO AND OUT OF THE 1949 ECONOMIC ADJUSTMENT

A. *Reaching the peak*

1. The period from late 1945 to the peak in 1948 was characterized by a rapid rise in employment, production, private investment, with somewhat milder increases in average weekly hours as the economy recovered from the sudden sharp cutback in military spending in 1945 and strove to make good the shortages of investment and consumer goods created during the war and to meet current demands arising out of higher postwar levels of incomes and population.

2. Prices rose sharply as the full impact of pent-up purchasing power from the preceding years was felt on the price and wage structure.

3. Interest rates, both short- and long-term, moved gradually upward from the early part of 1946 through 1947 and in 1948 remained stable except bank rates on short-term loans, rates on Treasury bills, and open market rates on 4-6 month commercial paper—which had been artificially maintained at extremely low levels during the war to facilitate Treasury financing.

4. Throughout this period, prior to the peak, Federal Reserve System's monetary policy tended to be mildly restrictive although the restrictive actions were offset by the continued furnishing of funds to the market through support of Government bonds at par.

B. *The peak*

1. The peak appears to have been reached first in prices of common stocks in the week ending June 1, 1946, followed by the parity ratio of prices received to prices paid by farmers in March 1947.

2. The next major factor to turn down was net foreign investment which reached its peak in the second quarter of 1947 at an annual rate of \$10 billion per year.

3. Average weekly hours in manufacturing reached their peak in December 1947 at 41.3 hours per week. (The timing of this peak might be shifted if seasonal factors could be completely analyzed.)

4. Prices began to hit their peaks starting with prices received by farmers in January 1948 and other prices following throughout that year with average consumer prices being the last, although prices of housing, transportation, and medical care rose throughout the recession without serious interruption.

5. Employment, production, and private investment, successively, reached their peaks during the third and fourth quarters of 1948 with the exception of the production of nondurable goods, which apparently reached its peak in February 1948.

6. Interest rates reached their peaks at various times between December 1947 and June 1949, but levels remained low compared to previous periods of prosperity.

7. Federal Government purchases of goods and services declined after the second quarter of 1949 but expenditures of State and local governments continued to increase throughout the readjustment period.

C. *The recession*

1. Consumer expenditures, particularly consumer durable goods, reached their lowest point in the first quarter of 1949 and increased in both current and constant dollars thereafter.

2. Production of consumer durable goods reached their low early in January 1949, and other sectors of production between July and October.

3. New private construction reached its low in the second quarter of 1949, producers' durable equipment and the net change in business inventories in the fourth quarter, while net foreign investment did not reach its low point until the third quarter of 1950.

4. On a seasonally adjusted basis, total employment reached a low in July 1949, as did nonagricultural employment. Agricultural employment, influenced by a secular shift to other industries, reached its low in October 1949 and this, combined with the rising labor force, postponed the maximum point of unemployment until January 1950, some 6 months after employment had started to rise. Average weekly hours turned up from a low in April 1949, 3 months before employment.

5. Prices of common stocks reached their low in the week ending June 1, 1949, while other prices started to turn at various times between July 1949 and July 1950. The general index of wholesale prices ceased declining in December 1949—consumer prices in February 1950. Interest rates, as is usual, tended to be among the last series to turn upward again in 1950.

6. Federal Government expenditures reached their low in the second quarter of 1950, while, due to reduction in revenues, the highest monthly cash deficit

was reached in April 1950. State and local expenditures continued to rise throughout the period.

*D. Recovery accentuated by anticipated and actual defense spending*

1. By the early spring of 1950 the recovery that had started about the middle of 1949 was well under way with only net foreign investment, Federal Government expenditures, interest rates, and a few consumer prices still showing declines. After the invasion of Korea in June 1950 the pace of the recovery was accelerated by the new pattern of economic change based on defense spending.

2. Nonagricultural employment has shown an almost continuous rise with the most recent reports showing either continued increases or stability. Average weekly hours continue near their post-Korean peak while unemployment continues so far to set new postwar record lows for each particular month.

3. On the other hand, prices reached their post 1949 peak in the wholesale markets, both agricultural and nonagricultural, between February and March 1951. Consumer prices reached temporary peaks at various times between July and December 1952—with the "all items" index stable within a narrow range since August 1952. Prices of common stocks reached a peak in the week ending January 3, 1953, and have since been irregularly lower.

4. Total consumer expenditures still register increases.

5. The post-Korean peaks were reached in expansion of inventories in the second quarter of 1951 and in net foreign investment in the fourth quarter of 1951. Producers' durable equipment and new construction combined continue to push irregularly toward new peaks.

6. Government expenditures, both Federal and State and local, have continued to increase, although the rise in Federal expenditures has been due solely to the national security programs.

7. Interest rates have continued to rise with some fluctuations since the 1949-50 lows reached between January and December 1950.

*E. The magnitudes involved*

1. From the fourth quarter of 1948 to the fourth quarter of 1949 gross national product declined in current dollars by \$10.2 billion—from \$267.0 billion to \$256.8 billion.

2. This decline of \$10.2 billion in gross national product came about through a decline of \$12.6 billion in the rate of change in inventories from an accumulation of \$7.2 billion per year to a liquidation of \$5.4 billion, accompanied by a decline of \$2.1 billion in other private investment, and of \$1.7 billion in net foreign investment, making a total decline of \$16.4 billion. These declines were partially offset by increases amounting to \$6.2 billion, consisting of \$3.2 billion in personal consumption expenditures and \$3 billion in Government (mostly State and local) purchases of goods and services.

3. In the personal sector it is apparent that consumers as a group increased expenditures by \$3.2 billion per year in the face of a reduction in disposable personal income of \$5.9 billion per year by reducing the current rate of savings to the extent of \$9.1 billion per year.

4. These figures indicate that the major movement of the 1949 adjustment was in the inventory-price aspect of the economy and that the underlying private demand for fixed investment goods and for consumer goods was so strong that the inventory readjustment had only a relatively small and temporary effect upon the economy at large.

II. GOVERNMENT POLICY IN THE ECONOMIC ADJUSTMENT OF 1949

*A. Monetary*

1. The Federal Reserve policy has been characterized by itself in the Patman investigation as tending to be restrictive up through the actions of September 1948 at which time the Board reimposed selective regulations on installment credit for durable consumer goods. However, such restrictive actions only neutralized in whole or in part the expansionary forces resulting from Federal Reserve support of Government bonds at par.

2. Slight expansionary action was taken in March 1949 when the margin requirements were reduced from 75 percent to 50 percent of the market value of stock and more importantly in March and April when consumer installment credit terms were liberalized (controls expired June 30, 1949).

3. Between May and September 1949, by gradual steps, reserve requirements were reduced by 4 percentage points on demand deposits and 2½ percentage points on time deposits. From January to September 1949 open market operations

gradually became more aggressively expansive. This policy was reversed partially during November 1949 and June 1950.

4. Thus, until several months after the peak in some sensitive economic series, the Federal Reserve policy continued to tend toward such restrictive measures as could be taken while still supporting Government securities. Thus, prices had been declining from various periods ranging from 5 months to a year before any deliberate credit easing was undertaken. This experience illustrates again the serious difficulties faced by public as well as private economic policy officials as long as economic information and forecasting techniques remain inadequate, and so long as available economic data lag so far behind actual events. Thus, the data showing the turn in aggregate employment, production, and gross national product were not available until February or later in 1949.

#### *B. The "automatic" and other stabilizers*

1. Expenditures from unemployment trust funds began to rise appreciably at the end of 1948 and reached their peak rates in the first quarter of 1950, declining rapidly by the second quarter of that year.

2. Agricultural aids increased by almost \$2 billion per year between early 1948 and the fall of 1949.

3. Federal tax receipts fell from 1948 to late 1949 as economic activity declined, but undoubtedly a part of the fall can be attributed to the postwar cut in tax rates effective in 1948 rather than to the "automatic" flexibility of the tax structure. Budget receipts were again rising by mid-1950. On an annual rate basis the drop in revenue at its greatest was equivalent to a rate of between \$4 billion and \$5 billion per year including the effects of the tax cut of 1948.

4. In the spring of 1950, after recovery was under way in most sectors of the economy, back dividends of about \$2 billion were paid out by the Federal National Service Life Insurance Fund. This action contributed to the recovery already under way by early 1950 though its exact influence is hard to determine.

5. Existing housing legislation encouraged, through credit insurance, a continuation of the previous (pre-1949) rising trend of residential construction. This effect was particularly significant in the rental-housing field.

### III. STRATEGIC FACTORS IN THE ECONOMIC ADJUSTMENT OF 1949

#### *A. Depressing factors*

1. The period immediately preceding 1949 was one of sharp upward adjustments of inventories, both consumer and business, from the low levels fixed by wartime restraints which existed up to 1945. The price rise following decontrol in mid-1946 was so rapid that there was some tendency for price increases to go beyond those warranted by existing income and cost structures while speculation carried inventory increases to excess. These excessive price and inventory movements required readjustment and contributed to the declines in prices and production in 1948-49. Out of the total declines in private expenditures between the fourth quarter of 1948 and the fourth quarter of 1949, about 77 percent was due to the shift from inventory accumulation to inventory liquidation.

2. Net foreign investment had been unusually high in 1946 and 1947 and the subsequent decline exerted some depressing influences which contributed to the recession.

3. Some tightening of interest rates and a credit policy by the Federal Reserve intended to be as restrictive as possible as an offset to existing inflationary tendencies may have acted to reinforce the downturn, since this tendency of credit policy was not reversed and active expansive measures undertaken until after the downturn was well underway.

#### *B. Supporting factors*

1. The underlying demand for residential construction was high through this period. Total private residential nonfarm construction was only slightly lower in 1949 than in 1948 in dollar terms. The physical volume in the 2 years was the same but the number of nonfarm units started was larger in 1949—1,025,100 as compared to 931,600 in 1948.

2. Private domestic investment, including private new construction and producers durable equipment but excluding change in business inventories, declined by only about \$2 billion between 1948 and 1949. Thus the strong underlying demand for private investment prevented the downturn from being severe.

3. Personal consumption expenditures rose in real terms as well as in current dollars with consumers reducing personal savings by an annual rate of about \$9 billion a year. This may perhaps be attributed in large part to the extremely

strong demand for services and consumer durable goods, the latter demand in part being influenced by some remaining deferred demands—particularly automobiles.

4. The automatic stabilizers contributed to a reversal of the Federal Government budgetary position from cash surplus to deficit and State and local expenditures, particularly for needed public works, continued in a steady rise. These changes contributed to a continued increase in Government stimulus to the economy on the expenditure side and a reduction in the restraints on the revenue side throughout the recession.

5. The continued rapid growth in population, the continued effects of the large population increase that had occurred since 1940, and a high rate of family formation created a sustained and rising level of real demand which consumers and investors were able to make effective.

6. The unusually liquid position of both consumers and business enabled them to sustain demand in both consumer and investment goods even in the face of moderate income reductions.

7. A rapid reversal of such Federal Reserve policies as were restrictive was made from January through September 1949.

8. Some industries had already, prior to 1949, experienced a postwar readjustment in both private inventories and production so that the adjustment of 1949 did not spread to all industries.

#### IV. UNEMPLOYMENT, NATIONALLY, AND IN MAJOR INDUSTRIAL AREAS, NOVEMBER 1948 TO JANUARY 1953

1. Unemployment, nationally, moved from a low of 1.8 million in November 1948 to about 4.1 million in July 1949 and 4.7 million in February 1950. If allowance is made for seasonal factors, the heaviest unemployment was about at the turn between 1949 and 1950. By May 1950 unemployment was again down to about 3 million and has continued to fall since. The question immediately arises whether such adjustments are nationwide or whether they are confined to certain areas and industries. As part of a regular program of appraising labor-market conditions, the Department of Labor through its Bureau of Employment Security classifies major industrial areas in the Nation at bimonthly intervals according to the relative adequacy of labor supply. The unemployment experience in 1948, 1949, and early 1950 in 100 of these areas, which included the heaviest populated in the Nation, is summarized in the attached tables. Data are also given for key periods through January 1953. The following classification codes are used in the analysis:

When ratio of unemployment to labor force was	Code assigned	Narrative description of classification code
Under 3 percent.....	A	Tight or balance labor supply.
3.0 to 4.9 percent.....	B	Slight labor surplus.
5.0 to 6.9 percent.....	C	Moderate labor surplus.
7.0 to 11.9 percent.....	D	Substantial labor surplus.
12.0 percent and over.....	E	Very substantial labor surplus.

2. In November 1948 when unemployment nationally had reached a low of 1.8 million and when we were at or near the peak of industrial prosperity before the 1949 readjustment, there were still 9 labor-market areas which showed a substantial labor surplus and 1 with a very substantial labor surplus.<sup>4</sup>

3. In January 1949 when a greater than seasonal increase in unemployment occurred, 10 additional areas developed substantial labor surpluses and 4 shifted to a very substantial labor surplus—even though the national level changed only moderately. For the most part, these were areas in which unemployment had been a problem for some time. Neither the high-level economic activities after World War II or defense production in connection with Korea had been sufficient to absorb labor surpluses which had developed over the years. The effects of such "hard cores" of unemployment are quick to show up when nationwide employment declines even on a minor scale. For the most part, these areas were found in regions with coal or metal mining or other extractive industries

<sup>4</sup> It is, of course, not possible on the basis of such a brief analysis to conclude how nearly any current readjustments would follow the same regional or industrial pattern as in 1949. It is interesting to note, however, that the only 2 areas left in the D classification in November 1952 were 2 areas which were classified D and E in November 1948.



and in northeast regions dominated by textiles, shoes, or similar consumer nondurable goods manufactures.

4. In January 1950 at the point of greatest unemployment, 85 of the 100 major areas showed at least a moderate labor surplus and 51 had a ratio of unemployment to labor force of between 7 and 12 percent and 13 above 12 percent. These 51 areas contain nearly two-thirds of the total population in all of the 100 areas.<sup>5</sup>

TABLE 1.—*Classification of 100 major labor-market areas according to relative unemployment, selected months, November 1948 to January 1953*

Classification			Month and number of areas								
Code	Ratio of unemployment to labor force	Definition of code	Nov. 1948	Jan. 1949	Nov. 1949	Jan. 1950	May 1950	Nov. 1950	Nov. 1951 <sup>1</sup>	Nov. 1952 <sup>1</sup>	Jan. 1953 <sup>1</sup>
A	Under 3 percent.....	Tight or balanced labor supply.	33	7	3	1	8	39	50	63	48
B	3 to 4.9 percent.....	Slight labor surplus.	44	31	19	14	28	45	34	26	36
C	5 to 6.9 percent.....	Moderate labor surplus.	13	38	22	21	29	13	12	9	9
D	7 to 11.9 percent.....	Substantial labor surplus.	9	19	44	51	25	3	4	2	7
E	12 percent and over.....	Very substantial labor surplus.	1	5	12	13	10	0	0	0	0
Total areas.....			100	100	100	100	100	100	100	100	100

<sup>1</sup> Not previously published; classification system was changed to I-II-III-IV in 1951 for which criteria are different.

Source: Bureau of Employment Security, Division of Reports and Analysis, Washington 25, D. C., April 27, 1953.

TABLE 2.—*Distribution of 100 major labor-market areas, by group classification and 1950 population, selected months, November 1948 to January 1953*

Classification			November 1948		January 1950		November 1952	
Code	Ratio of unemployment to labor force	Definition of code	Number of areas	Percent distribution of population	Number of areas	Percent distribution of population	Number of areas	Percent distribution of population
A	Under 3 percent.....	Tight or balanced labor supply.	33	24.5	1	0.3	63	61.2
B	3 to 4.9 percent.....	Slight labor surplus.	44	43.4	14	8.8	26	34.8
C	5 to 6.9 percent.....	Moderate labor surplus.	13	9.3	21	18.4	9	3.1
D	7 to 11.9 percent.....	Substantial labor surplus.	9	22.5	51	66.5	2	.9
E	12 percent and over.....	Very substantial labor surplus.	1	.3	13	6.0	0	0
Total areas.....			100	100.0	100	100.0	100	100.0

Source: Bureau of Employment Security, Division of Reports and Analysis, Washington 25, D. C., Apr. 27, 1953.

<sup>5</sup> The 100 areas account for roughly half of the total United States population.

TABLE 3.—Classification of 100 major labor market areas according to relative unemployment, selected periods, November 1948 to January 1953

State and area	Nov. 1948	Jan. 1949	Nov. 1949	Jan. 1950	May 1950	Nov. 1950	Nov. 1951	Nov. 1952	Jan. 1953
Alabama:									
Birmingham.....	B	B	D	D	C	B	B	B	B
Mobile.....	C	D	D	D	D	C	B	B	C
Arkansas: Little Rock-									
North Little Rock.....	B	C	B	C	B	A	A	B	B
California:									
Los Angeles.....	D	D	D	D	D	B	B	B	B
Sacramento.....	D	D	D	D	D	B	B	B	B
San Diego.....	C	D	E	E	E	B	B	B	C
San Francisco-Oakland.....	C	E	D	D	D	B	A	A	B
San Jose.....	C	D	D	D	D	C	C	C	D
Colorado: Denver.....	A	B	B	B	A	A	A	A	A
Connecticut:									
Bridgeport.....	B	C	E	E	D	B	A	A	A
Hartford.....	A	B	B	C	C	A	A	A	A
New Haven.....	A	C	C	D	D	A	A	A	A
Waterbury.....	B	C	D	D	C	A	A	A	A
Delaware: Wilmington.....	B	C	C	C	B	A	A	A	A
District of Columbia: Wash-									
ington.....	A	B	B	B	B	A	A	A	A
Florida:									
Jacksonville.....	A	A	B	B	A	A	A	A	A
Miami.....	B	B	C	B	B	B	B	B	B
Tampa-St. Petersburg.....	B	C	B	B	B	B	B	B	B
Georgia: Atlanta.....	A	B	B	B	B	A	A	A	A
Hawaii: Honolulu.....	D	D	E	E	E	D	B	C	C
Illinois:									
Chicago.....	A	B	C	C	C	A	A	A	A
Peoria.....	A	B	B	C	B	A	A	A	B
Rockford.....	A	B	C	B	A	A	A	A	A
Indiana:									
Evansville.....	B	C	D	C	A	A	B	A	A
Fort Wayne.....	A	C	D	D	B	B	A	A	A
Indianapolis.....	A	B	C	C	B	A	A	A	A
South Bend.....	A	A	A	A	A	A	A	A	A
Iowa: Des Moines.....	A	A	B	B	A	A	A	A	A
Kansas: Wichita.....	A	B	C	D	B	A	A	A	A
Kentucky: Louisville.....	B	C	D	D	C	B	A	A	B
Louisiana:									
New Orleans.....	C	C	D	D	D	C	B	B	B
Shreveport.....	B	C	D	D	C	C	B	B	B
Maryland: Baltimore.....	B	D	D	D	D	C	A	A	B
Massachusetts:									
Boston.....	B	C	D	D	D	C	B	A	B
New Bedford.....	D	E	E	E	E	A	B	C	C
Springfield-Holyoke.....	C	C	D	D	D	B	B	A	B
Worcester.....	B	C	E	E	D	A	B	A	B
Michigan:									
Detroit.....	B	C	D	D	C	A	D	A	A
Flint.....	B	B	B	B	A	A	C	A	A
Grand Rapids.....	B	C	D	D	B	B	C	A	A
Lansing.....	B	C	D	D	B	A	A	B	A
Muskegon.....	C	E	E	E	D	B	A	A	A
Minnesota: Minneapolis-									
St. Paul.....	B	C	C	C	B	B	B	A	B
Missouri:									
Kansas City.....	B	C	C	C	B	A	A	A	A
St. Louis.....	B	C	B	C	B	A	A	A	A
Nebraska: Omaha.....	A	B	B	C	B	A	A	A	A
New Jersey:									
Newark.....	B	C	D	D	D	B	B	B	B
Paterson.....	B	C	D	D	D	B	B	B	B
Perth Amboy.....	B	C	D	D	D	A	A	A	A
Trenton.....	B	C	D	D	C	B	B	A	A
New York:									
Albany-Schenectady-									
Troy.....	B	D	C	D	C	B	B	A	B
Binghamton.....	B	B	C	D	D	B	B	B	B
Buffalo.....	B	C	D	D	D	C	D	A	A
New York.....	D	D	D	D	D	B	C	C	C
Rochester.....	B	D	D	D	D	C	B	B	B
Syracuse.....	B	D	D	D	D	C	E	A	A
Utica-Rome.....	C	D	E	E	E	B	C	A	A
North Carolina: Charlotte.....	A	B	B	B	B	A	A	A	B
Ohio:									
Akron.....	A	B	D	D	D	B	B	B	B
Canton.....	A	D	D	D	D	C	C	C	C
Cincinnati.....	A	D	D	D	D	B	B	B	B
Cleveland.....	A	B	D	D	D	B	B	B	B
Columbus.....	A	B	C	C	C	C	C	C	C
Dayton.....	B	C	D	D	D	A	A	A	A

TABLE 3.—Classification of 100 major labor-market areas according to relative unemployment, selected periods, November 1948 to January 1953—Continued

State and area	Nov. 1948	Jan. 1949	Nov. 1949	Jan. 1950	May 1950	Nov. 1950	Nov. 1951	Nov. 1952	Jan. 1953
Ohio—Continued									
Springfield.....	B	C	D	D	C	C	A	C	B
Toledo.....	A	C	D	E	E	B	A	A	A
Youngstown.....	A	A	D	C	B	A	A	A	A
Oklahoma:									
Oklahoma City.....	A	B	B	B	B	A	A	A	A
Tulsa.....	A	B	B	C	B	A	A	A	A
Oregon: Portland.....	C	E	D	D	D	B	B	B	C
Pennsylvania:									
Allentown-Bethlehem.....	A	B	C	C	C	A	A	A	A
Erie.....	A	D	D	D	D	B	A	C	A
Harrisburg.....	A	A	C	D	C	E	A	A	A
Johnstown.....	C	C	E	E	E	C	A	C	A
Lancaster.....	A	A	B	D	B	B	A	C	A
Philadelphia.....	B	C	D	D	D	A	B	A	A
Pittsburgh.....	B	B	D	D	D	C	B	A	B
Reading.....	A	B	C	E	B	B	A	B	B
Scranton.....	E	E	E	E	E	D	D	D	D
Wilkes-Barre-Hazleton.....	D	D	E	E	E	D	D	D	D
Rhode Island: Providence.....	D	D	E	E	E	B	D	B	C
South Carolina: Charleston.....	C	C	D	D	D	C	B	A	A
Tennessee:									
Chattanooga.....	D	D	D	D	D	B	B	B	B
Knoxville.....	D	D	E	E	D	C	C	B	B
Memphis.....	A	B	B	C	C	B	B	B	B
Nashville.....	B	C	D	D	C	B	B	B	B
Texas:									
Dallas.....	A	A	A	B	A	A	A	A	A
Fort Worth.....	B	C	B	B	C	B	A	B	A
Houston.....	A	B	B	C	B	A	A	A	A
San Antonio.....	A	B	B	B	B	A	B	A	B
Utah: Salt Lake City.....	B	D	C	D	C	B	A	A	B
Virginia:									
Hampton-Newport News-Warwick.....	B	C	D	D	E	B	A	A	A
Norfolk-Portsmouth.....	B	C	D	D	C	B	A	A	A
Richmond.....	A	B	A	B	B	A	A	A	A
Washington:									
Seattle.....	B	C	C	D	D	B	B	B	C
Spokane.....	B	D	C	D	B	B	B	B	D
Tacoma.....	C	D	D	D	C	B	C	C	D
West Virginia:									
Charleston.....	B	B	D	D	C	C	C	C	C
Wheeling-Steubenville.....	A	B	C	D	C	B	B	B	B
Wisconsin: Milwaukee.....	A	B	C	C	C	A	A	A	A

Source: Bureau of Employment Security, Division of Reports and Analysis, Washington, D. C., April 27, 1953.

#### V. THEORIES WITH RESPECT TO THIS ADJUSTMENT HELD BY VARIOUS ECONOMISTS, BUSINESSMEN AND OTHERS, AS SUMMARIZED BY THE COMMITTEE STAFF

##### January 1949

As postwar inflationary forces leveled off, the primary concern was whether or not measures instituted to curb inflation would bring on harmful deflation. There was some decline in backlogs and only a few companies reported an increase in new orders but the general expectation still was for a good year with some possibility of difficulties near the end. This feeling was based on confidence in the defenses erected against depression—unemployment insurance, old-age insurance, bank-deposit insurance, agricultural price supports—and that the American public had far more cash and liquid assets than it had ever had before. No one, however, overlooked the possibility of moderate fluctuations as necessary and to be expected in a free economy.

##### July 1949

The existence of a readjustment was now recognized by all but there was little demand for direct intervention by Government except in some areas where economic distress was most keenly felt. Liquidation of inventories had not reached distress proportions and real income of consumers had not changed significantly as the drop in prices offset a slight decline in personal income. An increase in exports and a fall-off in imports continued the rising trend in the export surplus which began early in the year. Considerable confidence was felt

in the underlying strength of the economy since there had been no speculation spree in either securities or commodities, personal indebtedness had been held to conservative levels and business investment was still high although plans for new investment were being made with caution. Unemployment insurance, the old-age retirement system, and public assistance for needy persons helped to maintain purchasing power. Public expenditures of Federal, State, and local governments, running at a rate of close to \$60 billion, were also recognized as an element of stability.

#### *January 1950*

There was widespread feeling by this time that the economy had moved through the period of readjustment which had been characterized by a sharp drop in industrial production, increased unemployment, and shorter hours, lower prices, declining inventories, and a decline in foreign trade. By January 1950 disposable personal income which had held up through the year, had increased to an all-time high, consumer expenditures had risen, and the employment and inventory situation had improved. At least part of these results were credited to the automatic stabilizers. Concern was still felt as a result of the BAE forecast of a 15 percent decline in farm income, the possibility of a decline in private investment, and a continuation of the falling-off in foreign trade. The outlook for 1950, however, seemed to most observers to be good due to the improved inventory situation, backlogs of demand for steel accumulated during that year's strike, continued high levels of automobile sales, and an unusually high rate of public construction contract awards in connection with increased outlays by State and local as well as the Federal Government. Pessimism, or at least skepticism, still existed in regard to the possibility of some additional adjustment in 1951.

#### *In retrospect (1953)*

The primary role in the cause of the 1949 economic adjustment is now usually assigned to the shift in total inventories from a net addition of \$9 billion in the fourth quarter of 1948 to a net reduction of \$3 billion in the second quarter of 1949. While this permitted the flow of goods and services to final purchasers to be maintained and even increased, it brought about a decline in production. The reason for this explanation of the decline in inventory investment is charged by some to the change in the price situation, while others put more emphasis on weakening consumer demand, as householders completed replenishing their stocks which had deteriorated during the war or were in a position to wait for lower prices. The \$2.5 billion decline in the volume of exports which set in at the start of 1948 is also credited with a sharp deflationary influence—but a secondary one.

### VI. RECOMMENDATIONS OF SUBCOMMITTEES OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

The Joint Committee on the Economic Report had established four subcommittees which conducted intensive studies over a period which included the low point and the recovery during the 1949 readjustment. While these subcommittees covered many other phases in their studies, their primary concern was with the achievement and maintenance of economic stability, as the following excerpts from their findings demonstrate:

#### *Subcommittee on Unemployment*

The rising trend of unemployment as a problem of national significance was brought to the attention of the Congress early in 1949. On May 6, 1949, Congress agreed to Senate Concurrent Resolution 26, instructing the joint committee to study, among other things, "the problem of unemployment trends and their significance in current economic analysis," and to "report to the Senate and the House of Representatives not later than December 31, 1949, the results of its study and investigation, together with such recommendations as it may deem advisable." A subcommittee of the joint committee was formed on June 20, 1949, to carry out these instructions.

The subcommittee began its investigations at a time when the economic situation appeared serious and unemployment was mounting. The foremost question was what immediate emergency action should be taken to reverse the rising trend? As the investigations progressed, however, the economic situation improved and the need for emergency measures passed. No hearings on unemployment were held. Nevertheless, this period of relative stability, but of unknown duration, provided an opportune period for reviewing the fundamental causes

underlying unemployment, causes which, if not treated, may again produce a rising unemployment trend.

The subcommittee recommends that study be given immediately to the problem of providing, on a regular basis, regional and area information on the volume of total unemployment.

Convinced of the wisdom of advanced planning of public works as a precautionary measure against serious economic downturn, the subcommittee recommends that special study should be given to the problem of developing useful projects for nonconstruction workers.

In order to promote continued economic growth the subcommittee recommends that serious attention be given the possibility of further study in the field of regional development.

#### *Subcommittee on monetary, credit, and fiscal policies*

\* \* \* We recommend that Federal fiscal policies be such as not only to avoid aggravating economic instability but also to make a positive and important contribution to stabilization, at the same time promoting equity and incentives in taxation and economy in expenditures. \* \* \* A policy that will contribute to stability must produce a surplus of revenues over expenditures in periods of high prosperity and comparatively full employment and a surplus of expenditures over revenues in periods of deflation and abnormally high unemployment. Such a policy must, however, be based on a recognition that there are limits to the effectiveness of fiscal policy because economic forecasting is highly imperfect at present and tax and expenditure policies under present procedures are very inflexible.

We recommend that the Joint Committee on the Economic Report makes an intensive study of the various possible methods of increasing the flexibility of tax and expenditure policies in order to discover whether and to what extent it is feasible to make these instruments more effective for stabilization purposes.

We recommend that an appropriate, flexible, and vigorous monetary policy, employed in coordination with fiscal and other policies, should be one of the principal methods used to achieve the purposes of the Employment Act. Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability. \* \* \*

#### *Subcommittee on investment*

The subcommittee recommends prompt action on the part of Government to provide aids or supplemental channels for capital loans and equity capital to small enterprise. \* \* \*

\* \* \* The subcommittee recommends an early systematic review of present tax laws with special emphasis on their impact on small business and on the availability of equity capital generally. The present tax system was largely devised to meet the special fiscal needs of depression and wartime. Our objective now should be for a tax system geared to increased production, to development and stabilization of little and local business and the encouragement of equity financing.

#### *Subcommittee on low-income families*

We recommend that local communities, private business, and professional groups; and Federal, State, and local governments take all appropriate action to provide opportunities for low-income families to become full partners in prosperous American communities. Concerted action is required to provide employment opportunities for the aged at tasks within their powers, to help the disabled regain their productive place in society, to develop new industries and employment opportunities in backward regions of the country, to give the unskilled worker a chance to improve his income and his status, and to provide opportunities for the children of low-income families to develop their capacities by suitable education.

We recommend that the Council of Economic Advisers, the Departments of Agriculture, Commerce and Labor, the Joint Committee on the Economic between the distribution of income and the stability and progress of the economy as a whole. Our investigation has indicated that the low-income group constitutes a large underdeveloped productive resource and a large potential market. Further research is needed to define the size and the importance to the whole economy of this reservoir of human resources.

## APPENDIX G

CONGRESS OF THE UNITED STATES  
JOINT COMMITTEE ON THE ECONOMIC REPORT

APRIL 10, 1953.

## MEMORANDUM

To: Senator Ralph Flanders, Vice Chairman.  
From: Grover W. Ensley, Staff Director.  
Subject: Possible Economic Consequences of a Korean Truce.

As per your request, the committee staff has just completed the attached tentative analysis of the possible economic consequences of a Korean truce, assuming that the current talks lead to such a truce. In the course of preparing this statement we have consulted with technicians in the executive agencies.

It is important that the public generally realize that a truce is not a settlement and it will not bring with it, automatically, marked changes in Federal programs or alter the sustaining economic forces ahead.

Unless there is public confidence in the underlying long-run strength of the economy it is conceivable (although not warranted) that we could have the reverse of the business and consumer buying wave of July 1950. It will be recalled that with the outbreak of the Korean war, business and consumers thought there would be immediate and inflationary increases in Government expenditures and civilian shortages. This widespread belief caused a buying spree which pushed wholesale prices up 16 percent and consumer prices up 9 percent. However, it was months later before actual Federal expenditures rose significantly and this rise in defense spending was more than offset by increases in national production.

In spite of the bearishness of the stock market over the possibility of a Korean truce, the present outlook for private business activity and continued high levels of production and employment remains good. There may be expected, of course, the usual rolling adjustments in certain segments of the economy or more general inventory-price fluctuations of the 1949 type—as is always the case even in prosperous periods.

With respect to the transition period ahead, the committee staff stated in its Sustaining Economic Forces Ahead last December (Joint Committee Print, p. 65):

“The ability of the economy to adjust to shifts will in the end depend principally upon the attitudes and behavior of businessmen, investors, and consumers at that time. As our ability to produce increases and Government defense purchases level out, will businessmen and consumers go ahead with their private plans and expenditures, or will they too withdraw from the market out of fear or uncertainty about the ability of the private economy to go ahead without artificial stimulus? If they do, it will not be from lack of opportunities for growth and investment; of that we can be certain.”

## POSSIBLE ECONOMIC CONSEQUENCES OF A KOREAN TRUCE

It is assumed that the recent shift in Soviet policy is only a temporary tactical maneuver, not a fundamental change in long term strategy, so that United States economic policy should continue to be based on long run needs for defense as well as for stability and growth without psychological waves of speculative buying or selling everytime some Soviet move occurs.

I. Recent Communist overtures for a Korean truce probably reflect the Soviet belief that a truce at this time will strengthen communism in the long run struggle but will weaken the United States:

A. A truce would represent a local cessation of fighting only and may be a temporary shift in policy to gain time for:

1. Further rapid Soviet industrial expansion: The fifth 5-year plan calls for production increases from 1950 to 1955 by 43 percent in coal, 85 percent in petroleum, 62 percent in steel, 80 percent in electric power, 85 percent in metallurgical equipment, etc.

2. Political consolidation of the new Soviet regime.

3. Political, psychological, economic, and military preparations for a new Communist move.

B. A desire for a truce may be based on a Soviet belief that it would:

1. Induce a relaxation in the rearmament of the United States and its allies, while Russia continues to arm.

2. Cause economic dislocation and recession in the United States (and hence throughout the free world) by suddenly inducing a substantial cut in Federal defense spending, and a reversal of private investment.

3. Cause a psychological letdown in the United States and thus a recession, or spiraling depression, because of a suspected business and consumer belief that peace and full employment are incompatible.

II. A Korean truce alone would not remove the basic threat of Communist aggression against which Western free-world military preparedness and industrial expansion have been directed. Military and economic adjustments resulting from a truce would be comparatively minor in light of the broad, long run needs, objectives, and dangers which remain unaffected.

A. Direct identifiable expenditures on Korea account only for 10 percent of military spending, or \$4 billion to \$5 billion per year which could be cut gradually, depending on:

1. The need for supplies to ROK forces to prevent a new attack, and to aid in rebuilding the economy of Korea.

2. When and where United States forces now in Korea are relocated, and the cost of transportation, training, and equipment for the size of the total military forces considered necessary.

3. Decisions on the speed and extent of building military reserves (i. e., stocks on hand to meet possible future aggressions) which could not be made in many cases while operations were continuing in Korea.

B. These direct Korean military expenditures of \$4 billion to \$5 billion are minor compared to a current gross national product of over \$360 billion. Their reduction would not warrant a change in business or consumer expectations or any significant cuts in private spending. The only real danger is that an unjustified psychological reaction will set in similar to July 1950, but in the reverse direction, resulting in widespread retrenchment in anticipation of reductions in Government demand larger than actually develop.

III. A Korean truce should not alter present expectations of continued high employment and output combined with stable prices unless purely psychological setbacks of the type mentioned above should occur.

A. Effects of the Korean truce alone on the Federal Budget are unlikely to change previous expectations that total administrative budget expenditures in fiscal 1954 will fall within the \$70 billion to \$80 billion range, and in fiscal 1955 within the \$60 billion to \$70 billion range; and that tax receipts under present laws providing for automatic cuts will amount to \$68 billion to \$70 billion in fiscal 1954. The administration's current review of the budget in relation to our military objectives, time schedules, organizational structure and efficiency, might be expected to narrow the 1954 expenditure range to \$70 billion to \$75 billion—even without a Korean truce. Continued improvement in the overall budget position is likely to provide increased hope for future tax adjustments, stimulating to private investment and consumption.

B. Private investment plans should not be altered by a Korean truce from the high levels previously in prospect:

1. Latest SEC-Commerce survey of business plans for purchase of new plant and equipment indicate a rise of about 2 percent from 1952-53—5 percent larger than planned last October for 1953. This optimistic outlook is supported by the recent upward movement of new orders for capital goods reversing the 1952 trend and by the new survey of business investment plans by McGraw-Hill Publishing Co. In addition, analyses by the United States Departments of Commerce and Labor and by private building industry economists, and a survey of builders by Fortune magazine, all point to non-farm residential construction in 1953 as high or higher than in 1952.

2. Present investment plans appear to be based on long-run considerations such as were spelled out in the Joint Economic Committee print on The Sustaining Economic Forces Ahead, and hence are reasonably secure from fluctuations due to a Korean truce since:

(a) They were made in expectation of a cut in defense spending after the peak in the present year so the modest reduction due to a Korean truce would be no great change.

(b) There is no evidence of excess capacity in industries where additional investment is now planned, e. g., electric power.

(c) The demand for residential construction reflects the effects of new family formation, continued high birth rates particularly for third and fourth children, replacement of old units in central urban areas by modern suburban units in new locations, and high levels of consumer incomes and savings sufficient to turn housing needs into effective demand.

3. Present inventories are not considered excessive relative to rates of sales though presently available data do not permit accurate assessment of some industries which will be planning readjustments as defense production passes its peak. Recent additions to inventory were due to the replacement of losses caused by the 1952 steel strike.
- C. Consumer expenditures seem likely to continue stable to rising through fiscal 1954 supported by rising disposable personal income, ample liquid savings, stable prices, and favorable terms of finance for durable goods—the same outlook as reported recently by the Federal Reserve survey of consumer plans and expectations.
1. A Korean truce is unlikely to have appreciable immediate depressing effects on disposable personal incomes since eventual reductions due to reduced Government spending may be offset by direct reductions in taxes planned for such time and the indirect stimulating effects of tax revisions on private spending.
  2. Continued high consumer incomes and relatively stable prices probably mean rising consumer expenditures in line with rising real disposable incomes. (If consumer disposition to spend should rise even slightly it would sharply reduce recent high savings.)
  3. A Korean truce might influence consumers either to hesitate in their spending for a month or two particularly on durable goods and luxuries, or to reduce recent high savings, thus bolstering demand.
- D. As a result of a Korean truce, the standards of living in noncommunist countries might be raised and United States foreign trade through private channels might increase if world tensions are relaxed enough to:
1. Reduce burden of military programs on other countries as well as on United States.
  2. Render feasible the expansion of private United States investment abroad and Government policies conducive to such investment.
  3. Replace foreign military aid in part with increased technical assistance programs.
- IV. The possibility of a Korean truce points to the likelihood that the years ahead might be marked by alternating Russian policies of tension and relaxation. Any Russian intention of creating dislocations and disturbances in our economy (as well as in our military readiness) by such tactics must be defeated. Therefore, study of our national economic prospects and our policies to promote healthy economic growth needs continued attention and reappraisal in the light of changing international as well as domestic conditions. Among the Government programs and policies which should be given continued attention are:
- A. Indirect controls such as credit and debt management.
  - B. Long-range tax policies to improve economic incentives.
  - C. Automatic stabilizers such as agricultural price supports, unemployment insurance, and flexible fiscal policies.
  - D. Rising standards of living abroad as a means of successfully combating communism, through improved international trade, investment, and interchange of technical information.

## APPENDIX H

CONGRESS OF THE UNITED STATES

JOINT COMMITTEE ON THE ECONOMIC REPORT

MEMORANDUM

NOVEMBER 6, 1953.

To: Members of the Joint Committee on the Economic Report.

From: Grover W. Fnsley, staff director.

Subject: Observations on economy of Western Europe, report on GATT sessions at Geneva, and statistical meetings at Rome.

During the week of September 6 I served as United States delegate to the 28th session of the International Statistical Institute at Rome. The following week, at the invitation of the Assistant Secretary of State for Economic Affairs, I observed the opening sessions of the General Agreement on Tariffs and Trade (GATT), at Geneva. On my way to and from these meetings—during the period September 1 to October 3—I visited 11 Western European countries and North



Africa, interviewing our United States officials, Government, university, business, and other economic leaders and technicians. The countries included Portugal, Spain, Tunisia, Italy, Switzerland, Germany (including Berlin), Denmark, Sweden, Holland, France, and England.

At every stop I had splendid cooperation from our United States Government people. I was particularly helped by our economic technicians in the various missions. The Government representatives and other people whom I visited spoke favorably of the joint committee's interest in economic trends and problems of Western European countries.

In this memorandum I would like to summarize briefly (1) my general observations on economic trends and problems in Western Europe; (2) the sessions of GATT at Geneva; and (3) the statistical meetings at Rome. More detailed information on the second and third subjects will be found in attached exhibits.

*General observations on economic trends and problems in Western Europe*

On the whole the economies of the various countries visited have been improving in the last year and a half. Production and employment are at high levels, and living standards are rising. West German recovery during the past year has been remarkable. West Berlin, while a tremendous asset in the East-West struggle, will continue to be an economic burden on the West for a long time. There is some fear that the added burden of East German refugees is diverting resources originally intended for investment, and thereby delaying further the day when West Berlin can stand on its own economic feet.

There are exceptions to this generally bright picture—notably France, and to some extent Italy. The economic and social tension in France is particularly noticeable.

The facts of European recovery and the problems of France have been publicized in the press and the details are documented in Government publications. I will confine my observations here, therefore, to what seems to me to be a striking and basic obstacle to economic growth in Western Europe.

European leaders impress upon visiting Americans, two points. First, there is fear of a recession in the United States and the consequences of such a setback upon their own economy. They point out that even a slight dip in our large and diversified economy would result in a major reversal in their countries which are small, specialized, and dependent upon uninterrupted dollar-area purchases. Second, the importance of the United States reducing its import barriers is emphasized. Western Europe believes it can earn dollars with which to build its military and economic security if we allow more of her goods to enter our market. No doubt, developments in the United States on these two fronts will be important to Western Europe in the coming months and years as we reduce or eliminate economic assistance. But one should not be led to the conclusion that all of Europe's problems would be solved if the United States continues prosperous and reduces its trade barriers.

There appears a more basic obstacle to Western European economic stability and growth; an obstacle that in the final analysis can only be solved by Western Europe, itself. I refer to the economic restrictions found in, between, and among all of these countries. Western European countries have no conception of the competitive free-enterprise system as we know it in America. In fact, they have historically shunned our competitive system. In general—and recognizing that there are exceptions to the following—one cannot open a new business without the approval of the trade association, or existing businesses in the same line; a cattle raiser finds he must sell his beef to only one buyer who has exclusive buying rights in his region; commodities may go through multiple layers of middlemen, each taking his toll but adding little or no utility; increases in productivity are viewed with alarm because of possible effects on employment; featherbedding and other restrictive labor practices are rampant; production techniques are guarded as carefully as military secrets; distribution methods have not changed in centuries; a housewife must shop at half a dozen stores to purchase the bare essentials for the evening meal. Government controls, subsidies, and artificial restraints and stimuli to one industry or product as against another prevent balanced and maximum economic growth. Then there are private restrictive cartel arrangements which cross international boundaries. Between and among these countries are mountains of government tariff, quota, exchange, and other artificial restraints to trade.

These restrictions and archaic methods of production and distribution result in high consumer prices, unemployment, low productivity, and lower standards of living. There is obviously a mass market in Western Europe to absorb the

mass of goods and services Europe can produce. The public and private structural barriers, however, must be modified if Europe is to take full advantage of her economic potential. While outside markets such as the United States are important, their importance appears exaggerated. She should not look continually to the United States for economic assistance or changes in policies, unless she is willing to tackle her own basic structural problems.

Furthermore, one wonders how much of an inroad European producers could make in the United States domestic market in the long run. Estimates of imports by competent observers suggest that such imports would be relatively small. Thus, perhaps, through reductions in tariff barriers we could extend our remarkably productive competitive system to foreign trade without upsetting the domestic economy.

One is impressed by the growing recognition on the part of European Government technicians and business leaders of this basic structural problem. They indicated the political difficulties of overcoming and breaking down these barriers to production and distribution. It will take time. The United States policy, although belatedly adopted after prodding by the Congress to use the foreign assistance program to increase productivity and to promote internal competition, has made some inroads. Permanent productivity centers have been established by each Western European country. Programs to exchange business, labor, and agricultural technicians and students are one avenue of conveying to the Europeans the values of the competitive free-enterprise system. Thousands of such exchanges have been made in recent years. Government activities must and are being augmented by the program of United States economic interest groups. Of course, if it could be demonstrated that United States self-interest dictated extending the competitive system to foreign trade, a freer trade policy would be the good way of conveying the merits of competition and free enterprise to the rest of the world.

The importance of Western European nations improving their living standards is evident. Communist Russia in recent weeks has been giving increased emphasis to civilian living standards. She expects to increase consumer goods 72 percent by the end of 1954 as compared with 1950. Russia is devoting a lot of attention to improved distribution of goods as well as to increased productivity. New stores, new supermarkets, introduction of consumer credit, and new methods of food preservation and refrigeration are being emphasized. The West must recognize this economic pace of the Soviet Union, with its rapidly increasing capacity and those elements of an economic system which will give it added flexibility in the future to devote constantly larger portions of its economic strength to consumer goods, if they wish to do so. A psychological point should also be made. The Soviets started from such a low point that any increase in consumer goods will have a dramatic impact upon the Soviet citizen and this cannot help but have an impact upon the psychology of the free world. Western Europe must keep well ahead in this race of providing an increasing standard of living to the people if it is to remain free.

The Joint Economic Committee may wish to explore these long-run economic trends, East versus West, further, particularly the impediments to western economic growth and rising standards of living.

I was interested in the governmental machinery for formulating economic policy in these Western European countries. For example, both Sweden and England have institutions somewhat comparable to our Council of Economic Advisers. In both countries detailed economic projections for the coming year are prepared not primarily as forecasts, but as a basis for formulating consistent economic policy. These Government officials evidenced interest in our committee publications and the committee staff's annual projection of the Nation's economic budget.

There was also a lively interest in all countries in our monthly Economic Indicators. Committee publications are widely used by Government and private-business technicians. The central statistical office of the Cabinet Office of Great Britain recently began preparing Economic Trends which shows the important statistical series in the United Kingdom. The format is identical with our Economic Indicators, and the technicians who prepare it indicated to me that our publication was a model.

*The eighth session of the General Agreement on Tariffs and Trade, Geneva, September 17, to October 24, 1953*

The General Agreement on Tariffs and Trade is a multilateral agreement under which the member countries have agreed to general rules for the conduct of international trade and to specific tariff concessions. In addition to the United States, there were representatives from 32 other countries at the eighth session.

At the completion of the meetings, the United States was able to list a number of major accomplishments. These included:

(1) A decision that the assured life of individual tariff concessions would be extended for another 18 months after January 1, 1954. This will allow time for the United States and other countries to review their own trade policies.

(2) A decision to permit Japan to participate on a provisional basis in future deliberations of the contracting parties. The United States and various other countries agreed with Japan that their commercial relations would be governed by the provisions of the agreement.

(3) The bringing into the open widespread opposition in continental Europe and southeast Asia to the British system of empire preferences and the notion of regional preferences in general, as contrasted with a relatively passive attitude several years ago. Although due to the political difficulties of the United Kingdom of imposing duties on products from within the Commonwealth which are free of duty, the United Kingdom was granted a waiver permitting, under certain circumstances, increases in duties applicable, to products of other contracting parties on which tariff concessions are not now in effect without requiring the imposition of duties on like Commonwealth products. The waiver granted the United Kingdom, however, was conditioned by a proviso that the preference would not disturb the relative share of the British market enjoyed by non-Commonwealth countries.

(4) A decision looking toward a review of the operations and provisions of the general agreement in the latter part of 1954. (For more details see exhibit 1, Summary of the Eighth Session of the Contracting Parties to the General Agreement on Tariffs and Trade, by the Department of State, October 27, 1953.)

I had an opportunity to hear only the opening statements during the first 2 days of the recent sessions (September 17-18). The statements by the leading countries emphasized the importance of the current review of foreign economic policy in the United States. All of the countries look to the United States for leadership in moving toward a freer trade basis.

Chairman Johan Melander of Norway stated at the outset:

" \* \* \* It was not to be expected that such far-reaching proposals involving so many countries should lead to immediate decisions. In particular, it is understandable that the new Government in the United States needs time to reflect upon the very important decisions which must be taken if that country is to make a substantial and appropriate contribution to a collective attack on the basic problems of international trade and payments."

The Rt. Hon. C. D. Howe, Minister of Trade and Commerce of Canada, stated that "the conclusions of the United States Government on these questions are of crucial importance to other countries."

The Right Honorable Peter Thorneycroft, president of the British Board of Trade and chief United Kingdom delegate, said:

"Any attempt to cure the chronic unbalance which exists today is doomed to failure this side of a fundamental change in American commercial policy. A large range of potential exports to America are faced with tariff rates 50 percent, 60 percent, or even more. There are notorious difficulties of customs valuation which vastly increases the real burden of tax. There is the Buy American Act. There is the discriminatory shipping policy. There are the very reciprocity provisions which inhibit the unilateral lowering of trade barriers, which is axiomatic to a solution of unbalanced trade. \* \* \* Mr. Howe \* \* \* has indicated the crucial importance for all of us of the United States policy. I agree with him."

The Honorable Samuel C. Waugh, Assistant Secretary of State for Economic Affairs and chief United States delegate, lent tremendous confidence in the United States leadership when he elaborated on the current review of foreign economic programs by the special commission created by the last session of the Congress. He quoted from President Eisenhower's message to the GATT in which the President said:

"In this process of reappraisal it is important that we keep our sights clear—that the nations of the free world remain firmly dedicated to our common purpose of developing that higher level of profitable international trade necessary to the economic strength and well-being of all our peoples."

Mr. Waugh went on to say:

" \* \* \* Events of the past 15 years make us realize that there is no longer any such thing as isolation on this shrunken globe of ours—that no people can long remain aloof from all the rest, secure from military threat and free of economic cost. \* \* \*

" \* \* \* For us, as for other countries, there is no longer any such thing as splendid isolation. We are in the business of international cooperation to stay." He gave some assurance to the other delegates that the United States is determined to minimize economic fluctuations:

"A great deal has been learned about the operations of our economy during the past quarter of a century. We do not yet know enough to avoid all downward fluctuations in economic activity. Nevertheless, my Government is studying a wide range of policies and measures to avert, if possible, a future decline or to minimize it if it occurs." He concluded by emphasizing the need for an early solution of our basic economic problems. He said:

"\* \* \* It is our hope and aim that our own Commission on Economic Foreign Policy will be in a position to report to the President and the Congress in time for appropriate legislative and other necessary action to be taken during the early months of next year. If these plans materialize, our Government would then be able to discuss more definitively the role which it is prepared to play in further international cooperative efforts in the economic field."

Dr. Ludwig Erhard, Minister of Economic Affairs of the Republic of Germany, warned other European countries not to lean too heavily on the United States. He urged that the European countries themselves undertake the problem of casting off protectionist policies, export subsidies, and other barriers to trade. He urged the 33 GATT nations to broaden their activities beyond the reduction of tariffs with the aim of achieving the convertibility of currencies.

The work of the Randall Commission is being watched by the entire world. Probably no other review of an economic program of the United States Government has ever been viewed with as much hope and optimism by foreign countries.

*The 28th session of the International Statistical Institute, Rome, September 6 to 12, 1953*

The 28th session of the International Statistical Institute was held in Rome, September 6-12, 1953, at the invitation of the Government of Italy. The Institute, created in 1887, is one of the oldest existing international organizations. It provided virtually the only medium for international statistical collaboration prior to the League of Nations. Following World War II the activities of the Institute were reoriented in view of the statistical activities of the United Nations and greater emphasis was put on its function as an international professional society. This reorientation was made under the leadership of Dr. Stuart A. Rice, Assistant Director of the United States Bureau of the Budget, and president of the Institute for the past 6 years. In this new role, the Institute no longer receives financial assistance from the United States Government, although the official United States delegates to the biennial sessions continue to be named by the State Department.

The President of Italy, Luigi Einaudi, is a member of the Institute and took an active part in arranging the sessions. Prime Minister G. Pella of Italy addressed an opening session of the Institute and stressed the extreme dependence of the modern state upon accurate and adequate statistics. At a special audience, His Holiness Pope Pius XII discussed the need for gathering and analyzing statistics, but went further and emphasized the importance of using those data in improving economic and social conditions throughout the world. This emphasis on the practical use of statistics was refreshing since I had been struck by the abstract character of much of the statistical and economic research that has gone on, and is going on in many parts of the world. The lack of adequate government statistics has prevented many scholars from pursuing more practical and useful types of research.

The Institute's program was composed of some 180 papers, under the following general topics: Productivity statistics, regional cooperation in statistics, training in statistics, methodology, population, agriculture, economic and social statistics. (These papers will eventually be available in published form.)

The problem of productivity has been approached quite differently in the United States than in most of the rest of the world. Here we have had the stimulus of labor shortage in relation to physical resources. In Europe and the Far East productivity has had to be improved in the face of labor surpluses. Productivity advances under such circumstances are viewed too often, even by economists and statisticians, as undesirable because they might increase unemployment or the gains therefrom not accrue directly and immediately to labor.

Steps are currently being taken through the United Nations and regional organizations to improve statistics country-by-country, and to improve the international comparability of these data. Much remains to be done and there are

still pitfalls in comparing one country's data with another. Progress, however, is being made.

Probably the principal value of the meetings and attendance and participation of the United States delegation was the opportunity to meet and discuss informally technical statistical and economic problems with our counterparts from other countries. Dr. Stuart Rice added tremendous prestige to the United States representation since under his years of guidance the United States has taken the lead in developing a statistical program reasonably commensurate with our needs. The role of the Joint Economic Committee in supporting governmental statistical programs and in publishing economic statistics and in pointing out gaps in our statistical knowledge is much appreciated by professional statisticians everywhere.

Because of the importance of adequate and accurate economic statistics to facilitate public and private policymaking in the furtherance of economic stability and growth, as called for by the Employment Act, the Joint Economic Committee may wish to consider appointing a standing subcommittee to give continuing guidance to the Congress on economic statistics. (For more details see exhibit 2, Report on the 28th Session of the International Institute, by Stuart Rice, chairman, United States delegation.)

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EXHIBIT 1

OCTOBER 27, 1953.

SUMMARY OF THE EIGHTH SESSION OF THE CONTRACTING PARTIES TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE BY THE DEPARTMENT OF STATE

The State Department today released a summary of the recently concluded Eighth Session of the Contracting Parties to the General Agreement on Tariffs and Trade. The session was held in Geneva, Switzerland, from September 17 to October 24. A summary of the meeting follows:

The 33 countries contracting parties to the General Agreement on Tariffs and Trade concluded their eighth session on October 24. The session opened September 17 at Geneva, Switzerland. The meeting took place against the background that a number of important trading countries are presently engaged in reviewing their international trade policies.

A major accomplishment of the eighth session was a decision that the assured life of individual tariff concessions would be extended for another 18 months after January 1, 1954.

Another important accomplishment was the decision to permit Japan to participate on a provisional basis in future deliberations of the contracting parties. In addition, various countries, including the United States, agreed with Japan that their commercial relations would be governed by the provisions of the agreement.

During the session the Netherlands and South Africa announced relaxations in their discriminatory balance of payment restrictions. As part of the regular operations of the general agreement consultations were held with a number of countries still maintaining quantitative restrictions for balance of payments reasons.

A number of disputes which had arisen under the provisions of the general agreement were also considered. Some of these disputes were satisfactorily settled while suggestions were made for possible settlement of others.

During the session the groundwork was laid for further progress toward the achievement of the aims of the general agreement. In this connection the contracting parties took a decision looking toward a review of the operations and provisions of the general agreement in the latter part of 1954. It is contemplated that the French plan for the reduction of tariff levels which was developed during the session into a technically feasible proposal will be considered during this review.

The ordinary business of the session also included a review of actions taken under waivers previously granted and agreement on new decisions to take care of special situations which have arisen since the general agreement went into effect in January 1948.

Out of a lengthy agenda of 44 items, among the most significant were the following:

## EXTENSION OF ASSURED LIFE OF SCHEDULES

One of the most important items on the agenda related to the fact that after January 1, 1954, countries could through the use of article XXVIII of the agreement, withdraw or modify individual tariff concessions. The only obligation would be to engage in negotiations for the purpose of arriving at compensatory concessions for such withdrawals or modifications. If such negotiations should fail, the country could, nevertheless, go ahead and make the proposed changes. In such an event, affected countries could retaliate by withdrawing or modifying equivalent concessions.

There was general concurrence among the contracting parties that it would be undesirable to have such instability in tariff concessions during the next year or so, particularly since various countries, including the United States, were conducting a review of their basic commercial policy objectives. It was generally felt that until there had been a determination of a future course of action with regard to commercial policy in these countries, it was essential to have a standstill arrangement with regard to concessions in the agreement.

The contracting parties, therefore, decided that it would be desirable to postpone the applicability of article XXVIII until July 1, 1955, or for 18 months. A declaration to this effect was prepared and signed in Geneva by a number of countries, including the United States, on October 24, the opening day for signatures. The declaration will remain open for signature by other contracting parties until December 31, 1953. The declaration provided that article XXVIII would apply fully with regard to concessions initially negotiated with countries not signing it.

## FRENCH PLAN FOR REDUCTION OF TARIFF LEVELS

As a result of intensive analysis and examination by technical experts at various meetings held during the last 2 years, the French plan for the reduction of tariff levels reached an advanced stage of technical development. Since the plan now appears to be technically feasible, the contracting parties decided to refer the plan, as revised, to their respective governments for their consideration and comment. The United States delegation indicated that the plan would be sent to the Commission on Foreign Economic Policy as an illustration of a line of thinking and a possible approach to the problem of tariff reduction.

In broad outline, the revised French plan would provide that the import trade of participating countries would be divided into a number of sectors, say 10 or 15, and that the average tariff rates within each sector would be reduced by 10 percent in each year for the first 3 years of the plan. The choice of items for reduction within any sector would be at the discretion of each participating country, except that rates above a certain prescribed level (ceiling rates) must be reduced to that level. Special relief from the mandatory commitment to reduce the high rate on any specific product to this prescribed level could be granted by the participating countries. Under the plan no reduction would be required in any sector whose average rate was below a prescribed level (floor rates) except that in such a sector any individual rate above the ceiling must be reduced to the ceiling. Fiscal duties could be excluded from the plan, and countries in the process of economic development would not have to make reductions affecting their development programs.

## BALANCE-OF-PAYMENTS CONSULTATIONS

The contracting parties conducted consultations under article XII: 4 (B) and XIV:1 (g) of the General Agreement with Australia, Ceylon, Chile, Finland, Pakistan, Sweden, Southern Rhodesia, and the United Kingdom. In these consultations the contracting parties had the benefit of information developed during the consultations of these countries with the International Monetary Fund.

Representatives of the consulting governments discussed freely all aspects of their import restrictions. Information previously furnished concerning the restrictions and their discriminatory application were analyzed. These representatives took full note of the views expressed by the other contracting parties, and indicated that these views would be conveyed to their respective governments for sympathetic consideration.

The Netherlands representative announced that owing to satisfactory developments in their balance-of-payments and monetary-reserve position his government had decided to relax its restrictions on imports from the dollar area. The representative of South Africa announced that after January 1, 1954, South Africa import restrictions would be administered on a completely nondiscriminatory basis.

In conducting this year's consultations the contracting parties arrived at certain general conclusions. A marked improvement in the world dollar situation in the past year was noted. Although this improvement was due in part to temporary and artificial factors, including continued restrictions against dollar imports and heavy United States offshore purchases and military and other expenditures abroad, more fundamental causes appeared to be in operation. Some of these more fundamental factors gave promise of enduring. If this should prove to be the case, the contracting parties believe the conditions would exist for advancing toward a system of international trade free from restrictions and discrimination imposed for financial reasons. Unfortunately, the contracting parties could not report universal improvement. Some countries, among them countries dependent on production and export of primary commodities, have in fact experienced a deterioration in their external financial position during the year under review.

#### VALUATION, NATIONALITY, AND CONSULAR FORMALITIES

Resolutions of the International Chamber of Commerce on the valuation of goods for customs purposes, nationality of imported goods, and consular formalities were considered. Simplification and standardization of methods of determining valuation and nationality of goods, as well as efforts to minimize consular formalities, have long been the subject of both national and international concern. Methods of valuation currently used by the contracting parties were given preliminary examination and it was agreed that work in this field should be carried on through intersessional machinery. A report on national regulations in effect with respect to the determination of nationality was also studied and a proposed standard definition of nationality was prepared for the consideration and comments of the contracting parties prior to the next session. Note was taken of the action by the individual contracting parties designed to carry out recommendations of the 1952 session calling for the gradual reduction of consular formalities with a view to their elimination by December 31, 1956.

#### EUROPEAN COAL AND STEEL COMMUNITY

At the seventh session in 1952 the contracting parties granted to the six contracting parties composing the European Coal and Steel Community a waiver of certain of their obligations under the general agreement. This waiver was necessary in order to enable the six countries to establish a common market for coal and steel in accordance with the provisions of the treaty constituting the European Coal and Steel Community. In granting this waiver, the contracting parties provided that the Community should make an annual report to the contracting parties concerning those aspects of the operation of the coal and steel treaty having a bearing on the provisions and considerations contained in the waiver. Since the operation of this waiver and the nature of the development of the common market for coal and steel was a matter of major importance to the contracting parties, a working party was established to conduct a review of the Community's annual report and to discuss relevant matters with the representatives of the Community states and of the High Authority of the Community.

In addition to reviewing the report previously submitted, the working party prepared and presented to the High Authority and member state representatives a series of specific questions designed to supplement the material set forth in the report. These questions covered a wide range of matters arising out of the Community's activities during the past year. Of special importance were the plans of the Community for negotiations with outside countries looking toward the harmonization of the external tariff on coal and steel products; the detailed status of interim tariff and tariff-quota arrangements pending such negotiations; and the operations and effect of an export price agreement reported to have been reached during the past year by steel producers in the six countries of the Community.

The working party covered not only the technical details of action taken under the waiver, but broader considerations basic to the granting of the waiver, including the undertaking by the Community to harmonize its tariff and other restrictions on trade between the Community and outside nations in coal and steel products on a lower and less restrictive level than existed prior to creation of the Community.

The examination of the first annual report of the Community was of value, in which information not otherwise available was developed. Existing arrangements between producers in the member states affecting export prices were also discussed. In this connection the High Authority affirmed its intention of reviewing the

operation of the present arrangements to determine their consistency with the treaty, and its willingness to take every step in its power should it find them inconsistent.

The contracting parties took note of the first annual report of the member states of the Community together with supplementary information furnished in the course of the review; expressed their satisfaction with the results of this first annual examination; and thanked the member states and the representatives of the High Authority for the active and constructive participation on their part which made this result possible.

#### COMPLAINTS

The contracting parties dealt with a number of complaints against actions held to be inconsistent with the letter or spirit of the agreement. Several of them concerned actions taken by the United States in restricting imports or subsidizing exports. Consideration was again given at this session to the application by the United States of import quotas on dairy products formerly imposed under section 104 of the Defense Production Act and now continued in modified form under section 22 of the Agricultural Adjustment Act. The contracting parties recommended that the United States have regard to the harmful effects of these restrictions on international trade.

The Greek, Turkish, and Italian delegations expressed their concern over the continued suspension by the United States of the tariff concession on dried figs, as the result of an escape-clause action. It was noted that the United States Tariff Commission is to keep the fig situation under review and report to the President on whether modification of the concession remains necessary. The contracting parties affirmed their conviction that the most satisfactory solution of the matter would be a restoration of the concession.

With regard to complaints against United States export subsidies or other measures having the effect of aiding United States exports of raisins, oranges, and almonds, the United States delegate explained that such measures were intended to permit these products to maintain a foothold in world markets established before import restrictions were imposed against them by countries suffering from dollar difficulties. Several countries believed that the subject of export subsidies and provisions of the agreement on subsidies should be given careful consideration in the future.

A complaint against United States import restrictions on filberts was disposed of when the United States delegate announced that the President, in the light of the changed marketing situation, had just approved the removal of restrictions.

It was agreed that the basis for two complaints against Greek measures nullifying or impairing their tariff concessions had been removed as a consequence of an adjustment made in the Greek exchange rate before the session.

The French delegate agreed that a French tax on imports and exports was inconsistent with the agreement and informed the contracting parties to their satisfaction that the French Government had decided to allow this tax law to expire at the end of the year.

The contracting parties also considered the failure of Brazil to put into effect compensatory tariff concessions which resulted from tariff renegotiations, and its failure to eliminate internal tax discriminations against imports which are inconsistent with the agreement. The Brazilian delegate said he believed the present situation could be rectified and the contracting parties adopted a resolution urging Brazil to take the necessary action to that end at an early date and to report to them at the next session.

The Norwegian and German delegations announced that they had resolved their dispute, concerning the alleged discriminatory treatment of Norwegian sardines, through consultations recommended by the contracting parties at the last session.

#### TARIFF MODIFICATIONS

Due to the political difficulty for the United Kingdom of imposing duties on products from within the Commonwealth which are free of duty, the United Kingdom was granted a waiver permitting under certain circumstances, increases in duties applicable to products of other contracting parties, on which tariff concessions are not now in effect, without requiring the imposition of duties on like Commonwealth products. Procedures were provided for in order to prevent the waiver from applying in any case where the increased preference would result in a substantial diversion of trade to preferential suppliers.

A waiver was granted to permit Australia to accord preferential duty-free treatment to those products, on which tariff concessions are not in effect, imported



from Papua and New Guinea which it considered appropriate in order to encourage the economic development of these areas. Safeguards in the waiver prevent its application in most cases where the contracting parties might consider that the increased preferences might injure the trade of another contracting party.

Following the devaluation of the drachma last April, the Greek Government had increased the specific duties in its schedule of tariff concessions in the general agreement. The contracting parties examined these increases in the light of special provision in the Greek schedule, and of the more general provisions in the agreement applicable to most contracting parties. Without going into the question of the consistency of the Greek action with the obligations of Greece under the agreement, it was decided that, both with regard to the present and the future, Greece should be permitted to make the same adjustments of specific duties as other countries following currency devaluation.

#### TIME OF NEXT SESSION

The next session was tentatively set for October 14, 1954, at Geneva. It was understood that the review of the GATT referred to above would form a part of the ninth regular session. However, if circumstances force the delay of the review until after 1954, the ninth session will still be held on October 14, 1954.

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#### EXHIBIT 2

OCTOBER 20, 1953.

#### REPORT ON THE 28TH SESSION OF THE INTERNATIONAL STATISTICAL INSTITUTE, ROME, ITALY

By Stuart A. Rice, Chairman, United States Delegation

1. *Background.*—The International Statistical Institute, now two-thirds of a century old, held its first session in Rome in 1887. The 28th session took it back to the Eternal City for the third time.

Prior to World War I the Institute and its biennial sessions provided substantially the only medium for international statistical collaboration. Its membership included the leading official statisticians of the world, but was limited to Europe, North America, and a few colonial outposts of Western powers. Following the disruptions of the Second World War, the 25th session, held in Washington in September 1947, resulted in a reorganization designed to adapt the structure and program of the Institute to a new role. Official mechanisms for international statistical collaboration through the UN and its specialized agencies had largely displaced its earlier intergovernmental functions. In consequence the Institute's new constitution emphasized its functions as the world's leading professional organization within its scientific field.

Subsequent sessions in Berne, Switzerland (1949), and India (New Delhi and Calcutta, 1951) tended to consolidate this role and also that of a holding company for organizations of statisticians in all parts of the world. In the past 6 years all important international, regional, and national statistical societies have become affiliated with it. The Rome session culminated these processes and convincingly demonstrated the Institute's postwar revival, its adaptation to present forms of international organization, its enlarged geographic scope, and its increasing emphasis upon technical and scientific as compared with governmental and administrative problems of statistics.

The Institute's support is still derived primarily from governmental subventions. However, it administers funds provided by UNESCO, supplemented from other sources, for the furtherance of international statistical education. In addition to the preparation of such teaching aids as glossaries of terms in different languages and the preparation of bibliographies, it gives aid to applicants for fellowship opportunities in western universities and cooperates with governments and other agencies in the maintenance of national statistical education centers in Calcutta and Beirut.

2. *Agenda.*—Topics discussed at the 28th session included the following:

(a) Application of statistics to the study of productivity problems in industry; methods of measuring productivity and the role of statistics in improving productivity; the application of statistical methods to industrial standardization, together with a general consideration of the meaning of productivity.

(b) Regional cooperation in statistics, with reports on statistical activities carried on by OEEC, the Inter-American Statistical Institute, the various economic commissions of the U. N., and other regional organizations.

(c) Training in statistics, with particular consideration of training in relation to the application of statistics to industry.

(d) General methodology and mathematical statistics.

(e) Population statistics.

(f) Agricultural statistics.

(g) Economic statistics.

(h) Social and cultural statistics.

A total of some 180 scientific papers were presented under the foregoing topics.

3. *Participation.*—In response to the invitation of the Italian Government official delegations were credited in advance of the session from the following nations: Austria, Belgium, Brazil, Canada, Colombia, Denmark, Finland, Germany, Japan, India, Iran, Ireland, Israel, Norway, Netherlands, Portugal, Southern Rhodesia, Spain, Sweden, Switzerland, and Yugoslavia. The credentials of the United States delegation were presented subsequent to the publication of the foregoing list.

Although a final report of the registration is not in hand at the time of this writing, I believe that a number of other delegations were officially credited. In addition to delegates from the countries named, there were participants (who may or may not have been officially delegated in some cases) from Australia, France, Greece, Italy, Lebanon, Pakistan, Poland, Rumania, South Africa, Turkey, United Kingdom, United States, and Venezuela. Including members of the International Statistical Institute, nonmember delegates, guests from abroad, and families, the total registration was 407.

In addition to delegates of governments the following organizations were officially represented: UN, FAO, UNESCO, WHO, OEEC, ILO, American Statistical Association, International Association for Research in Income and Wealth, Association of Statisticians of German Cities, Indian Statistical Institute, Royal Statistical Society (U. K.), Belgian Society of Statistics, Brazilian Society of Statistics, Biometrics Society, Econometric Society, Statistical Society of Paris, Indian Society of Agricultural Statistics, Italian Society of Economics, Demography, and Statistics, Swiss Society of Statistics and Political Economics, German Society of Statistics, and International Union for the Scientific Study of Population.

Including all categories of participants the countries with the largest registration as of July 20, 1953, were the following, in order: France 68; United Kingdom, 46; Germany, 45; Italy, 37; United States, 29; Switzerland, 24; Netherlands, 19; Spain, 11; Belgium, 10; India, 10. Registrants from international organizations numbered 32. As indicated above, many participants arrived and registered after the above totals were compiled. From what precedes it will be apparent, because of the scientific character of the session, that little distinction was evident at scientific meetings and social functions between official delegates and other participants.

4. *United States delegation.*—The official delegation of the United States was composed as follows:

Chairman:

Stuart A. Rice, Assistant Director for Statistical Standards, Bureau of the Budget.

Delegates:

Charles A. Bicking, Chief, Design of Experiment Unit, Research and Development Division, Office, Chief of Ordnance, Department of the Army.

Joseph F. Cunningham, Assistant Director of Statistical Services, Department of the Air Force.

Calvert L. Dedrick, Coordinator of International Statistics, Bureau of the Census, Department of Commerce.

W. Edwards Deming (who failed to arrive), Consultant, Office of Statistical Standards, Bureau of the Budget.

Grover W. Ensley, staff director, Joint Committee on the Economic Report, United States Congress.

W. Duane Evans, Chief, Division of Interindustry Economics, Bureau of Labor Statistics, Department of Labor.

Frank R. Garfield, Adviser on Economic Research, Division of Research and Statistics, Federal Reserve System

William R. Pabst, Jr., Chief Statistician, Bureau of Ordnance, Department of the Navy

Samuel Weiss, Chief, Office of Statistical Standards, Bureau of Labor Statistics, Department of Labor

In addition the following Americans were identified in connection with the extension of invitations to a reception at the residence of the American Ambassador:

Dr. F. Bernstein, New York  
 Prof. C. I. Bliss, Yale University  
 Prof. Grant I. Butterbaugh, University of Washington  
 Prof. W. G. Cochran, Johns Hopkins University, president, American Statistical Association  
 Prof. M. A. Copeland, Cornell University  
 Prof. Gertrude Cox, University of North Carolina  
 Dr. Besse B. Day, USN Engineering Experiment Station  
 Dr. Louis I. Dublin, vice president, Metropolitan Life Insurance Co.  
 Dr. John Durand, Acting Director, U. N. Population Division  
 Dr. Milton Gilbert, OEEC, Paris  
 Dr. Margaret Gurney, Bureau of the Census  
 Dr. Robert C. Hamer, Bureau of the Census  
 Prof. Harold Hotelling, University of North Carolina, and Mrs. Hotelling  
 Prof. Simon Kuznets, University of Pennsylvania  
 Dr. William R. Leonard, Director, U. N. Statistical Office  
 Prof. Frank Lorimer, American University  
 Prof. Oskar Morgenstern, Princeton University  
 Dr. Karl and Mrs. Pribram, Washington, D. C.  
 Dr. Charles F. Roos, president, Econometric Institute, Inc.  
 Dr. Hans Staehle, GATT, Geneva  
 Prof. P. K. Whelpton, director, Scripps Foundation, Oxford, Ohio  
 Dr. Robert M. Woodbury, Chief Statistician, ILO

5. *Organization of the conference.*—Responsibility for session arrangements was divided between committees representing the Italian Government and the statistical profession of Italy, as hosts, on the one hand, and the Permanent Office of the International Statistical Institute, located at The Hague, on the other. The session was held in the modern building of the Food and Agriculture Organization in Rome, the facilities of which were made fully and freely available for the purpose. These included the latest equipment for simultaneous interpretations, etc. The opening meeting, however, was held in the ancient and ornate reception room at the capitol, reserved by the Italian Government for such purposes. A reception by the President of Italy was held in the Quirinal Palace, a reception by the Bank of Italy in its palatial edifice, and the final dinner, at which 800 guests were seated, was in the Excelsior Hotel.

Between its biennial sessions, at which all authority reverts to the General Assembly, the business of the International Statistical Institute is in the hands of the "Bureau" composed of the President, Secretary General, Treasurer, and four Vice Presidents of the Institute, serviced by the Director of its Permanent Office. A number of meetings of the Bureau preceding and during the conference formulated recommendations to the General Assembly which met twice during the session. The Institute business transacted included election of the following officers to serve until the next Institute session 2 years hence: Prof. Georges Darmois, of the University of Paris, President; Dr. Ph. J. Idenburg, Director General of Statistics of the Netherlands, Secretary General; Prof. R. G. D. Allen, London School of Economics, Treasurer; and Prof. M. Boldrini, Milan, Italy, Dr. M. A. Teixeira de Freitas, Rio de Janeiro, Brazil, Dr. R. C. Geary, Dublin, Ireland, and Dr. Herbert Marshall, Dominion statistician, Ottawa, Canada, Vice Presidents. Stuart A. Rice, retiring after three 2-year terms as the Institute's President, was elected an honorary President.

6. *Work of the committees.*—Because of the scientific character of the Institute's sessions it is not customary for resolutions to be adopted concerning the conclusions reached upon the technical subjects discussed. Decisions reached by the General Assembly upon the Institute's administrative affairs, together with the papers presented at the scientific meetings, will be reproduced in the Conference proceedings.

7. *Conclusions.*—By all standards the session was successful. It was first of all a convincing demonstration of the high regard in which the International Statistical Institute is held in the highest circles of state and church in an important European nation. Dr. Luigi Einaudi, President of Italy, who has been a member of the Institute for a quarter century, contributed to the session in numerous ways. His letter to the Institute's President was read at the opening meeting in the presence upon the platform of the Prime Minister and the Mayor of Rome. Prime Minister Pella's address at this meeting emphasized the extreme

dependence of a modern state upon accurate and abundant statistics. During an audience with Pope Pius XII at Castel Gandolfo on September 12, lasting three-quarters of an hour, His Holiness spoke at some length upon the role of statistics in modern society. Copies of his address and of the letter from President Einaudi are annexed hereto.<sup>1</sup>

The United States delegation warmly supports the continued participation by the United States Government in future sessions of the Institute through official delegations. The next of these sessions, the 29th, will be held in Rio de Janeiro in 1955 as a result of the General Assembly's acceptance of an invitation extended at Rome by the Brazilian Ambassador on behalf of his Government.

As a part of the Institute's postwar geographical extension it has become customary for it to alternate between European and non-European sites for its biennial sessions. Under its statutes the location of the 1957 biennial session cannot be formally decided until the 1955 session in Rio, but custom calls for a meeting in Europe in that year. At Rome informal invitations for the 1957 session were received on behalf of authorities in London, West Berlin, Stockholm, and Lisbon, and from French officials on behalf of Algiers, regarding that city as a part of metropolitan France. Tentative bids for the 1959 non-European session were entered by several other countries. Inasmuch as any Institute session involves long and extensive preparations and a considerable expenditure on the part of the host nation, this large and unprecedented number of tentative invitations appears to indicate both the practical importance and the prestige which Institute sessions are deemed by governments in many parts of the world to bring to the countries in which the sessions are held.

It can be stated with confidence that the active participation of American statisticians in the Institute's affairs has been productive of good will toward this country and of numerous advantages to it in its international relations.

## APPENDIX I

### CHECKLIST OF PUBLICATIONS OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT<sup>2</sup>

January 1947–February 1954

- Declaring a National Policy on Employment, Production, and Purchasing Power* (Report of the Joint Committee on the Economic Report), Senate Report No. 11: January 1947.
- Food Prices, Production, and Consumption* (Report of the Joint Committee on the Economic Report), Senate Document 113: April 1948.
- Hearings on Current Price Developments and the Problem of Economic Stabilization (June 24, 25, 26, July 2, 8, 9, 10, 14, 15, 16, and 17, 1947): July 1947.
- Interim Report on the President's Program to Deal with the Problems of Inflation* (Report of the Joint Committee on the Economic Report), Senate Report 809: December 1947.
- Hearings on Antiinflation Program as Recommended in the President's Message of November 17, 1947 (November 21, 24, 25, 26, 28, December 2, 3, 4, 5, and 10, 1947): December 1947.
- Allocation and Inventory Control of Grain for the Production of Ethyl Alcohol* (Report of the Joint Committee on the Economic Report), Senate Report 888: February 1948.
- Hearings on Allocation of Grain for Production of Ethyl Alcohol (February 5 and 6, 1948): February 1948.
- High Prices of Consumer Goods* (Report of the Joint Committee on the Economic Report), Senate Report 1565: June 1948.
- Hearings on Increases in Steel Prices (March 2, 1948).
- Joint Economic Report (Report on the January 1948 Economic Report of the President), Senate Report 1358: May 1948.

<sup>1</sup> These and other papers are available in the Joint Economic Committee office. In due time they will be in published form.

<sup>2</sup> Publications marked with an asterisk (\*) are on sale at the Superintendent of Documents, Government Printing Office, Washington 25, D. C. It is the general practice of the Joint Economic Committee to make available a limited supply of single copies of its publications for free distribution and to arrange for the sale of its studies through the Superintendent of Documents to take care of quantity orders.

Printed reports of hearings are available only on special request for each hearing, and are distributed to depository libraries throughout the country.

- \*Hearings on Credit Policies (April 13 and 16, May 12, 13, 27, 1948): July 1948. *Statistical Gaps, Current Gaps in Our Statistical Knowledge* (materials assembled by the staff of the Joint Committee on the Economic Report), committee print: July 1948.
- Consumers' Price Index* (materials assembled by the staff of the Joint Committee on the Economic Report), committee print: December 1948.
- Hearings on Profits (December 6, 7, 8, 9, 10, 15, 16, 17, 20, 21, 1948): December, 1948.
- Profits* (Report of a Subcommittee of the Joint Committee on the Economic Report on Profits Hearings), committee print: February 1949.
- Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), Senate Report 88: March 1949.
- Joint Economic Report* (minority views of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), part II of Report 88: April 1949.
- Employment and Unemployment* (initial report of the Subcommittee on Unemployment), committee print: July 1949.
- Economy of the South* (the impact of Federal policies on the economy of the South), committee print: July 1949.
- \**Factors Affecting the Volume and Stability of Private Investment* (materials on the investment problem assembled by the staff of the Subcommittee on Investment) Senate Document 232. (Sale price, 60 cents): September 1950; reprinted from committee print of October 1949.
- Hearings on Federal Expenditure and Revenue Policies, September 23, 1949, containing National Planning Association reports prepared by Conference of University Economists: October 1949.
- Selected Government Programs Which Aid the Unemployed and Low-Income Families* (materials assembled by the staffs of the Subcommittee on Unemployment and the Subcommittee on Low-Income Families) committee print: November 1949.
- \**Low-Income Families and Economic Stability* (materials on the problem of low-income families assembled by the staff of the Subcommittee on Low-Income Families) Senate Document 231. (Sale price, 35 cents): September 1950; reprinted from committee print of November 1949.
- \**Compendium of Materials on Monetary, Credit, and Fiscal Policies* (a collection of statements submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies by Government officials, bankers, economists, and others) Senate Document 132. (Sale price, \$1): January 1950; reprinted from committee print of November 1949.
- Hearings, Subcommittee on Investment (September 27, 28, 29, 1949; November 1949).
- Basic Data Relating to Steel Prices* (materials assembled by the staff of the Joint Committee on the Economic Report for use in steel hearings) committee print: January 1950.
- \**Highways and the Nation's Economy* (materials assembled by the staff of the Joint Committee on the Economic Report), Senate Document 145. (Sale price 20 cents): January 1950.
- Hearings on Monetary, Credit, and Fiscal Policies (September 23, November 16, 17, 18, 22, 23, and December 1, 2, 3, 5, 7, 1949): January 1950.
- \**Monetary, Credit, and Fiscal Policies* (Report of the Subcommittee on Monetary Credit, and Fiscal Policies), Senate Document 129. (Sale price 15 cents): January 1950.
- \**Employment and Unemployment* (Report of the Subcommittee on Unemployment), Senate Document 140. (Sale price 30 cents): February 1950.
- Hearings, Subcommittee on Investment (December 6, 7, 8, 9, 12, 13, 14, 15, 17, 1949): February 1950.
- Hearings, Subcommittee on Low Income (December 12, 13, 14, 15, 16, 17, 19, 20, 21, 22): March 1950.
- Hearings, January 1950 Economic Report of the President (January 17, 18, 19, 20): February 1950.
- Hearings, December 1949 Steel Price Increases (January 24, 25, 26, 27): March 1950.
- \**Low-Income Families and Economic Stability* (final report of the Subcommittee on Low-Income Families), Senate Document 146. (Sale price 15 cents): March 1950.
- \**Volume and Stability of Private Investment* (final report of the Subcommittee on Investment), Senate Document 149. (Sale price 15 cents): March 1950.

- \**December 1949 Steel Price Increases* (Report of the Joint Committee on the Economic Report), Senate Report 1373. (Sale price 20 cents): March 1950.
- \**Handbook of Regional Statistics* (material assembled by the staff of the Joint Committee on the Economic Report), committee print. (Sale price \$1): April 1950.
- \**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1950 Economic Report of the President), Senate Report 1843. (Sale price 35 cents): June 1950.
- \**General Credit Control, Debt Management, and Economic Mobilization* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print. (Sale price 25 cents): January 1951.
- \**Underemployment of Rural Families* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print. (Sale price 20 cents): February 1951.
- \**The Economic and Political Hazards of an Inflationary Defense Economy* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print. (Sale price 30 cents): February 1951.
- Hearings, January 1951 Economic Report of the President (January 22, 24, 25, 26, 29, 31, February 2): March 1951.
- \**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1951 Report of the President), Senate Report 210. (Sale price 30 cents): April 2, 1951.
- \**Making Ends Meet on Less Than \$2,000 a Year, Case Studies of 100 Low-income Families* (communication to the Joint Committee on the Economic Report from the Conference Group of Nine National Voluntary Organizations Convened by the National Social Welfare Assembly), committee print. (Sale price 35 cents): July 1951.
- Prevalance of Price Cutting of Merchandise Marketed Under Price-Maintenance Agreements, May 28 through June 25, 1951* (study prepared for the Joint Committee on the Economic Report and Select Committee on Small Business), committee print.
- \**The Need for Industrial Dispersal* (materials prepared for the Joint Committee on the Economic Report by the committee staff), Senate Document 55. (Sale price 30 cents): August 1951.
- National Defense and the Economic Outlook* (materials prepared for the Joint Committee on the Economic Report by the committee staff), committee print: August 1951.
- \**Inflation Still a Danger* (report of the Joint Committee on the Economic Report together with materials on national defense and the economic outlook included in committee print mentioned above), Senate Report 644. (Sale price 15 cents): August 1951.
- \**Questions on General Credit Control and Debt Management* (prepared by staff of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report), committee print. (Sale price 15 cents): October 1951.
- \**Monetary Policy and the Management of the Public Debt. Their Role in Achieving Price Stability and High-Level Employment* (replies to questions and other material for the use of the Subcommittee on General Credit Control and Debt Management). (Sale price: Part I, \$1.75; Part II, \$2.50): February 1952.
- \*Hearings, January 1952 Economic Report of the President (January 23, 24, 25, 26, 28, 30, 31, February 1). (Sale price \$1.25): February 1952.
- \**Constitutional Limitation on Federal Income, Estate, and Gift Tax Rates* (materials assembled for the Joint Committee on the Economic Report and the Select Committee on Small Business of the House of Representatives), committee print. (Sale price 15 cents): February 1952.
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