84TH CONGRESS } 1st Session | SENATE | { REPORT No. 60

JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

ON THE

JANUARY 1955 ECONOMIC REPORT OF THE PRESIDENT

WITH

SUPPLEMENTAL VIEWS

AND

THE ECONOMIC OUTLOOK FOR 1955 PREPARED BY THE COMMITTEE STAFF

MARCH 14, (legislative day, MARCH 10), 1955.—Ordered to be printed with illustrations

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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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JOINT ECONOMIC COMMITTEE REPORT ON THE ECONOMIC REPORT OF THE PRESIDENT, JANUARY 1955

MARCH 14 (legislative day, MARCH 10), 1955.—Ordered to be printed with illustrations

Mr. DOUGLAS, from the Joint Committee on the Economic Report, submitted the following

UNANIMOUS REPORT

together with

SUPPLEMENTAL VIEWS

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

FINDINGS AND RECOMMENDATIONS

The Nation must face today's stern reality of imperialistic communism and the hydrogen bomb. These facts overshadow all our thoughts and actions as a Joint Economic Committee charged with advising the Congress on economic policy. Extensive hearings and discussions on the President's Economic Report suggest a myriad of detail upon which we disagree. Supplementary statements of committee members discuss these differences. But our deliberation indicates important areas upon which we agree, both as to interpretation of past, present, and foreseeable economic conditions, and as to appropriate economic policy for the future. This report summarizes the areas of general agreement.

1. The Nation has the economic capacity to meet our national security requirements. With the advent of thermonuclear energy and intercontinental bombers and missiles, military and technological developments to improve our defenses must be given every possible economic support.

2. The present world situation makes it imperative that we have a strong and expanding economy under a system of free enterprise, with benefits and burdens shared equitably by all regions and all groups of the population. Because of our growing population and our spectacular technological development, it is not enough just to maintain present levels of employment and production.

3. Wars bring economic maladjustments. The Korean war of 1950–53 was no exception. It necessitated marked increases in Government expenditures which brought with them inflationary pressures. In the last 2 years we have been adjusting to lower levels of defense expenditures, following the defense buildup and the cessation of actual fighting. The economic recession of last year was partially caused by this adjustment.

4. The economy has been improving since late 1954. Employment and production have regained about one-half of the ground lost, and unemployment has receded about one-third. Most indices in recent weeks have been up. The present recovery is sparked by automobile and steel production, home building and inventory reversal. There is, however, unevenness in this advance and certain regions and industries continue to be in very serious economic straits. The decline in total net farm income is expected to continue, but more slowly.

5. The President's economic report looks for a continued advance in general economic activity and concludes it is reasonable to expect that within the coming year we can approximate the levels of maximum employment, production, and purchasing power envisaged by section 2 of the Employment Act. These levels were not spelled out in the economic report but they seem to imply national production of about $375 billion for the year as a whole, with a year-end rate of about $385 billion, on the basis of committee staff projections. Most of the witnesses at the recent committee hearings warned, however, that during the second half of the year the advance may be less than during the first half.

6. The elements of uncertainty in the economic outlook and the size of the adjustments which must be made if we are to rise to levels consistent with the objectives of section 2 of the Employment Act, indicate the wisdom of seeking every means of strengthening our basic economic programs in the interests of long-run stability and growth. Above all, as the President's report states, Federal Government programs must be kept flexible. The Congress must be prepared and willing to move quickly to adopt programs in the interest of economic expansion.

7. The objective of our tax policy should be to balance at least the cash budget at maximum employment and production levels. We support the President's recommendation of postponing the reduction in corporate and excise tax rates. We should continuously strive to improve the distribution of the tax burden in the interest of economic stability and growth, and rising living standards. The majority support further adjustment in the tax structure at this time which, without sacrificing revenue, will increase consumer purchasing power. The minority, on the contrary, feel that it is premature to make adjustments now, especially since, among other considerations, the impact of last year's changes have not been fully experienced.

8. We support the President's recommendation for an increase in the Federal debt limit. It is imperative that the Treasury be in a position to meet the national security and other obligations voted by the Congress.

9. The committee recognizes that the highly competitive nature of agriculture, combined with the readjustments from an expanded wartime basis, has produced unfavorable trends in farm income which offer a serious threat to the economy as a whole. We are doubtful,

however, whether any program which seeks to bring about a balance by a policy of contraction of acreage can, in the long run, in itself be successful. Our greatest hope for solution lies rather in expanding consumption at home and abroad, and in developing new uses and new products. The vast demands which our expanding population foreshadows may, indeed, relieve our concern about surpluses in the not-too-distant future. We believe that an aggressive policy on the consumption side offers the soundest approach to the farm problem. The Federal Government can make marked contributions toward the elimination of low farm incomes through expansion of present programs of technical assistance and vocational training, and through adequate credit to small family farms.

10. We are for increasing public works—Federal, State, and local—to meet the needs of a growing population, expanding economy, and national security. Because of war restrictions, the Nation has fallen behind in meeting these needs. Construction of schools, highways, hospitals, and other community facilities, including, as the President has recommended, slum clearance and public housing, must move forward more rapidly during the immediate years ahead. Insofar as the Federal Government finances these public works, and we believe it should make important contributions, the financing should be direct from the Treasury, rather than from indirect authorities which circumvent the public debt limit or are nurtured by special earmarked revenues.

11. If public works are to be accelerated and "shelf" programs activated at times when private employment is falling off, it is imperative that an Office of Coordinator of Public Works Planning, as proposed by this committee last year and now proposed by the President, be put into operation as soon as possible. We commend this legislation to the appropriate committees in the Houses of Congress.

12. We are very concerned with distressed conditions which persist in certain industries and regions, even in an expanding economy. We believe that action is required now and that much can be done through public works to assist these communities. The Federal Government should recognize its responsibility to those areas and industries by promoting research to discover new products and new processes. Consideration should be given to the possibility of modifying the employment compensation programs to meet the special problems of retraining and readjusting facing these areas. Loans, technical assistance and, as the President recommends, an expanded area-development program should be provided these areas to help them adapt to changed economic conditions.

13. The Government should use all of its programs as a positive instrument in the cold war. We believe that the Nation's foreign trade program is particularly important in this respect. We recognize the necessity, as does the President's report, for expanding trade; at the same time it is necessary to move gradually and selectively because of the adjustment problems of both domestic workers and capital. We concur, moreover, in recommendations that look toward the further simplification of valuation and classification procedures. We believe that these barriers can be effectively dealt with by a general policy of reducing the number of classifications and minimizing the spread between rate classes.

14. Since the free, competitive economy depends upon the vigor and growth of small business, we believe that special attention should be given to this area. Until specialized private or other financing institutions are provided, we believe that some agency of the Government should make available these services. Government procurement programs and defense contracts should, moreover, assure fair treatment to small and independent businesses.

15. We strongly urge that the Government improve its economic statistical programs. Important steps forward have been made and recommended in the President's budget. Witnesses at our recent hearings were unanimous in urging congressional action. We trust the Appropriations Committees will give these requests sympathetic consideration and approval.

16. Looking to the continued improvement of the machinery contemplated in the Employment Act, we make the following comments with respect to the Economic Report transmitted last January. These critical comments are not intended to detract from the good qualities of the report. However, as pointed out last year, the act calls for the President to transmit his report "at the beginning of each regular session." Because of the late transmittal date again this year, it was necessary to ask the Congress' permission for this Committee to submit its report after the statutory deadline of March 1. We urge the President to transmit the report in the future no later than January 15. Secondly, while knowing the reluctance of the present Council of Economic Advisers to publishing its detailed economic projections in the Economic Report, we regret the failure of the report again this year to include a clear statement on the goals needed to meet the objectives of the Employment Act as prescribed by section 3 (a) of that act. Thirdly, we believe the report should have given a more complete appraisal of the agricultural situation and outlook and should have given more extensive recommendations to meet the needs of distressed regions and industries. The testimony of the Chairman of the Council of Economic Advisers was useful in supplementing the report's information in respect to the agricultural situation. Finally, we believe that the report does not give needed emphasis to the economic problems posed by the cold war.

Areas for Further Committee Study

By terms of the Employment Act, the Joint Committee is charged not only with reporting on the main recommendations of the Economic Report, but is directed also to make a "continuing study" of economic matters. Subcommittees will accordingly be set up to study several areas which seem especially worthy of early investigation.

Subcommittee on Foreign Economic Policy

The committee's recent hearings revealed the need for an investigation of the significance of the whole complex of our international economic relations for the stable growth of the Nation's domestic economy. The Subcommittee on Foreign Economic Policy will undertake an appraisal of the basic theories of foreign trade as they pertain to the position of the United States in the world economy. It will attempt to determine the nature and the source of the comparative advantages enjoyed by the major participants in international markets and the impact of their trade policies not only on the overall trading position of the United States but also on the condition of our major industries. For example, the subcommittee will attempt to develop a clear picture of the extent to which relative wage rates and other elements of industrial cost structures affect our competitive position relative to that of our more important trading partners, as well as the extent to which these cost differentials give rise to trade policies such as dumping, import quotas, exchange controls, etc.

This appraisal of foreign-trade theory will provide the basis for considering the feasibility of setting up broad criteria to be used in developing an effective international economic policy and in evaluating specific proposals in the field of foreign trade. It will assist in understanding the stresses imposed on our domestic industries by changes in the international economy and the character of the adjustments these industries may be required to make. In addition, it will help us to appraise the strengths and weaknesses of our foreign trade policy as an instrument in the cold war.

In the course of this study, the subcommittee will need to review the adequacy of the present statistics dealing with international economic activity. Its recommendations in this respect will be incorporated in the work of the Subcommittee on Economic Statistics.

Subcommittee on Tax Policy

In view of the continued high levels of Federal taxation, the impact of the Federal tax system on the Nation's economic growth and progress, on the levels of business activity, and on the distribution of personal incomes warrants careful consideration. Recent changes in Federal tax law have been described as designed to facilitate business expansion and to mitigate financial hardships faced by individual taxpayers in special situations. The Subcommittee on Tax Policy will examine such questions as whether these changes may be expected significantly to improve the distribution of tax burdens among individuals, contribute to the orderly growth of the economy, and make the Federal tax system a more effective fiscal instrument for counterbalancing disruptive movements in the business cycle.

The subcommittee will also be concerned with the question of the relative emphasis which should be placed on these objectives and with the type of tax system which would provide an appropriate balance among them in the present setting of the American economy.

Subcommittee on Economic Stabilization

The continuing study of matters relating to the long-run stability and growth of our economy requires constant vigilance for any parts of the economy which may be getting out of line, thereby threatening the smooth workings of the economy. To facilitate expeditious study and action in this field, the Subcommittee on Economic Stabilization will be continued. This subcommittee, aided by the committee staff, will be on the lookout for developing trouble spots, and will hold hearings and report to the full committee as frequently as it deems necessary and desirable.

The corporate stock market is one of many areas to be watched. Evidences of unhealthy inventory trends, commodity speculation, excessive debt accumulations, and similar developments will all be within the subcommittee's purview. The role of monetary and credit policy in recent months has just been thoroughly studied by this subcommittee, but when and if important new developments occur in that field the Subcommittee on Economic Stabilization will wish to look into them.

The subcommittee will interest itself also in the subject of increasing industrial productivity to see that it continues to provide a self-generating force for economic good, as it has in the past. The staff, under the supervision of the subcommittee, is directed to pursue the study of this problem and to bring together available information on productivity trends and the ways in which the gains of continuing increases in productivity may, in the interests of stability and growth, best be distributed throughout the economy under our free enterprise system. The subcommittee will, in this connection, keep in close touch with the private studies now in progress respecting the impact of so-called "automation" on the long-run employment and supply potentials.

Subcommittee on Economic Statistics

The deep concern which the Joint Economic Committee has in the adequacy of economic data calls for the continuance of the subcommittee which has been active during the past year in reviewing governmental economic statistics and statistical programs. Pursuant to the recommendation of this subcommittee, the Board of Governors of the Federal Reserve System has already organized task forces of experts to appraise procedures and adequacy of our statistics in five basic areas—inventories, savings, consumer expectations, plant and equipment expenditure expectations, and general business expectations. The Statistics Subcommittee will follow the progress of these investigations and consider the recommendations of these task forces. The staff is meanwhile directed to keep in close professional contact with developments in these and related areas.

The subcommittee, aided by the staff, will likewise continue its intensive review and improvement of the monthly publication Economic Indicators. The committee has delegated to the subcommittee the responsibility for determining the contents of this committee publication, to make sure that it fulfills the needs of the Congress for current economic data. The subcommittee is requested to have prepared a new 1955 edition of the Historical and Descriptive Supplement to Economic Indicators. In a period of a year about 8,000 copies of the 1953 supplement were made available by the committee, or sold by the Superintendent of Documents. The supply of this edition has been exhausted for some time.

Efforts have recently been made by the responsible executive agencies to improve the quality of unemployment statistics. The subcommittee will inquire into the success of these efforts for it is imperative that we avoid hereafter the kind of uncertainty and consequent lack of confidence in reported data which unfortunately overwhelmed us early in 1954 when changes in the statistical procedures came at a critical time of increasing unemployment.

We need, moreover, to know not only how many are unemployed but who they are. If public policy is to be directed toward minimizing unemployment, we must know something about those who remain unemployed in what may generally be regarded as "good" times. We must know all we can concerning the occupations, geographic distribution, sex, age, and qualifications of those who are at any given time actively seeking but unable to find employment or self-employment opportunities. The Subcommittee on Economic Statistics will accordingly give special attention to the possibilities of obtaining improved information on the shifting incidence of unemployment and underemployment.

Subcommittee on Low-Income Families

The Joint Economic Committee over the years has been actively interested in ways and means of improving the productive capacity and levels of living of low-income families. Significant hearings and reports have been prepared in this area. The President's Economic Report indicated that study is continuing in the executive branch. While we believe that action is required now in areas of labor surplus, as indicated above, we believe that study of the broader problem of low-income families should continue. The joint committee, therefore, will reconstitute its Subcommittee on Low-Income Families to spearhead this study.

The committee budget

The Senate portion of the legislative budget for fiscal year 1956 as submitted includes a figure of $138,275 for the Joint Committee on the Economic Report. This sum represents the $125,000 authorized by the Employment Act of 1946, as amended, plus an amount to cover automatic pay increases which have subsequently been granted to all legislative employees.

It has always been the practice of the Joint Economic Committee to maintain a minimum full-time staff and to obtain supplementary help only as the workload demanded. At times the committee consequently has been able to turn back substantial portions of the funds allotted to it but during the present fiscal year it will spend approximately all of the $120,775 appropriated, which is $17,500 below authorization.

Due to the demands of some of the special studies which the committee proposes to undertake during the coming fiscal year there will be need for restoration of the amount appropriated to the full amount of its legislative authorization plus automatic increases. The committee herewith authorizes and instructs the chairman and the vice chairman to take whatever steps are necessary with the Appropriations Committees in order adequately to support the appropriation request of $138,275 for fiscal 1956.

Committee Activities During 1954

President's Economic Report

The Joint Economic Committee held hearings from February 1 through February 18, 1954, on the January 1954 Economic Report of the President, receiving testimony from key officials in the executive departments and meeting with panels of technicians drawn from business, labor, agriculture, State and local governments, universities, and research agencies. These hearings stressed particularly the private-investment outlook, the consumption outlook, State and local government plans, the agricultural outlook, foreign economic situation and outlook, savings and financial outlook, and current and prospective employment levels, together with the implications of each of these areas to Federal policies. The committee's report on the President's report (H. R. 1256, 83d Cong., 2d sess.) was issued on February 26, and included supplemental views and a statement on the economic outlook and other materials prepared by the committee staff.

Subcommittee on Economic Statistics

A Subcommittee on Economic Statistics was appointed April 16, 1954, pursuant to recommendations contained in the committee's report on the President's report. The subcommittee, composed of Representative Henry O. Talle (chairman), Senator Frank Carlson, and Representative Richard Bolling, held exploratory hearings on July 12 and 13 with the objective of obtaining a representative picture of the needs for economic statistics both within the Government and among its citizens. Following these hearings the subcommittee submitted a unanimous progress report which was then approved for transmittal to the Congress by the full committee and printed as House Report 2628 on August 5, 1954. In response to one of the recommendations for action contained in the subcommittee's progress report the Board of Governors of the Federal Reserve System on December 14, 1954, notified the subcommittee that the Federal Reserve System had established five task groups who had been asked to evaluate current statistical information in the fields of savings, business inventories, business and consumer expectations, and plant and equipment expenditures expectations.

Subcommittee on Economic Stabilization

The Joint Economic Committee, in its report on the President's Report, also authorized the chairman to appoint a Subcommittee on Economic Stabilization, to follow economic trends and developments from day to day to make sure that stabilizing action on the part of Government and business is effective. The subcommittee was asked particularly to follow the role of fiscal and monetary policy. The subcommittee, appointed April 16, included as members Senator Ralph E. Flanders (chairman), Senators Barry Goldwater and J. William Fulbright, and Representatives Richard Simpson and Wright Patman.

On December 6 and 7, 1954, the subcommittee held hearings on United States Monetary Policy: Recent Thinking and Experience. In opening the hearings the chairman pointed out that the subcommittee and the committee staff had followed current economic trends carefully during the year, and that the subcommittee in its executive meetings felt that economic developments did not warrant a material change in appraisal of the outlook in the committee's report of February 26. Consequently, the subcommittee had not seen the need for subcommittee hearings or special public reports dealing with current stabilization problems. It did, however, feel that it was important to continue the committee's work on monetary policy which had been carried on by subcommittees in 1949–50 and again in 1951–52 under the chairmanships of Senator Paul Douglas and Representative Wright Patman, respectively. In carrying forward the work of the committee in this area, the subcommittee announced that the hearings which were held would avoid covering the ground of earlier committee studies and that they had postponed discussion of the immediate economic outlook, focusing instead upon the significant changes in the national economy and in the use of monetary instruments which had occurred since 1951–52.

Other committee activities

In addition to the publications listed above, approval was given for the printing of staff studies dealing with Congressional Action on Major Economic Recommendations of the President, 1954; Potential Economic Growth of the United States During the Next Decade; and Trends in Economic Growth: A Comparison of the Western Powers and the Soviet Bloc.

The committee also received from the National Planning Association the completed report, The Economic State of New England, which was prepared by the NPA-sponsored Committee of New England.

The Committee of New England, which was organized by the NPA at the request of the Joint Economic Committee, is composed of 95 leaders active in the regions of agriculture, business, manufacturing, labor organizations, educational and financial institutions, Government agencies, and press and radio. It had as one of its early objectives the preparation of an analysis of the impact of Federal policies on the economy of that region, similar to a study prepared by the NPA Committee of the South and which was later published by the Joint Economic Committee. The Committee of New England, while covering the impact of Federal policies on many aspects of its economy, broadened its study to provide a basis for a unified program of constructive action for all aspects of the New England economy and set forth its findings in 18 special studies which are included in the final volume.

Members of the Joint Economic Committee have participated throughout the year in informal meetings arranged by the staff with economic analysts of the executive agencies of the Government and with outstanding foreign technicians visiting in this country, to discuss current economic trends and problems. The staff has kept all members of the committee continuously informed of the discussions at these meetings and other important current economic reports.

SUPPLEMENTAL VIEWS OF SENATORS DOUGLAS, SPARKMAN, AND O'MAHONEY AND REPRESENTATIVES PATMAN, BOLLING, MILLS, AND KELLEY[1]

SUMMARY

These supplemental views are submitted in the spirit of the first paragraph of the committee report and our comments on details are not meant to detract from the unity expressed there.

The President's Economic Report, submitted to the Congress on January 20, and the excellent statistical materials which accompany it, make it clear that the economy has risen from the trough of the 1953–54 recession. The body of the report, however, is less forthright and emphatic than the statistics in reporting the unevenness of the rise, and the numerous soft spots in the economy, which could defeat the hope that—

> the Nation's output within the coming year will approximate the goals * * * envisaged by the Employment Act.

There has been an improvement. But we are not out of the woods. The report does not make this clear. Given the changing fortunes of economic life, the continued decline in some areas, only halting recovery in many others, and the failure of industry up to date to generate jobs in proportion to improved conditions, the report as a whole creates a more highly favorable impression of conditions and prospects than facts justify.

Emphasis upon fighting an inflation "straw man" at the expense of what should be the primary objectives of economic policy—maximum employment and purchasing power—accounts in large part for the disturbing level of unemployment.

Prudence directs that we temper the report's optimism by looking closely at both the credit and debit sides, for the forces of recovery have yet to demonstrate their strength and persistence. It is the aim of these supplementary views to insure that a balanced view is presented to the public.

First we note that recent increases, in almost all cases, have not returned economic activity to prerecession levels. The first task is to gain back the remaining lost ground.

Second, beyond this problem there is the job of catching up and keeping up with the long-run economic potentials of the country. We cannot be content with levels merely approximating those of 2 years ago. Since then we have added over 5 million people to our population. The age groups which comprise the labor force have increased over 2 million. Clearly, large strides must be made before the economy approaches the level which would and should have been reached if the 1953–54 recession had not occurred, as the accompanying materials prepared by the committee staff suggest. If the Employ-

[1] Senator Fulbright was not able to participate in the writing of these supplemental views because of other pressing duties.

ment Act objectives of maximum employment and production are met, a cautious estimate requires a rate of production at the end of this year of about $385 billion. The year began at a rate of about $365 billion. The President's report indicates that the economy can approximate the goals of the Employment Act within the year.

Third, it is a cause of deep concern that unemployment in February 1955 was only about 300,000 below February 1954, a reduction of about 8 percent. The situation looks a little better if we use the seasonally adjusted unemployment index (1947–49=100) of the Bureau of the Census. This index was 110 in February 1955 compared to 114 in January 1955 and a high of 142 in May of last year. This is a reduction of about 23 percent. Even on this basis, however, the reduction in unemployment is not commensurate with the recovery in production. These circumstances were reflected in the warnings at our hearings of possible chronic unemployment at high levels of production. Monthly average unemployment in 1953 was 1.6 million, it rose to 3.7 million in early 1954 and in January 1955 it amounted to 3.3 million and in February to 3.4 million. These figures, based on conventional indices, overlook many of the hardships from underemployment like part-time work and temporary layoffs.

Fourth, there is the problem of distressed areas. The 44 major and 100 minor areas, with 6 percent or more of the covered workers unemployed, weigh heavily on the economy and on the shoulders of policymakers. Distressed areas persist, especially where dominated by the coal, textile, and certain sections of the durable goods industries. They have even increased in numbers over a year ago despite signs of recovery in the economy generally. In addition, there are many underdeveloped and low-income areas which do not appear in the list of distressed areas. In them, unemployment is masked or incomes are low as a result of drought or some other factor not reflected in unemployment figures. Action to relieve these areas should be taken immediately. Alternatively, we risk having a prince and pauper economy. The Economic Report completely neglects to make such recommendations.

Fifth, we are disturbed by the drag which reduced farm income places upon the economy as a whole. In recent years, the per capita income of the farm population from farming has not experienced the rise shown by the per capita income of the nonfarm population from nonfarm sources. The failure of the Economic Report to analyze the implications of the continuation of conditions which result in a failure of a large and important segment of our population to participate in the rise of our standards of living is a very serious omission.

Sixth, the report fails to take account of the growing squeeze upon small business. Despite a record of peak earnings and profits for the largest size firms the profit rates of the smaller firms have fallen sharply since 1952.

Because the President's confident expectations for the coming year are centered on a shift of inventory policy from liquidation to accumulation, on the recovery in automobile production, and on rising expenditure for new construction, it is necessary to examine carefully these areas. These may not be sustained throughout the year. A sharp cut-back in automobile production in the last half of the year would have pervasive effects in the steel, coal, textile, and accessory parts industries. Some analysts expressed uneasiness whether the recent rise in construction will persist. If, however, the automobile or construction industries should encounter heavy weather in the last half of the year, and if other segments of the economy do not recover sufficiently to offset them, it would be a matter of prudent and judicious action to fly the storm warnings. Economic declines are like landslides—it takes less to stop them early than after they gain momentum.

In pointing out these soft spots in the economy we are certainly not forecasting a depression or recession. The economy is improving. The stabilizers built into the economy in the 1930's over bitter Republican opposition will cushion and offset any future decline just as they did those of 1949 and 1954. We have enlarged economic knowledge. More important, responsible people now appear willing to use it. There is no reason, therefore, why there should be any great disruption in America's economic life.

With these uncertainties in mind, we emphasize the necessity for an open-minded, flexible approach to Government policy during the months immediately ahead while we await confirmation that the recovery has definitely taken hold. As a consequence, we have felt it proper to supplement the committee's report with more detailed views and recommendations.

Finally, we must emphasize that we are not living in a peacetime economy. The tense world situation in which we find ourselves calls for tremendous expenditures for armament. No report written today should ignore the fact that this is a cold war economy.

The 1955 Economic Report of the President

This year's report of the President is a concrete expression of progress in economic understanding. It recognizes, more than the preceding report, the active role of Government in cushioning the effect of declines in private economic activity. It frankly and forthrightly recognizes the usefulness of and accepts the responsibilities inherent in compensatory fiscal policy, Federal debt management, and monetary techniques. It is especially reassuring to find running throughout the entire report evidences of an increasing acceptance of the theory that the balanced budget, "hard money," and reconstruction of the Federal debt structure are not to be regarded as ends in themselves, especially when the specter of unemployment is rising throughout the Nation. Unfortunately, the administration's practices have not been consistent with these recently embraced theories.

In spite of the high level of professional competence which marks the analysis in the current Economic Report, the committee unanimously felt it appropriate, in the interest of continued improvement of the Employment Act machinery, to comment upon several of the report's deficiencies. We therefore set forth our views supplementing the committee's comments on these deficiencies.

IMPACT OF THE COLD WAR

In the present disturbed state of international affairs, no adequate economic report can be drafted which does not take as its starting point a thorough examination of the impact of the current cold war on the domestic economy. It is disappointing that the Economic Report of the President this year does not give adequate treatment to this fundamental aspect of the situation. This committee, in its report last year, pointed out that the economy is capable of meeting safely not only present but even greater burdens of military expenditures if these are necessary for military security.

Many persons are concerned about the concentration and vulnerability of our productive plant in the event of atomic war. Apart from defense considerations, industrial dispersal and urban decentralization obviously will have a tremendous impact upon the long-run health of our economy.

We should also know more than we do of the relative strengths of the eastern and western powers. This deficiency has been partly taken care of by a recent study prepared for this committee, Trends in Economic Growth—A Comparison of the Western Powers and the Soviet Bloc. We commend this as an area well worth further study by the executive branch.

THE PROCEDURES AND GOALS OF THE EMPLOYMENT ACT

Experience since passage of the Employment Act of 1946 reveals these unresolved issues:

(1) How can this committee study the Economic Report of the President and draft views upon its analysis and recommendations in time to be helpful to the legislative committees and by the statutory deadline of March 1 if the report is transmitted in the latter part of January?

Transmission of the Economic Report late in January places an unusually heavy burden upon members of this committee if the committee's report to the Congress is to be submitted by the statutory deadline of March 1. We hope that the importance of thorough and timely congressional review will receive more weight in future decisions as to the date of transmitting the report to the Congress than the convenience of the Press Secretary at the White House. We repeat, with emphasis, the unanimous statement of this committee in its report on the President's Economic Report, a year ago:

> 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 (pp. 2 and 3).

(2) How can this committee and the public intelligently evaluate the President's Economic Report if the report does not contain numerical estimates of levels of employment, production, and purchasing power needed to carry out the act's objectives, together with the foreseeable trends in economic activity as contemplated in the act?

Last year this committee pointed out that the Employment Act of 1946 (sec. 3 (a)) specifically directs that the President's Economic Report shall set forth the levels of employment, production, and purchasing power needed to carry out the objectives stated in section 2 of the act. Reference is made in the President's current report to the expectation "that the Nation's output within the coming year will approximate the goals of 'maximum employment, production, and purchasing power' envisaged by the Employment Act." Again, however, no explicit indication is given of what these levels or goals are, or should be. The philosophy of the act clearly is that measurements be made. The economic garment, it is recognized, should be "tried on for size" before alterations are made. Otherwise, a year may pass before one is able to recognize an ill-fitting, misshapen garment.

The real question is not whether economic projections are to be made. The present Council's distaste for such calculations has fallen before its own admission that such projections must be made in the discharge of its responsibilities.[2]

The fundamental question is whether Congress is entitled to know what projections and assumptions lie behind the Executive's program. This does not involve any confidential advice given the President by his advisers, nor any confidential discussions of issues or alternatives. Congress and the public are entitled to know, however, the specific economic analysis and quantitative assumptions which constitute the argument for the program presented to Congress. We cannot agree with the Council's position that such a statement cannot be made—

> * * * without disclosing how the Council's confidential advice to the President and the members of the Cabinet was presented and used.[3]

Such a statement would merely be a recitation of the assumptions adopted and acted upon by the President and his advisers. It need not disclose any possible disagreement among them. In other administration documents—the Clay report on highways, for example—the President argues, in part, for his program on grounds of anticipated gross national product. It is hard to understand why quantitative projections can be used in these but avoided in the Economic Report where they are called for by the law.

In the report of the committee last year, we pointed out that the void left by the failure of the Economic Report to include such assumptions and projections had been filled as well as could be done by the committee staff in materials which were attached to last year's report. Again this year the committee must depend upon the Staff to construct these economic analyses on the basis of the fragmentary information provided in official statements, supplemented, of course, by the hearings and staff contacts with business, labor, research, and university economists.

(3) What priority should be established among the various objectives stated in section 2 of the Employment Act?

There has been a disposition since the passage of the Employment Act to give undue emphasis to objectives mentioned in section 2 of the Employment Act other than *maximum employment, production,* and *purchasing power*. This is in marked contrast with the view held by the late Senator Robert A. Taft, who was undoubtedly one of the best informed Members of Congress on the legislative history of the Employment Act and chairman of the Joint Committee on the Economic Report when it filed its report in 1948 which stated:

> While the language used in the Employment Act of 1946 is very broad, *we conceive that its principal purpose is to maintain full employment in the United States*

[2] See hearings on the January 1955 Economic Report of the President, before the Joint Committee on the Economic Report, 84th Cong., 1st sess. (cited hereafter as hearings), p. 43.
[3] Hearings, p. 43.

and to avoid the recurrent economic depressions which have brought unemployment, hardship, and suffering to its people.[4]

(4) Why should the Economic Report include recommendations on all sorts of matters which may be desirable in themselves and may be economic in character, but clearly have a relatively minor impact upon levels of employment and the conditions of the overall economy?

There has been a tendency for the Economic Report to include numerous recommendations which tend to obscure the major issues. Examples are the recommendations involving amendments to the laws of the District of Columbia and the extension of share account insurance to credit unions. The tendency is not a new one but was commented on in this first formal report of this committee, filed by the late Senator Robert Taft:

> This task [maintaining full employment] is sufficiently difficult, and we do not think that work under the act should be diverted from it by the study of all the important and complicated problems of social welfare, health, and education, nor should it be diverted to matters which cannot have an extensive effect on the overall economy (S. Rept. 1358, 80th Cong., 2d sess., p. 2).

(5) Does the Council of Economic Advisers act solely as anonymous professional advisers, or does it represent the President's overall economic analyses and policies before the Congress and the public just as Cabinet members represent separate segments of his program?

Those of us who take the responsibilities of the Government under the Employment Act of 1946 seriously have been disturbed for some time by the unresolved, persistent question respecting the proper relationship of the Council of Economic Advisers to this committee and to the Congress. The present Chairman of the Council of Economic Advisers maintains that the sole function of the Council is to advise and assist the President, that it has no other operating or administrative responsibilities.[5]

Frank, objective advice and discussion are vital to the President in the discharge of his responsibilities. Anonymous economic advisers could not be criticized, therefore, for maintaining silence on such confidential matters before the Congress or elsewhere. But if the Council is to be solely a confidential advisory organization in the Executive Office, then it must be truly anonymous.

(6) If the Council of Economic Advisers confines itself to confidential advice to the President, then to whom does this committee, and the public, turn for an explanation and defense of the President's overall economic analyses and policies?

The Joint Committee on the Economic Report was created by law to advise the Congress on the general economic picture and the President's economic program. If the Council cannot function if called upon to explain and defend the President's overall economic program and the specific quantitative economic analysis on which it rests, this committee is left without anyone in the executive branch to whom it can look for information upon which to base its opinion. The country, like the committee, is left with a Cabinet officer who

[4] Joint Economic Committee Report on the Economic Report of the President, January 1948, S. Rept. 1358, 80th Cong., 2d sess., p. 2. [Italics added.]
[5] Economic Report of the President, January 20, 1955, p. 129 (see also hearings, p. 5).

explains and defends each of the separate segments of the President's economic program, but with no one who speaks in explanation or defense of the whole program.

A sound and consistent position for the Council must be agreed upon, either it acts solely as an anonymous professional body advising the President or as the spokesmen before Congress and the public for the President's economic analyses and programs. If the first alternative is adopted, then some other spokesman for the President's overall economic position must be established.

AGRICULTURE

At the time the Economic Report was transmitted to the Congress the agricultural parity ratio was 86, its lowest point since 1941. It has not changed since then. These movements in the parity prices have been reflected in farm incomes. Income of farm proprietors has declined from a postwar peak of $16.7 billion in 1948 to $14.2 billion in 1952, to $12.2 billion in 1953, and to a seasonally adjusted figure of about $11.1 billion in the fourth quarter of 1954. Moreover, there has been a continuing decline in the ratio of the per capita income of the farm population from farm sources to the per capita income of the nonfarm population from nonfarm sources.

Thus, while per capita incomes of the nonfarm population have been rising, per capita incomes of the farm population have been $925 in 1948, about $930 in 1952, about $914 in 1953, and $918 in 1954. In terms of constant purchasing power, per capita farm income fell between 1953 and 1954. The decline in the share of the farm population in the Nation's personal income is shown by the following tabulation:

Distribution of personal income

Year	Total personal income	Percent of total personal income				
		Labor income	Proprietors' income		Investors' income	
			Farm	Business and professional	Dividend	Interest
	Billions					
1952	$271.2	70.3	5.2	9.5	3.4	4.5
1954 [1]	289.0	70.6	3.8	9.1	3.6	5.1

[1] 4th quarter seasonally adjusted annual rate. Preliminary data, estimated by the Council of Economic Advisers.

The official outlook reports of the Department of Agriculture for the year 1954 point to a net farm income this year slightly below the level of 1954. Testimony presented to the committee during its hearings confirmed expectations of a continuance of slowly declining aggregate farm income. In addition, large areas have suffered and are continuing to suffer because of severe drought, thereby aggravating the weakened economic condition of farmers in these areas.

From January 1, 1953, to January 1, 1955, preliminary estimates indicate that farm mortgage debt has increased $1 billion, or 14 percent; total farm assets have declined by $4.3 billion, or 2.6 percent; and the net worth of farmers has shrunk by $5.8 billion, or 4 percent.

Forced farm sales increased 40 percent between March 1953 and March 1954, from 1.2 per thousand to 1.7 per thousand.

Mr. Norman J. Wall of the Department of Agriculture stated in a talk before the Department's 32d Annual Agricultural Outlook Conference in Washington, October 26, 1954, that:

> * * * but there is little doubt that in many cases farmers are finding scheduled payments burdensome. This is particularly true in areas where drought has combined with lower prices to reduce farm income. Younger farmers, who frequently have smaller equities in their real estate, larger mortgages, and large amounts of non-real-estate debts, are more likely to be in difficulty.

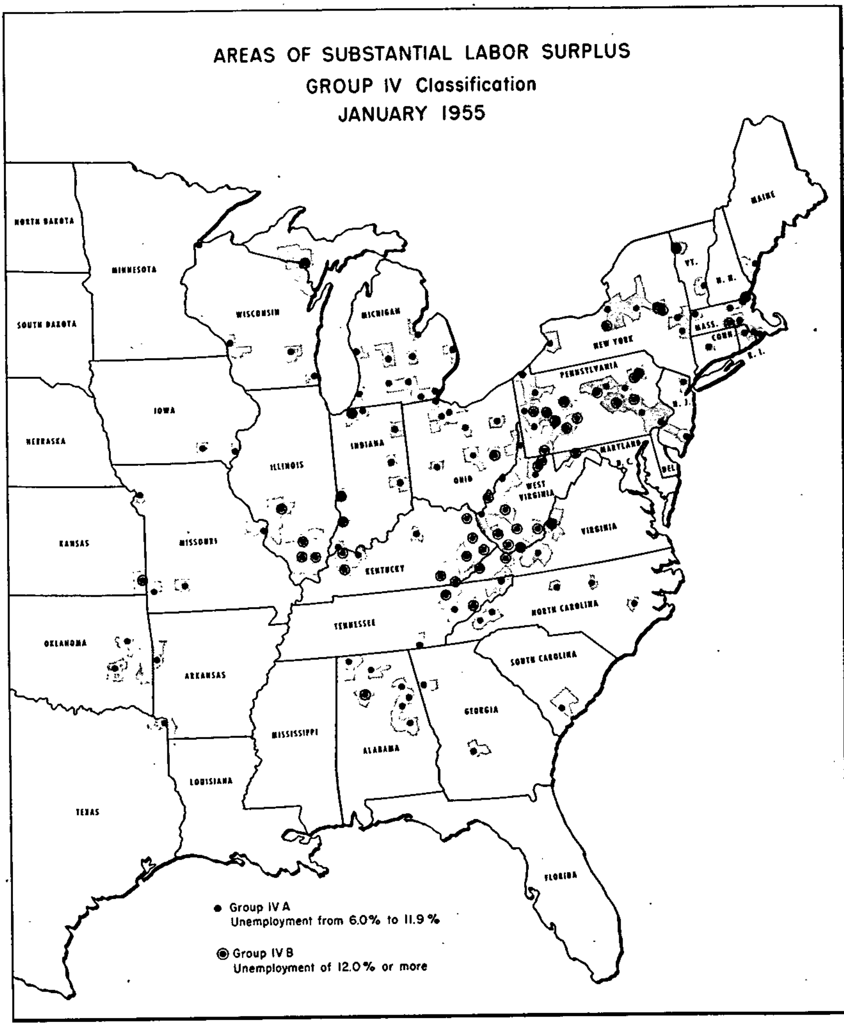
The Economic Report contains only scattered references to the farm situation, including a discussion of agricultural production in 1954 in a section relating to developments during the past year. In the face of evidence of continued agricultural distress, of falling farm incomes, and the existence of at least 2 million farm families suffering from underemployment and inadequate incomes, it is difficult to see how a thorough discussion of the farm problem, together with recommendations for programs to deal with it, could have been so completely minimized in the report. If it is the position of the report that no recommendations are needed, and that present agricultural programs need no change nor addition to deal with the existing situation, then, indeed, it would have been far more appropriate for the report to have frankly faced facts and stated this position forthright, rather than to have neglected these problems altogether.

DISTRESSED INDUSTRIES AND LOCALITIES

We wish to emphasize the committee's unanimous criticism that the Economic Report does not deal adequately with the needs of distressed industries and localities. The Economic Report contains a map of the United States showing insured unemployment in relation to so-called covered employment in 1954 by States with the rate in some States exceeding 10 percent (p. 90). The national average was 5.2 percent. But if we are to make progress toward achieving the objective of the Employment Act in minimizing unemployment, we must recognize and deal with unemployment as a local as well as a national and State problem. The accompanying map shows the distribution of these distressed localities as of January 1955. Some areas of our country suffer from chronic unemployment resulting from long-term difficulties in coal, textile, and certain durable goods industries; others may experience temporary shutdowns from time to time resulting from seasonal or cyclical factors.

The burdens of such distress are not confined to the individual localities and industries directly affected. Excess workers in these areas and industries migrate to other areas where they often add to the labor surplus, increase underemployment, or the number dependent on subsistence farming. Also, unemployment and low incomes in these distressed segments of our economy reduce the markets for goods and services produced elsewhere, thus decreasing employment and incomes throughout the economy.

The areas of greatest concern are usually identified as those which the Bureau of Employment Security classifies as having substantial labor surplus. In January 1955, in spite of recovery in sectors of the economy, there were 44 major employment areas in the country and 100 smaller areas reported in the class of "substantial" (6 percent to 11.9 percent of covered workers unemployed) or "very substantial" (12 percent or more of covered workers unemployed) labor surplus. This compares with only 20 major areas and 31 smaller areas in these categories a year ago. Since the Bureau of Employment Security regularly surveys 149 major labor market areas, this means that the 44 areas of substantial labor surplus amount to almost 30 percent of the



NOTE.—Group IV areas not shown on the map are: Group IV–A, San Juan, P. R., Tacoma, Wash., Albuquerque, N. Mex., Portland, Oreg., Honolulu, T. H. Group IV–B, Mayaquez, P. R., Ponce, P. R. For names of other areas, see accompanying tables 1 and 2

major labor market areas compared to only about 13 percent in this category a year ago.

Table 1, listing the 44 major areas still so classified in January 1955, indicates that nearly a fifth of them have been in this category continuously since the method of classification was adopted in 1951.

Another fourth of the communities have fared only slightly better, having been in the distressed group more than half the time since reporting was begun. Some of these same 44 areas would have been classified as group IV, areas of substantial labor surplus for many years before 1951 if the present system of area labor market classification had been in existence.

The failure of the executive branch to show sufficient vigor in its approach to this problem disturbs us. It should have occupied a high place in the Economic Report. We fully support the committee report's statement on this point and, later in these supplementary views, offer some specific recommendations for dealing immediately with the more chronically distressed areas.

TABLE 1.—*Duration of and reasons for substantial labor surplus in 44 major labor market areas, classified as group IV in January 1955*

Group IV-A, unemployment from 6.0 to 11.9 percent; group IV-B, unemployment of 12 percent or more]

Name of major group IV area [1]	Subclassification [2]	First time classified as group IV	Number of times in group IV out of 22 report dates	Principal industrial or other source of economic distress
Altoona, Pa	B	July 1951	22	Railroad locomotives, cars (production and maintenance).
Lawrence, Mass	B	do	22	Textiles (wool).
Lowell, Mass	A	do	22	Textiles.
Providence, R. I	A	do	22	Textiles; nonelectrical machinery.
Scranton, Pa	B	do	22	Mining (anthracite coal).
Terre Haute, Ind	B	do	22	Mining (coal); Government.
Wilkes-Barre, Pa	B	do	22	Mining (anthracite coal).
Asheville, N. C	A	September 1951	21	Industrialization lack (seasonal resort center).
Atlantic City, N. J	A	November 1951	20	Do.
Durham, N. C	A	May 1952	17	Industrialization lack (seasonal tobacco center).
Mayaguez, P. R	B	do	17	Apparel; industrialization lack.
Ponce, P. R	B	do	17	Do.
San Juan, P. R	A	do	17	Do.
Winston-Salem, N. C	A	do	17	Industrialization lack (seasonal tobacco center).
Tacoma, Wash	A	July 1952	16	Government; industrialization lack (seasonal lumber center).
Fall River, Mass	A	November 1951	[3] 14	Textiles; rubber.
New Bedford, Mass	A	March 1952	[3] 13	Textiles; electrical machinery.
Utica and Rome, N. Y	A	do	[3] 12	Textiles; nonelectrical machinery.
Johnstown, Pa	B	May 1953	11	Mining (bituminous coal); steel.
Albuquerque, N. Mex	A	September 1953	9	Industrialization lack (construction center).
Muskegon, Mich	A	January 1954	7	Refrigerators; auto equipment; steel foundries.
Reading, Pa	A	March 1952	[3] 7	Steel; textiles; apparel.
Battle Creek, Mich	A	March 1954	6	Aircraft; auto equipment; nonelectrical machinery.
Charleston, W. Va	B	do	6	Mining (bituminous coal); chemicals.
Chattanooga, Tenn	A	do	6	Chemicals; primary-fabricated metals; textiles.
Duluth and Superior, Minn. and Wis.	A	do	6	Ore transportation; industrialization lack.
Huntington and Ashland, W. Va. and Ky.	A	do	6	Electrical machinery; railroad equipment.
Paterson, N. J	A	do	6	Textiles; aircraft; instruments; electrical machinery.
Portland, Oreg	A	do	6	Lumber; ship repair; transportation services.
Racine, Wis	A	do	6	Farm machinery; foundries.
South Bend, Ind	A	do	6	Automobiles; farm machinery.
Toledo, Ohio	A	do	6	Automobile parts, equipment; primary-fabricated metals.
Wheeling and Steubenville, W. Va. and Ohio.	A	do	6	Steel; mining (bituminous coal).
Albany, Schenectady, and Troy, N. Y.	A	May 1954	5	Ordnance; railroad equipment; electrical machinery.
Buffalo, N. Y	A	do	5	Steel; electrical and nonelectrical machinery; aircraft.

See footnotes at end of table, p. 20.

TABLE 1.—*Duration of and reasons for substantial labor surplus in 44 major labor market areas, classified as group IV in January 1955*—Continued

Name of major group IV area [1]	Subclassification [2]	First time classified as group IV	Number of times in group IV out of 22 report dates	Principal industrial or other source of economic distress
Canton, Ohio	A	May 1954	5	Steel; foundries; nonelectrical machinery.
Erie, Pa	A	do	5	Refrigerators; railroad equipment; foundries.
Evansville, Ind	A	do	5	Aircraft; refrigerators.
Fort Wayne, Ind	A	do	5	Electrical machinery; automobiles; aircraft.
Knoxville, Tenn	A	do	5	Textiles; apparel; aluminum.
Philadelphia, Pa	A	do	5	Transportation equipment; other durable goods.
Pittsburgh, Pa	A	do	5	Steel.
St. Louis, Mo	A	do	5	Ordnance; primary metals; electrical machinery; leather.
Honolulu, T. H	A	July 1954	4	Government; industrialization lack (pineapple, sugar, and tourist center).

[1] List covers only period since July 1951 when present area classification system was introduced. Many of these areas were classified in somewhat similar groups under the previous system. Classifications are based on narrative-statistical labor market reports submitted to the Bureau of Employment Security by affiliated State employment-security agencies. The reports are prepared locally, drawing upon labor market data available in local public employment offices, including information on current employment and unemployment levels and employer hiring plans.

The extent of unemployment in an area is one of the major factors in determining the area classification. Other criteria include employment outlook as reflected by local employer estimates of manpower requirements, the relationship between labor supply and labor demand, and the seasonal pattern of employment and unemployment fluctuations.

[2] It will generally be true that areas of *substantial labor surplus* (IV-A) will have unemployment ranging from 6.0 to 11.9 percent of covered employment, while areas of *very substantial labor surplus* (IV-B) will have unemployment of 12 percent or more of covered employment.

[3] Not continuous.

Source: Bureau of Employment Security, U. S. Department of Labor.

TABLE 2.—*Reasons for substantial labor surplus in 44 major and 100 smaller labor market areas, classified as group IV in January 1955* [1]

[Group IV-A, unemployment from 6.0 to 11.9 percent; group IV-B, unemployment of 12 percent or more]

Name of group IV area [2]	Subclassification [3]	Principal industrial or other source of economic distress
Alabama:		
Alexander City	A	Textiles; lumber.
Anniston	A	Machinery (electrical); ordnance; lumber.
Decatur	A	Textiles; industrialization lack.
Florence and Sheffield	A	Aluminum; leather.
Gadsden	A	Primary metals; textiles.
Jasper	B	Mining (bituminous coal).
Talladega	A	Textiles; ordnance; Government.
Arkansas: Fort Smith	A	Drought (agriculture, food); mining.
Connecticut: Bristol	A	Machinery (bearings); watches and clocks (fuses).
Georgia:		
Cedartown and Rockmart	A	Textiles (cotton and synthetic tire cord).
Cordele	A	Ordnance (shells); trade and service (oil mills).
Illinois:		
Harrisburg	B	Mining (coal, fluorspar).
Herrin, Murphysboro, and West Frankfort.	B	Mining (bituminous coal); radios.
Litchfield	B	Mining (bituminous coal); primary and fabricated metals.
Mount Vernon	B	Railroad cars.
Indiana:		
Connersville	A	Machinery (household: refrigerators and sinks); auto parts.
*Evansville	A	Aircraft; refrigerators.
*Fort Wayne	A	Electrical machinery; automobiles; aircraft.
Michigan City and LaPorte	B	Ordnance; aircraft wings; railroad cars; machinery (farm).
Muncie	A	Auto parts; ordnance; fabricated metals.
*Terre Haute	B	Mining (coal); Government.
*South Bend	A	Automobiles; farm machinery.
Vincennes	B	Mining (bituminous coal); industrialization lack.

See footnotes at end of table, p. 23.

TABLE 2.—*Reasons for substantial labor surplus in 44 major and 100 smaller labor market areas, classified as group IV in January 1955* [1]—Continued

Name of group IV area [2]	Subclassification [3]	Principal industrial or other source of economic distress
Iowa:		
Burlington	A	Ordnance (ammunition); machinery (electrical).
Ottumwa	A	Machinery (farm).
Kansas: Pittsburg	B	Mining (coal, lead, zinc); ordnance (out of area).
Kentucky:		
*Ashland and Huntington, Ky. and W. Va.	A	Electrical machinery; railroad equipment.
Corbin	B	Mining (bituminous coal); railroad shops; lumber.
Frankfort	A	Industrialization lack (Government, seasonal distillery center).
Hazard	B	Mining (bituminous coal).
Henderson	B	Government; autos and refrigerators (out of area).
Madisonville	B	Mining (bituminous coal); instrument.
Middlesboro and Harlan	B	Mining (bituminous coal).
Morehead and Grayson	B	Industrialization lack.
Owensboro	A	Radio and television; furniture.
Paintsville and Prestonsburg	B	Mining (bituminous coal).
Pikeville and Williamson	B	Do.
Maine: Biddeford	A	Machinery (textile); textiles.
Maryland: Cumberland	B	Textiles (rayon); railroads; mining (bituminous coal).
Massachusetts:		
*Fall River	A	Textiles; rubber.
Fitchburg	A	Machinery (nonelectrical); fabricated metals.
*Lawrence	B	Textiles (wool).
*Lowell	A	Textiles.
Milford	A	Machinery (textile); textiles.
*New Bedford	A	Textiles; electrical machinery.
North Adams	A	Machinery (electronics).
Southbridge and Webster	B	Textiles (woolen); opthalmic goods.
Michigan:		
Adrian	A	Foundries (nonferrous); machinery (household); fabricated metals.
*Battle Creek	A	Aircraft; auto equipment; nonelectrical machinery.
Bay City	A	Autos, auto parts; machinery (construction, mining).
Benton Harbor	A	Primary metals; other durables (out of area).
Ionia, Belding, and Greenville	A	Refrigerators; auto parts.
Iron Mountain	B	Auto bodies; mining (iron); lumber.
Jackson	A	Auto parts; radio and television.
Monroe	A	Auto parts; paper.
*Muskegon	A	Refrigerators; auto equipment; steel foundries.
Owosso	A	Machinery (auto-connected electrical).
Port Huron	A	Auto parts; primary metals.
Minnesota: *Duluth and Superior, Minn. and Wis.	A	Ore transportation; industrialization lack.
Missouri:		
Joplin	A	Mining (lead, zinc); industrialization lack (trade center).
St. Joseph	A	Machinery (electrical); industrialization lack; out of area.
*St. Louis	A	Ordnance; primary metals; electrical machinery; leather.
Springfield	A	Industrialization lack (trade center); out of area.
New Jersey:		
*Atlantic City	A	Industrialization lack (seasonal resort center).
*Paterson	A	Textiles; aircraft; instruments; electrical machinery.
New Mexico: *Albuquerque	A	Industrialization lack (construction center).
New York:		
*Albany, Schenectady, and Troy	A	Ordnance; railroad equipment; electrical machinery.
Amsterdam	B	Wool carpets, rugs; apparel; gloves.
Auburn	B	Ordnance (shells); machinery (farm); other durables.
*Buffalo	A	Steel; electrical, nonelectrical machinery; aircraft.
Gloversville	B	Leather (gloves, tanning); out of area.
Hudson	A	Textiles.
Oswego and Fulton	A	Fabricated metals; out of area.
*Utica and Rome	A	Textiles; nonelectrical machinery.
North Carolina:		
*Asheville	A	Industrialization lack (seasonal resort center).
*Durham	A	Industrialization lack (seasonal tobacco center).
Kinston	A	Do.
Waynesville	A	Industrialization lack (seasonal resort center).
*Winston-Salem	A	Industrialization lack (seasonal tobacco center).
Ohio:		
Cambridge	B	Glass, pottery; communications equipment.
*Canton	A	Steel; foundries; nonelectrical machinery.
Findley, Tiffin, and Fostoria	A	Machinery (electrical, nonelectrical); apparel; rubber; glass.
Mansfield	A	Machinery (household); primary metals; rubber.
Newark	A	Mining; auto parts; glass (mineral wool).
Sandusky and Fremont	A	Machinery (electrical, nonelectrical); primary metals.

See footnotes at end of table, p. 23.

TABLE 2.—*Reasons for substantial labor surplus in 44 major and 100 smaller labor market areas, classified as group IV in January 1955* [1]—Continued

Name of group IV area [2]	Subclassification [3]	Principal industrial or other source of economic distress
Ohio—Continued		
Springfield	A	Trucks; aircraft parts; machinery (nonelectrical).
*Steubenville and Wheeling, Ohio, and W. Va.	A	Steel; mining (bituminous coal).
*Toledo	A	Automobile parts, equipment; primary and fabricated metals.
Oklahoma:		
McAlester	A	Ordnance; construction.
Muskogee	A	Drought (agriculture, food).
Oregon: *Portland	A	Lumber; ship repair; transportation services.
Pennsylvania:		
*Altoona	B	Railroad locomotives, cars (production and maintenance).
Berwick and Bloomsburg	A	Railroad equipment; textiles.
Butler	B	Railroad equipment.
Clearfield and Du Bois	B	Mining (bituminous coal); durable goods.
*Erie	A	Refrigerators; railroad equipment; foundries.
Indiana	B	Mining (bituminous coal).
*Johnstown	B	Mining (bituminous coal); steel.
Kittanning and Ford City	B	Mining (bituminous coal); stone, clay, and glass.
Loch Haven	B	Railroads; machinery (electrical).
New Castle	A	Steel; other durable goods.
Oil City, Franklin, and Titusville	A	Machinery (construction, mining, pump); steel.
*Philadelphia	A	Transportation equipment; other durable goods.
*Pittsburgh	A	Steel.
Pottsville	B	Mining (anthracite coal).
*Reading	A	Steel; textiles; apparel.
*Scranton	B	Mining (anthracite coal).
Sunbury, Shamokin, and Mount Carmel.	B	Mining (anthracite coal); radio-television; textiles.
Uniontown and Connellsville	B	Mining (bituminous coal).
*Wilkes-Barre	B	Mining (anthracite coal).
Williamsport	A	Aircraft.
Puerto Rico:		
*Mayaguez	B	Apparel; industrialization lack.
*Ponce	B	Do.
*San Juan	A	Do.
Rhode Island: *Providence	A	Textiles; nonelectrical machinery.
South Carolina: Walterboro	A	Lumber; apparel; out of area.
Tennessee:		
Bristol, Johnson City, and Kingsport.	A	Chemicals (explosives); textiles; furniture.
*Chattanooga	A	Chemicals; primary and fabricated metals; textiles.
*Knoxville	A	Textiles; apparel; aluminum.
La Follette, Jellico, and Tazewell	B	Mining (bituminous coal); industrialization lack;
Newport	B	Industrialization lack (agricultural center);
Territory of Hawaii: *Honolulu	A	Government; industrialization lack (pineapple, sugar, and tourist center).
Texas: Texarkana	A	Ordnance (Government, private).
Vermont:		
Burlington	B	Textiles (woolen); aircraft parts.
Springfield	A	Machine tools; textiles (woolen).
Virginia:		
Big Stone Gap and Appalachia	B	Mining (bituminous coal).
Covington and Clifton Forge	B	Railroads; paper.
Radford and Pulaski	A	Chemicals (explosives, synthetic fibers).
Richlands and Bluefield	B	Mining (bituminous coal).
Washington: *Tacoma	A	Government; industrialization lack (seasonal lumber center).
West Virginia:		
Beckley	B	Mining (bituminous coal).
Bluefield	B	Do.
*Charleston	B	Mining (bituminous coal); chemicals.
Clarksburg	A	Mining (bituminous coal); radio and television; fabricated metals.
Fairmont	B	Mining (bituminous coal).
*Huntington and Ashland, W. Va., and Ky.	A	Electrical machinery; railroad equipment.
Logan	B	Mining (bituminous coal).
Morgantown	B	Do.
Parkersburg	A	Chemicals (industrial organic).
Point Pleasant	B	Shipbuilding; industrialization lack.
Ronceverte and White Sulphur Springs.	B	Mining (bituminous coal).
Welch	B	Do.
*Wheeling and Steubenville, W. Va. and Ohio.	A	Steel; mining (bituminous coal).

See footnotes at end of table, p. 23.

TABLE 2.—*Reasons for substantial labor surplus in 44 major and 100 smaller labor market areas, classified as group IV in January 1955* [1]—Continued

Name of group IV area [2]	Subclassification [3]	Principal industrial or other source of economic distress
Wisconsin:		
Beaver Dam	A	Machinery (electrical, farm); shoes.
La Crosse	A	Machinery (farm); rubber footwear; auto parts.
*Racine	A	Farm machinery; foundries.
*Superior and Duluth, Wis. and Minn.	A	Ore transportation; industrialization lack.

[1] Major areas are indicated by asterisk.

[2] List covers only period since July 1951 when present area classification system was introduced. Many of these areas were classified in somewhat similar groups under the previous system. Classifications are based on narrative-statistical labor-market reports submitted to the Bureau of Employment Security by affiliated State employment-security agencies. The reports are prepared locally, drawing upon labor-market data available in local public employment offices, including information on current employment and unemployment levels and employer hiring plans.

The extent of unemployment in an area is one of the major factors in determining the area classification. Other criteria include employment outlook as reflected by local employer estimates of manpower requirements, the relationship betweem labor supply and labor demand, and the seasonal pattern of employment and unemployment fluctuations.

[3] It will generally be true that areas of *substantial labor surplus* (IV-A) will have unemployment ranging from 6.0 to 11.9 percent of covered employment, while areas of *very substantial labor surplus* (IV-B) will have unemployment of 12 percent or more of covered employment.

Source: Bureau of Employment Security, U. S. Department of Labor.

PRODUCTIVITY AND AUTOMATION

One of the important weaknesses in the economy in the year 1954 was failure to maintain the overall rate of output per man-hour in keeping with the economy's technical possibilities and the generally accepted long-run trend. The Economic Report offers little or no discussion or analysis of what happened in 1954 or of the implication of productivity changes to our long-run stability. In fact, almost the only reference to productivity changes was a single chart (p. 5) which shows changes in productivity in selected segments of the economy through calendar 1953. It makes no reference at all to developments during calendar 1954.

An examination of data for manufacturing, mining, and other industries would probably reveal that in individual sections of the economy, output per man-hour rose as rapidly in calendar 1954 as it has on the average in the past. Some evidence suggests that it may have gone up more rapidly than usual.

In spite of the apparent gains in productivity in individual segments of the economy, it appears that the economy as a whole did not exhibit quite as large a gain as is usual. For example, the hearings brought out an estimate that overall output per man-hour advanced only 1.2 percent in calendar 1954 compared to 4 percent in calendar 1953.[6] During the past year, the gain in output per man-hour for the economy as a whole seems to have been below the long-term average rate of increase due to (*a*) shifts of workers to industries or occupations with lower output per man-hour, and (*b*) operating in important industries at sufficiently low ratios to capacity to impair efficiency. This accounts for the apparent contradiction.

An even more important omission is the absence in the report of any reference to the significance of the trend toward automation. There is reason to believe that the country is now faced with something in the

[6] Testimony of Dexter M. Keezer, hearings, p. 105.

nature of an industrial revolution comparable to that introduced by the interchangeable part and the assembly line technique. We are told that literally millions of both white-collar and factory workers may be displaced in the matter of a few years by the products of the electronic age. This, of course, may be offset in part because of the manpower required to design, build, service, and operate the automated plants. There could be, however, a severe displacement and transition problem which we should be prepared to meet.

It is anticipated that a subcommittee of this committee will include this subject within its early investigations. In the meantime, the President and his Council of Economic Advisers should not neglect the challenging problems inherent in this form of progress. We hope that some future report of the Council of Economic Advisers will deal with the interrelated and in some ways conflicting problems of maintaining increasing rates of output per man-hour and that of adapting our economy to, and meeting the frictional unemployment problems inherent in, the automation movement.

MONETARY POLICY

Since the report anticipates continued economic recovery, it should have indicated, at least in broad outline, the type of monetary policy upon which its conclusions are predicated. While assigning considerable weight to monetary actions in stopping the recession and starting the forces of recovery, the report does not indicate an appropriate course of monetary action to nurture these forces in the year ahead. Because of its failure to do so unnecessary rumors and uncertainty prevail in the public mind.

The forces of recovery have now been evident for only a few months. Their strength and pervasiveness remain to be tested. They must continue and prove cumulative if the year is to turn out as well as the President's Economic Report indicates it is reasonable to expect. Yet in the face of this, the monetary authorities abandoned the policy of "active ease" late last year and have moved, if not to restraint, at least to a neutral position of "less aggressive" ease. So-called free reserves of member banks which were about $600 million at the end of October 1954 were down to less than one-half that in mid-February 1955. For the week ended March 2, the daily average was down to $100 million. A substantial part of this was doubtless immobilized in country banks so that major commercial banks in the money centers of the Nation were in effect being forced to borrow in order to obtain reserves. The fear of *anticipated* price rises and the fear of *anticipated* inflation have obviously been given greater weight in the minds of the authorities than actual facts.

Unless the Council of Economic Advisers and the monetary authorities have information available to them which was not presented in the Economic Report, it would seem premature to embark upon any changed policy. In addition any reversal of policy in the direction of restraint should not anticipate price rises but wait for them to put in their undisputed appearance. Until the forces of recovery have been confirmed the hazard of inflationary exuberances seems far more remote than the risk of discouraging the recovery. The President and the administrators of his economic programs seem unable to conquer their inflationary fears and to exhibit the kind of mature economic statesmanship on monetary policy which they advocate in the Economic Report.

THE ECONOMIC OUTLOOK FOR 1955

We are concerned that the Economic Report, in analyzing the outlook for 1955, does not analyze all considerations, unfavorable as well as favorable. We must see things as they are and face the facts. The neglect of the substantial areas already listed brings with it the danger that important elements in the outlook may have been overlooked. At the risk of seeming to overemphasize the elements of uncertainty, we turn to an analysis of still other considerations, some of which tend to temper the confident conclusions of the Economic Report.

As a preface to our analysis of the economic outlook for 1955, it is important that we have in mind a few facts about recent trends. In February 1955 civilian employment was 59,938,000 compared with 60,051,000 in February 1954 and 61,097,000 2 years ago. On a seasonally adjusted basis, since last August about half the decline in employment experienced during the recent recession has been regained, but since the size of the working population has increased during the last 2 years, unemployment has not shown a proportionate reduction.

Reported unemployment at 3,383,000 in February 1955 was only 288,000 below February 1954 and 1½ million above February 1953. If rough adjustments are made for seasonal changes, unemployment rose from a level of about 1.4 million in the summer of 1953 to about 3½ million in the late spring and early summer of 1954, and by February 1955 had declined to about 2.8 million.

However, this does not take into account other forms of lost employment due to temporary layoffs and involuntary part-time employment. If we convert the involuntary part-time employment to a full-time equivalent basis and add this and the "layoffs" to the unemployed, we find that the full-time equivalent of unemployment in March of 1954 was about 4.9 million, and in February 1955 was about 4.3 million, compared to the reported unemployment of 3,383,000.[7]

The difficulty of getting an accurate working knowledge of the extent of unemployment suggests that the present concepts and methods utilized by the Bureau of the Census are inadequate. While they may measure the "active" pressures exerted upon the labor market, they classify as "not in the labor force" many individuals who would accept jobs if jobs were available. Surveys indicate that the number in this group varies between 400,000 and 700,000, in large part teen-agers and women. There are, moreover, 2 or 3 million persons working part time involuntarily because full time is not available, and between 200,000 and 400,000 on temporary layoffs (less than 30 days) who are counted as having a job even though they were not working in the particular week in which the labor force survey was made.

In view of all this, it would appear desirable to develop a new set of concepts and methods of analyzing the labor market, supplementing the present data of the Bureau of the Census, if need be, by additional questions on their survey and doubling the sample. Such an analytical survey of the labor market, including seasonal influences,

[7] See appendix A, p. 95.

showing the working population might well be undertaken by the Labor Department, leaving the assembly of the unanalyzed basic data to the Bureau of the Census, as at present. In any case, the aim would be to arrive at a more realistic measure of the availability of labor and the degree to which it is being currently utilized.

Further evidence of the severity of the impact of the recent recession on workers can be found in the fact that in calendar 1954, about 1,769,000 claimants exhausted their benefit rights under unemployment insurance. This was an increase of 131.5 percent from the 764,000 claimants exhausting benefits in calendar 1953. At the end of the year the monthly rate of exhaustions was still running almost double the rate of 1953, although it was down from the worst months of midsummer 1954.

A report of the Department of Agriculture to the committee indicates that in the first 6 months of 1954, 34.6 million pounds of surplus foods were distributed to 1,087,091 persons, while in the 5 months July through November 1954, 48.9 million pounds were distributed to 1,948,422 persons (hearings, pp. 600–601). Part of this increase between the first and second halves of the year may have been due to the fact that the program was of recent growth.

Using overall measures, it is apparent that by the beginning of 1955 the economy as a whole had recovered about half the decline which took place between the spring of 1953 and the summer of 1954. Thus gross national product is estimated at $362 billion for the fourth quarter of 1954 compared to the low of $355.5 billion in the third quarter of 1954, and the previous high of $369.9 billion in the second quarter of 1953. The Federal Reserve index of industrial production is estimated at 131 for January 1955 compared to a low of 123 in August 1954 and the previous high of 137 in May and July of 1953.

On the other hand, unemployment seasonally adjusted, has been reduced from the peak of last spring by only 800,000 or about one-third of the more than 2 million increase that occurred between the summer of 1953 and the spring of 1954. The figures on unemployment thus indicate that the economy still has a substantial distance to go before it makes up for the remainder of this lost ground, plus the usual growth that could have been achieved over this 2-year period.

With this background on the progress of the recovery thus far, we turn to the President's assurance that "it is reasonable to expect" that "within the year" the goals of the Employment Act can be approximated. The accompanying materials prepared by the committee staff, looking to the year ahead, and using the assumptions implicit in the President's Economic Report, project levels of national production which must be attained in order to keep unemployment at a minimum and maintain our growth trends.

Since the economy is operating at the beginning of 1955 at a rate of perhaps $365 billion gross national product, it will be necessary that this rate rise substantially each succeeding quarter this year if the average for the year is to approximate levels contemplated by the Employment Act. If gross national product is to average $375 billion for the year, it must reach $385 billion by the end of the year, starting from a low, though recovering, level. National income would need to increase from $300 billion in 1954 to $315 billion in 1955. Gross national product is the market value of the Nation's total output of goods and services for final use, before deduction of allowances for durable capital goods used up in production. National income is the aggregate earnings of labor and property which arise from the Nation's current production of goods and services. It includes compensation of employees, profits of corporate and unincorporated enterprises, net interest, and the rental income flowing to persons.

The Economic Report is unfortunately abbreviated in its analysis of the possible weaknesses in the current situation, particularly those that might lead to difficulty later in the year. The report quite correctly states that the Federal Government should be prepared in case "economic events should not bear out current expectations." This committee's hearings and analysis point to several possible areas of weakness during the latter part of this year, which we cannot be sure have been taken into account in the assertion in the Economic Report that the goals of complete recovery can be achieved.

These areas of uncertainty, particularly in the latter part of the year, include automobiles, housing, inventories, business plant and equipment, farm income, stock market behavior, and the persistence of high rates of unemployment in certain distressed localities. This is a formidable list of uncertainties. We do not mean to suggest that the recovery trend will not continue throughout the year. Other recoveries have been marked by areas of weakness and uncertainty but we do feel that over against reasons for confidence, no judgment of the outlook can be a sound basis for policy which minimizes these elements of uncertainty.

(1) *Automobile production* has sparked the recovery to date. There were early and substantial model changes. Production is now running at an annual rate well in excess of the most optimistic estimates of the industry spokesmen as to the market for the coming year. January production of passenger cars was 660,000 and about 676,000 in February. These levels are equivalent to an annual rate of 8 million cars or more per year. January and February sales, continuing December trends, were quite high, running at a level, allowing for seasonal adjustments, equivalent to at least 7 million passenger cars for the year.

This figure is above the most optimistic estimates of the industry which seem to point to 1955 sales of about 6.5 million passenger cars. Those who give weight to such long-term factors as changes in number of families and real income per family suggest lower figures—perhaps as low as 5.5 million.

Some witnesses before the committee were apprehensive that current rates of production were running at such a high rate that by the second half of the year, when some seasonal reduction must be anticipated, the actual cutbacks might have to be carried to sharp extremes. If the 7 million car sales per year should by chance be realized, a seasonal reduction in production in the second half of at least 25 percent would still have to be made. If, however, sales turn out to be as low as 6 million for the year (still a high figure) the reduction may have to be as large as 50 percent below present levels in order to bring production for the year in line with sales.

Cutbacks in automobile production ordinarily carry with them cutbacks in supplying industries such as steel, glass, and textiles. Inasmuch as about 15 to 20 percent of the steel production is for use in the automobile industry, the widespread extent of these possible repercussions carries serious implications for the economy as a whole.

(2) *Residential construction* has been reaching new levels for many months. For the year 1954 as a whole, new housing starts were 1,220,000 compared to 1,104,000 the previous year. The increase in starts continued right up to the end of the year, with November 1954 showing 103,000 compared to 82,000 the previous year, and December 1954, 91,000 compared to 66,000 the previous year. Of the privately financed new housing starts, approximately 50 percent were Government underwritten compared to 38 percent in 1953. The recent sharp rise in residential construction activity may largely be a reflection of the increase in available mortgage funds during 1954, and, late in the year, the effects which followed the Housing Act of 1954, effective October 1, 1954. It would not be surprising, therefore, if, after the first adjustment of market to the new credit program, housing activity should drop below levels now being counted upon to support the rising economic activity later in 1955. In this regard the monetary and debt-management authorities should exercise extreme caution lest by introducing uncertainty about the future cost and availability of loanable funds, they might cause a contraction in mortgage lending.

Barring restrictive credit actions, indications are that this year about the same number of units, if not more than last year, will be started. This rate of new construction represents an excess of some 400,000 to 500,000 over the rate of new family formation as estimated by the Bureau of the Census. The long-run potential may be as high as 2 million units per year.[8]

Considerable concern was, for example, expressed at our hearings lest easy credit might lose its immediate stimulating effect in the face of these recent high levels of construction activity. If this should turn out to be the case, we might later this year witness a dropoff in activity as unsold housing accumulates in the market. We have no question but that the need for housing exists—particularly for middle income and lower income families—and that the long-run demand will be there. Our concern rests upon the extent to which housing can be relied upon to sustain the cumulative recovery anticipated by the President's Economic Report if we do not take measures to tap the latent demand among families in the lower half of the income scale.

(3) As a factor making for sustained recovery, considerable emphasis is placed in the Economic Report on the recent shift on the part of business generally from inventory liquidation to a policy of rebuilding or increasing inventories. The switch from liquidation, which amounted to $4.5 billion in 15 months, to a policy of accumulation is likely, however, to prove a one-shot stimulus, the effects of which are soon spent. Just as the economy is currently being given a boost by this recent shift in inventory policy, it may well be that a slowing up in the rate of inventory accumulation, even without renewed liquidation, would be a contractive influence later in 1955.

(4) *Business spending on plant and equipment* has declined on a seasonally adjusted annual rate basis from $28.9 billion in the third quarter of 1953 to about $26 billion per year in the first quarter of 1955.

[8] See: William L. C. Wheaton, professor of city planning and acting head of the Institute for Urban Studies, University of Pennsylvania, hearings, pp. 816–835. See also joint committee prints: The Sustaining Economic Forces Ahead (82d Cong., 2d sess., pp. 13–18), and Potential Economic Growth of the United States During the Next Decade (83d Cong., 2d sess., p. 11), materials prepared for the Joint Committee on the Economic Report by the committee staff.

Clearly, if this trend were reversed, as the Council of Economic Advisers sees reason to believe it will be, it would be an important stimulus to the economy. However, much of the current strength in this area is among the largest firms and in certain industries. If current plans and expectations of strength in this area are not borne out in fact we may find weakness in this area putting a drag on the economy later in 1955, contrary to the hopes expressed in the Economic Report.

Such a result, though contrary to present indications, would not be surprising since the rate of investment in plant and equipment has been high since the war in order to take care of replacement, growth in population and demand, as well as deficiencies which had developed during the depression of the 1930's and the restrictions of the war period. A rate calculated to care for replacement and normal growth only, while high, might still be appreciably lower than that experienced in recent years.

In this connection, the significance of technological innovation and the development of new products should be emphasized. These constitute an important basis for business expenditures on plant and equipment. It is possible, therefore, that recent and prospective improvement in the outlook for business capital spending may stem largely from this source.

Recommendations

FISCAL POLICY

The importance of flexible tax policy to meet the needs of economic stability and growth cannot be overemphasized. While present indications point toward recovery from the reduced levels of activity of 1953–54, fiscal policy for the year ahead must recognize that this upturn has yet to demonstrate its strength. If the Economic Report's expectations fail to materialize or if economic activity turns down, we must be prepared to turn quickly to immediate tax relief, primarily reductions in individual income taxes upon middle- and low-income groups in the interest of sustaining purchasing power and maintaining stability. Increasing the purchasing power of the low- and middle-income groups is also a prime requisite for assuring continuing economic growth, and tax action to this end, therefore, is imperative, whenever the overall fiscal situation permits.

The tax program in 1954 did not fulfill this requirement. Tax reductions last year were concentrated among upper income individuals and corporations with only an estimated 25 percent of the tax savings, according to the Secretary of the Treasury, going to individuals with incomes less than $5,000. The bulk of the $7.4 billion reductions was directed toward lightening the tax load of corporate business and easing the tax on individual incomes derived from property. Only a small proportion of the relief was for the direct benefit of individuals who depend on their wages and salaries for their livelihood. Under the peacetime tax structure of the Democrats, tax benefits were given to earned income—that gained by actual, useful employment. Now, the benefits and privileges largely go to unearned income. We feel it is unjust and unfair for special privileges to go to property before people.

Total tax reductions effected in 1954, amounting to $7.4 billion on a full-year basis, are distributed as follows:

	Billions
Automatic reduction in individual income tax, Jan. 1, 1954	$3.0
Expiration of excess-profits tax, Jan. 1, 1954	2.0
Reduction in excises, Apr. 1, 1954	1.0
Tax-revision bill, Aug. 16, 1954	1.4
Total	7.4

It is estimated that corporate-tax liabilities were reduced $2.8 billion and liabilities of individuals decreased by $4.6 billion.

[Billion dollars]

	Total	Individuals	Corporations
Individual income-tax reduction	$3.0	$3.0	
Expiration of excess-profits tax	2.0		$2.0
Excise reductions	1.0	.8	.2
Tax-revision bill	1.4	.8	.5
Total	7.4	4.6	2.8

NOTE.—Details may not add to totals because of rounding.

Source: U. S. Treasury Department.

No distribution by income classes of total individual tax savings has been released by the Treasury Department or by the Joint Committee on Internal Revenue Taxation. However, such a distribution with respect to the $3 billion reduction under the January 1, 1954, rate decreases was prepared by the Joint Committee on Internal Revenue Taxation. It is estimated that $935 million, or 31 percent, of the $3 billion will be reflected on individual income-tax returns with less than $5,000 of adjusted gross income, which represent 74 percent of the total taxable returns. On the other hand, $2,080 million, or 69 percent, of the reductions will be on returns with more than $5,000 of adjusted gross income, accounting for 26 percent of all taxable individual returns.

Estimated distribution of individual income-tax savings under the Jan. 1, 1954 rate reductions, by adjusted gross income classes

Adjusted gross income classes	Number of taxable returns	Tax reductions
		Millions
Under $1,000	1,574,567	$4
$1,000 to $2,000	6,231,984	79
$2,000 to $3,000	8,740,632	198
$3,000 to $4,000	9,116,451	300
$4,000 to $5,000	7,500,300	352
Total under $5,000	33,163,934	935
$5,000 to $10,000	9,037,730	772
$10,000 to $25,000	1,931,616	565
$25,000 to $50,000	329,031	356
$50,000 to $100,000	93,346	243
$100,000 to $500,000	27,195	127
$500,000 to $1,000,000	817	10
$1,000,000 and over	314	8
Total over $5,000	11,420,049	2,080
Total	44,583,983	3,015

Source: Hearings before the Committee on Finance, U. S. Senate, on Internal Revenue Code of 1954, 83d Cong., 2d sess., pt. 3, p. 1253.

In an address, Secretary Humphrey stated:

> * * * 62 cents of each dollar of the $7.4 billion goes to individuals—and almost 25 cents of each dollar to taxpayers with income of less than $5,000 a year. This leaves 38 cents of each dollar tax cut going to corporations.[9]

Considerations both of equity and economic policy argue in favor of early tax relief, perhaps at the beginning of 1956, for individual taxpayers in the middle- and low-income brackets. As has been indicated, individuals with incomes less than $5,000 per year received only about 25 percent of the tax savings under last year's bill. Since the bulk of the taxpayers are in this group, equity considerations warrant some adjustment in their favor. Furthermore, sustained economic growth and the elimination of excessive unemployment require encouragement of consumption spending by individuals. This would mean giving tax relief to those in the middle and lower income brackets where families will tend to spend funds released by tax savings, in contrast to the reductions in taxes upon upper-income groups and corporations where the rate of savings is highest.

Two arguments have been advanced by the administration against such action at this time: (1) It will further unbalance the budget; and (2) it will create inflationary pressures. The administration's concern for balancing the budget was not so strong last year apparently when they proposed tax reductions totaling over $7 billion. They argued then that by stimulating investment and hence general economic activity these measures would initiate economic growth which would recoup the immediate revenue loss out of an enlarged tax base. However, it is more likely that economic growth will be stimulated sufficiently to recoup revenue losses out of an enlarged tax base if savings from tax reductions go to middle- and low-income groups who will increase their consumption than if tax measures aim directly at stimulating investment, as in last year's measure. No prudent businessman will increase his investment in plant and equipment unless he can foresee consumer demand for his goods. An increase in consumer demand is precisely what tax relief for middle- and low-income groups will achieve.

On page 49 of the Economic Report the President states the argument for a tax cut within the coming year:

> It should, nevertheless, be recognized that present taxes are still a heavy burden. Lower taxes would tend to encourage work, promote more efficient business practices, and create more jobs through new investments. Fortunately, with our economy continuing to expand, we can look forward to larger Federal revenues from existing tax rates. This, together with further economies in expenditure, should make possible next year another step in the reduction of taxes. Congress might then consider enacting a general, though modest, reduction in taxes and, at the same time, continue the program which was begun last year of reducing barriers to the free flow of funds into risk-taking and job-creating investments.

In urging early tax reductions for low- and middle-income individuals, we are not unmindful of the desirability of moving toward a budget balance in the coming fiscal year, if the economy improves and unemployment decreases. We would not, therefore, rely solely on increased revenues from an enlarged tax base for minimizing the impact of tax reduction on the budget situation in fiscal 1956. We strongly urge the legislative committees to take such action as required

[9] Remarks by Secretary of the Treasury George M. Humphrey at Tax Institute of the University of Texas School of Law, Austin, Tex., October 1, 1954.

to recoup whatever revenue might be lost by equitable tax reductions for low- and middle-income families. Excellent opportunities to make up this revenue loss are to be found in correcting the numerous deficiencies in the Internal Revenue Code of 1954 and in closing the long-standing loopholes in the Federal tax structure.

It has been suggested by the Secretary of the Treasury that to provide for such a reduction in the taxes of middle- and low-income families would be inflationary. This committee has a record of being as zealous in its battles against inflation as anyone. We call attention to this committee's unanimous recommendation to the Congress in July 1950, that an immediate increase in taxes be enacted in place of the tax reduction provided in the bill then before the Congress. This was needed, we stated, in order to reduce inflationary pressures created by the Government's rearmament program resulting from the Korean crisis. The committee has frequently spoken out since that time against the insidious danger of inflation, both in committee reports and in staff studies of the problem published for the information of the Congress and the public.

It is still insisted that active steps should be taken by the Government when a threat of inflation appears. Surely, however, the danger is not present while the income of farmers is falling, excessive unemployment has not been eliminated, and business distress is apparent in wide areas, as shown by the map in this report on page 18 and the similar map on page 90 of the Economic Report.

We believe it just as important to combat deflationary tendencies and unemployment when these prevail in the economy. The evidence we have presented in this statement concerning the numerous areas still suffering from severe economic distress, the relatively unfavorable position of agriculture, and the many cautions sounded at our hearings of possible unfavorable economic developments later in the year—all these emphasize the need to take precautionary action before Congress adjourns to insure a prompt tax redistribution by January 1, 1956.

The administration itself, as quoted above, implies that this action will be necessary and desirable. We would hope that the present upswing in economic activity continues with unabated force so that the relief for middle- and lower-income families recommended above will provide all the stimulus needed within the coming year. This would have the additional advantage of moving toward a balanced cash budget in fiscal 1956 or at least by the latter part of that fiscal year. But, as we have emphasized, tax policy must be flexible, and human needs and questions of finances must come first. Prompt action in making further reductions in taxes, especially in auto excises if their sales lag, beyond these, would be essential if the present upswing should prove abortive or should proceed at a slower rate of growth than in the few months since it began.

We concur with the President's recommendation that the Congress postpone the reduction in the corporate income tax and certain excises scheduled under present law to take place on April 1, 1955. In this respect, we believe that budget considerations are of primary importance. The need for maintaining the present level of these tax rates is reflected in the budget estimates presented by the President. These budget estimates assume that the Department of Defense will succeed in effecting the $1¾ billion savings in expenditures which have not been allocated in the budget among the Department's activities.

Under these circumstances, the case for reducing the corporate tax can scarcely be pressed at this time. This would lose $1.8 billion on a full year basis and the excise reductions would lose about $1 billion. The continued high rate of corporate expenditures for plant and equipment in the postwar period indicates that the corporate tax has not represented the deterrent to business growth some allege. Moreover, recent changes in the Internal Revenue Code, provided by the Revenue Act of 1954, serve in numerous instances to mitigate the impact of corporate income taxation. On the other hand additional tax relief for small corporations may be desirable.

An inevitable corollary to the anticipated budgetary deficits is the recommendation that the present statutory debt limit be increased to permit greater flexibility in the management of Federal finances. This committee recognized last year that the Treasury Department, faced with budgetary deficits and the changing requirements under "open end" programs such as the Commodity Credit Corporation and the Federal National Mortgage Association, should have some leeway in debt administration.

An increase in the debt limit would also permit the Executive to present a clearer budget picture and to make requests for appropriations which are adequate to meet the needs on an actuarially sound basis of such programs as the civil service retirement.

Moreover, if the Congress makes appropriation for important and needed programs such as improvement and expansion of our public housing, roads and highways, aid in clearing the slums, assistance to local governments in providing more adequate schools, it should be prepared in a high-level economy, such as ours, to provide sufficient revenues to cover the resultant expenditure. If it fails to do so, the Treasury Department should nonetheless be provided the elbowroom it needs to manage the increase in the Federal debt in the most economical and satisfactory manner.

The Legislative Reorganization Act of 1946 provides that if total expenditures recommended by the appropriating committees for the coming fiscal year exceed total Federal income as estimated by the revenue-raising committees, Congress would be required by record vote to authorize creation of additional Federal debt in the amount of the excess.

The statutory debt limit has some virtue as a benchmark or a device occasioning periodic review of Government fiscal policies. Whatever virtues it may have on this score are quickly lost if it becomes a thing to be evaded and the occasion for inventing new subterfuges to omit parts of the Government debt from the limitation by turning to indirect borrowing through "authorities" or the issuance of securities by various governmental agencies instead of directly by the Treasury. In the case of the debt limit there is no reason for dual concepts. It would be regrettable if it should come to be said of it, as it has of the budget, that shifts in the reporting methods have muddied the fiscal waters.

AGRICULTURE

The neglect of agriculture and the lack of recommendations in the President's Economic Report for improving conditions for the Nation's farm families have already been commented upon both in the committee's report and in these supplementary views. We wish to reiterate the part of the committee's statement on agricultural policy of a year ago:

> 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 (Joint Economic Report, report of the Joint Committee on the Economic Report on the January 1954 Economic Report of the President, 83d Cong., 2d sess., House Rep. No. 1256, pp. 8–9).

We further recommend to the appropriate legislative committees that efforts be directed toward the drafting of legislation which would reorientate our farm policy in two directions:

(1) The basic purpose of agricultural supports is the protection of farm income. It seems desirable to move in the direction of permitting farm prices to reflect the supply-demand situation in the market while at the same time moving to institute a system of farm income protection which would protect the family-size farm and the small farms of our country by a system of income payments made whenever declining farm prices threaten an inequitable reduction in the standards of living of these farm families. The large, wealthy farms, or corporate farms, do not have the same pressing claim upon the Government's protection. Consideration might be given, therefore, to putting some ceiling on Government benefits per farm. This ceiling should be high enough to protect the standard of living earned by farm families by their own efforts, but not high enough to guarantee the total incomes of large farms able to stand market fluctuations.

(2) We must proceed at once to attack the problem of strengthening the family-size farm and the elimination of underemployment and low incomes among our rural families. It has been a traditional policy of this Government to aid the family farm. It started with the original Land Grant Act of 1862 disposing of the public domain in family-size units to actual operators. During the great depression of the early thirties, in addition to supporting agricultural prices, we established the Farm Security Administration, now the Farmers Home Administration, to help rural citizens provide as much as possible of their own needs from the land, and to move on into commercial production if they had the competence to do so, aided by credit and technical assistance from the Government. Similarly, the Bankhead-Jones Tenancy Act also made use of a combination of loans and technical assistance to aid rural families. Under that act, 80,000 tenant farmers and veterans were assisted in achieving farm ownership. Between 1930 and 1950, the proportion of operator ownership of farms increased from 56.7 percent to 72.7 percent—tenancy dropped correspondingly in the period. Nonetheless, in 1950 the census enumerated at least 2 million low-income farm families out of the 5,382,162 farms in the United States.

The problems of such low-income rural families were explored by the Subcommittee on Low-Income Families in 1950 and 1951. It revealed that in every State in the Union there are areas of concentrated low-income rural population. Essentially these families could not lift themselves to a higher standard of living because their capital and their resources are inadequate. Because their standard of living now is so low, they are undernourished and are unable to obtain technical and vocational training that would enable them to better themselves.

We can make no better recommendation at this time for the preservation of the family-size farm and the underemployed rural families than to at least make a start in carrying out the suggestions developed in the staff study made under the direction of the Subcommittee on Low-Income Families.[10] These steps would:

(1) Increase productivity per worker on existing small farms;

(2) Enlarge farm units where necessary so that the farm units will be sufficient both in capital and in land area to support a farm family at a decent standard of living;

(3) Assist families who desire farm or nonfarm employment outside their home community; and

(4) Increase employment opportunities in the rural areas for these low-income families.

To carry out these recommendations, new legislation should provide for expanding existing programs to provide a combination of direct or guaranteed loans, technical assistance, and adult vocational training, to be operated along the lines that have proved so successful under the Farmers Home Administration.

These measures, if adopted, would constitute a new step forward in improving the opportunities for farm families. It could eliminate rural poverty, strengthen agriculture, and reinforce the long-term growth of our economy in the national interest.

MONOPOLY AND SMALL BUSINESS

The current wave of business mergers is alarming, as is the 45 percent rise in the number of business failures since 1952. Failures in 1954 ran 20 percent higher than in the recession year 1949. Mere numbers of mergers do not throw light upon the magnitude or significance to competition but it is significant that preliminary figures released by the Federal Trade Commission show an average of 775 mergers per year in the 1951–53 period, the latest years for which information is available, compared to 201 per year during the preceding 3-year period, and 110 per year during the 3 years preceding World War II. In the years preceding the stock market crash the number of mergers steadily increased from 300 in 1923 to 530 in 1925, 841 in 1927, and 1,216 in 1929.

The Employment Act calls for programs which "foster and promote free competitive enterprise." We are mindful of the fact that the executive branch has promised shortly to transmit positive recommendations to the Congress for improving our antitrust laws. We feel that a thoroughgoing study of monopolistic trends in American industry and ways of dealing with them should be undertaken by the Congress. The economic effects of monopoly need emphasis. The increase in monopoly and concentration of production is often

[10] See Underemployment of Rural Families, materials prepared for the Joint Committee on the Economic Report by the Committee Staff, 82d Cong., 1st sess., pp. 7–12.

translated into reduced labor and other costs which are not nearly so often reflected in reduced prices. The resultant higher profits, when taken together with the power which the monopolistic companies have to control and hold back new and competing investment, are likely to bring about discrepancies between rates of investment and saving. The divergence between rates of investment and saving is in turn generally conceded to be one of the basic factors making for instability. If we are to maintain the benefits of our dynamic, competitive economy in the face of world challenges and achieve a reasonable degree of stability, it is highly important that we understand and combat the forces of monopoly and industrial bigness which threaten to undermine it. We should, moreover, know more about present-day industrial pricing practices and their impact upon employment fluctuations and rates of investment.

Other committees of the Congress, including the Small Business Committee of the House of Representatives, are planning to undertake investigations in this field, and consequently this committee will not itself undertake an investigation which would duplicate those of other competent legislative groups.

We wish to throw our full support behind the committee's recommendations concerning aid to small business. Beyond this we raise the question as to whether or not the loan provisions of the present Small Business Administration Act are too restrictive. There seems to be some question as to whether or not this agency can fulfill its obligations to small business within the limitations of the present statute. Furthermore, Government procurement procedures and defense contracts should give a maximum of fair treatment to small and independent business. We wish to encourage the small-business committees of the Senate and the House to proceed aggressively in the interest of helping small business.

We would also raise the question as to whether or not it would be advisable to reexamine the recommendations made by the Temporary National Economic Committee over a decade ago. How many of these recommendations have been put into effect? How many others that are not in effect would be desirable additions to our statutory regulation of monopoly and our assistance to competitive enterprise?

We would go further and commend to the Congress legislation of a type introduced by members of this committee in the last three Congresses. In general, this legislation would provide legislative authority for the establishment of privately financed corporations not exceeding in number the total number of Federal Reserve banks and branches thereof. Initially sponsored by the Board of Governors, these corporations would have as their objective the channeling of private capital in the form of direct loans or equity financing to small and independent business enterprises.

The need for specialized institutional facilities to meet the requirements of small business has been amply demonstrated again and again. Whether one ascribes the difficulties to the access which large companies have to the capital markets or to special problems of taxation, few will deny that the sources of capital for small business have shown tendencies to dry up. We feel that the executive agencies and the Economic Report should have offered positive recommendations on this score, and submit that consideration of institutions such as these should no longer be put off.

MINIMUM WAGE

We support the President's recommendation for an increase in the Federal minimum wage to 90 cents an hour. We would look with favor on an increase to $1 an hour if the legislative committees found this economically feasible. (Representatives Kelley and Bolling urge enactment of a $1.25 minimum.)

Some industries and areas of the country could afford a minimum wage substantially higher than either of these figures. But care must be taken in thus raising standards of our economy lest a sudden increase should do more damage than good. Industries and areas now paying wages at or below the prospective higher minimum wages certainly can make adjustments if the change is not too great at any one time.

Perhaps one fault in our past policy in regard to minimum wages has been postponement of change until conditions make it obvious a big increase is needed. The executive branch, the Congress, and the State governments might well give consideration to development of a program of small but regularly scheduled increases in minimum wages, which would approximate increases in productivity. Then, readjustments in minimum wages would not be large or sudden, and would not be inflationary since each increase would be no greater or faster than technological advance would enable industry to absorb readily.

We look with favor also upon the extension of coverage of the minimum wage laws, both by the Federal and State Governments, to workers not now covered, if the facts warrant it. Since the ability to adjust to higher minimum wages from time to time is a characteristic that varies from industry to industry and region to region, perhaps some investigation should be made by Congress and the States as to what advantage might accrue from establishing certain higher minimums for selected areas and industries, perhaps on the basis of determinations by wage boards.

PUBLIC WORKS

The growth in our population and our rising standards of adequacy of such public facilities as schools, hospitals, and highways mean that substantial sums must regularly be spent upon public works. In a separate message, the President has proposed a program for the relief of schoolroom shortage. The recommended methods for achieving the goal are grossly inadequate. A program for the modernizing and construction of a national system of interstate highways was transmitted to the Congress on February 22, 1955, after this committee's hearings had been completed. However, the methods of financing proposed in his message leave much to be desired. It is necessary only to mention that the bill creates a corporation authorized to issue bonds not guaranteed by the Government, but eligible for the investment of funds held in trust by the Government.

Programs for meeting these requirements must go on as rapidly as possible. They clearly cannot be postponed except at great economic and social cost.

It is generally accepted that the acceleration of these programs in a time and, as indicated later, in areas of rising unemployment could be of material help in tiding the economy over periods of instability. The contributions to the general economy of an active and sustained building industry are obvious. Thus, needed public works can be justified on broad economic grounds as well as on a purely humanitarian basis.

The difficulty has been largely in timing and partly in magnitude. We stress this committee's statement that if public works are to be accelerated and "shelf" programs activated at times when private employment is falling off, it is imperative that an Office of Coordinator of Public Works Planning, as proposed by this committee last year and now proposed by the President, be put into operation as soon as possible. Appropriate legislation has been introduced during the current and previous sessions of Congress by members of this committee. We join in commending this legislation to the legislative committees and the Houses of Congress. However confident one may be in the progress of the present recovery, everyone must agree that if it shows signs of faltering in the late spring, summer, or fall, we must be prepared to move ahead with an accelerated program for public improvements.

Because of its great merit on humanitarian and national interest grounds, public housing should perhaps be discussed under some heading other than "Public Works." The job-creating aspect of public housing is, however, important. Slum clearance is another activity which pays off economically as well as socially. The heavy direct cost of public-health measures and the control of crime in slum areas of our cities are, however, only a small part of the indirect costs which slums produce by way of loss in human efficiency and the wastage of our human resources. Recognizing both the humanitarian and the economic justification, we recommend that the Public Housing Administration be authorized to enter into contracts for additional units of low rental public housing in the next fiscal year substantially above the 35,000 units recommended by the President. If the authorization is set high enough, discretion might well be given the President to slow down or accelerate the rate of construction as economic conditions and the employment situation warrant.

Consideration should be given, also, to developing a public-works program such as was conducted in the 1930's under the Department of the Interior (Secretary Harold Ickes), whereby local communities could request Federal aid on a matching basis for such public works as they might wish to initiate.

This would give an opportunity to many small communities, where there is critical unemployment, to assist in aiding themselves.

As a final word on the subject of public-works planning and financing, we refer again to our opposition to a pattern of financing outside of the budget. These works are for public improvement and for the national good and should be financed in a straightforward way by current tax revenues and, if necessary, by raising the present debt limit to permit direct issue of the necessary Federal securities by the Treasury.

DISTRESSED AREAS

The seriousness of the problems facing distressed and chronically depressed localities has already been demonstrated. It has been noted also that the President's report offers only a very limited program for dealing with this problem. The committee has stated its belief that a program in this area can no longer be postponed. It is only too clear that many of the measures which such communities are now being driven to—for example, competitive tax cuts in bidding for new industries—do not offer a satisfactory solution. They merely shift the burden to other industries and localities. A positive program should be undertaken immediately, consisting of at least the following points:

1. An aggressive public-works program with Federal support should be begun in all areas of labor excess classified IV–B, namely, with 12 percent of the covered workers classified as unemployed. These communities, like other communities, are in need of schools, hospitals, highways, and slum clearance. If the agencies involved were to concentrate upon facilitating projects in these areas, substantial relief might be provided.

2. Looking to the longer run redirection and redevelopment of these communities, an industrial development corporation should be established with Federal support. This corporation, patterned after the international development programs, and drawing upon private and public capital, would be in a position to make loans and advances for the express purpose of helping areas with persistent distress to adapt themselves to changed technological and economic conditions. Like the area-development program of the Department of Commerce, it would be designed to help depressed localities solve their own problems.

3. Unemployment compensation should be extended with Federal aid. The system in general should be brought up to the level where benefits are equivalent to at least one-half of the lost wage earnings, and for a period of not less than 26 weeks, as recommended by the President. As a special attack on the problem of distressed localities, provision should be made for extending the period of benefits by an additional 13-week period during which the receipt of benefits would be conditional upon the worker's accepting opportunities for retraining. The provision of such opportunities for retraining would be the joint responsibility of the community, industry, and the Federal Bureau of Employment Security.

While it is still too early to appraise the amount or wisdom of legislation enacted, this is certain to be an active year in respect to employment security legislation in the States. At the end of February legislation to increase maximum weekly benefits had been enacted in 4, introduced in 25 others and proposed in 2 others. Proposals to increase the duration of the benefits have been enacted in 1 and are being considered in 9 States.

We hope that the current legislative sessions will mark a reversal in the trend toward weakening of the unemployment compensation funds by competitive State action in prescribing conditions of experience-rating eligibility. Perhaps the existing systems of experience rating need reexamination to develop means of (*a*) eliminating present competition between the States; and (*b*) reflecting in their operation, the very practical fact that the forces leading to unemployment are often beyond the control of the individual employer. If economic forces throughout the economy are such that unemployment is generally low then reducing the tax for *every* employer who also has low unemployment experience merely weakens the unemployment funds. The reduced rate, in principle at least, should be directed to stimulating better than average performance by the employer in mitigating unemployment. The present system does not appear to carry out the principle envisaged originally. It causes employers to oppose increases in benefits and to try to reduce claims. It becomes, then, a benefit avoiding system.

4. The Federal Government should further recognize its responsibility to these industries and areas by undertaking through research to discover new products and new processes. Research in the conversion of coal to oil, coal to gas, and the adaptation of coal to chemicals is a case in point. Had research in coal conversion not been curtailed by budgetary limitation, it is possible that some of the distress which presently faces us could have been avoided instead of allowing our coal-producing communities to wither on the vine.

INTERNATIONAL ECONOMIC POLICY

In the field of foreign economic policy we reiterate the views which this committee stated in its last year's report, namely, "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." Moreover, it should be clear to all that to achieve and maintain a high level of exports, it is necessary to permit imports to increase. To this end it is recommended that the Trade Agreements Act, which has already been in force for more than two decades, be extended. (Representative Kelley, who supported the Reciprocal Trade Agreements Act since coming to Congress in 1941, demurs on this recommendation on the grounds that the administration has refused to use the powers granted to the President, under this act, to protect the American coal and glass industries from undue injury. He urges, particularly, the establishment of import quotas on residual fuel oil, and other steps for assuring American industry adequate protection.) The amendments proposed by the President looking to the gradual but limited reduction of certain tariff rates, we believe, are the minimum that should be granted.[11]

We would advise the executive agencies to use the trade program as a more positive instrument in the cold war. This would recognize the vital trade needs of certain regions which today are in the shadow of the Iron Curtain. The barriers to trade between and among the countries of the free world should be decreased. Furthermore, the more assurance can be given that our foreign trade policy will continue and not revert to "protection," the greater will be our contribution toward reducing these barriers. We should explore alternative programs for assisting domestic industries which are seriously affected by imports. Since the benefits of increased trade will be shared generally, the adjustment burdens and hardships upon these few should also be distributed generally. These programs should seek to preserve the skills and capacity required for national defense and to assist in shifting workers and capacity into new activities. Technical assistance should be provided and directed toward diversifying production into items less vulnerable to import competition than those which are now being produced by some firms and communities. A program of extended unemployment assistance, placement, special training, and allowances to cover training periods or moving to new jobs could be provided to aid displaced employees.

[11] It is the view of Senator O'Mahoney that Congress, not the Executive, should be the final agency to approve such reciprocity agreements.

We concur, moreover, in the recommendations that look toward the simplification of valuation and classification procedures. Much of the controversy and delay in classification and many of the barriers now inhibiting actual importation can most effectively be dealt with by a general policy of reducing the number of classifications and minimizing the spread between rate classes. Quite apart from the controversial question of the desirability of reducing the number of dutiable items, the number of classes can be reduced so that classification becomes a relatively less important subject for controversy between the customs staff and the importers.

These recommendations, we believe, will make more significant contributions toward improving the international economic position of the United States than will the President's recommendation for a 14-point reduction of taxes on corporate income from foreign sources. The objective of the tax proposal is to improve the competitive position of American firms doing business in other countries, to stimulate foreign countries to use favorable tax rates as a means of attracting American capital, and to reduce the barrier to further investment abroad by compensating taxwise for the special risks attendant on such investment. However, it is by no means clear that tax considerations rank very high in business decisions with respect to foreign investment. Accordingly, we are quite skeptical that the proposed tax benefits would accomplish their objective. Moreover, it should be pointed out that the benefits of the 14-point rate reduction would go to corporations whose investments abroad have already been firmly established and which, accordingly, do not require these benefits, as well as to those planning new investments in foreign countries.

ECONOMIC STATISTICS

The committee has commended the President for including Special Analysis I, Federal Economic Statistical Programs in his January budget, following a recommendation by this committee last summer (H. Rept. 2628, 83d Cong., 2d sess.). The program for the next fiscal year includes significant improvements in our economic statistics upon which most major decisions, both by Government and in the economy as a whole, must be based.

The budget requests an increase of $4.8 million for these and related statistical programs. We fully support the committee recommendation that the Appropriations Committees of the two Houses sympathetically review and approve these agency requests. We are particularly anxious that the census sample of the labor force be increased significantly. This again was supported by witnesses at the recent committee hearings.

SUPPLEMENTAL VIEWS OF REPRESENTATIVES PATMAN, BOLLING, MILLS, AND KELLEY

Flexible credit and monetary measures together with debt-management actions during the past 2 years unfortunately have not contributed to a maximum rate of growth in our economy. The overall annual gain in national productivity in 1954 appears to have declined below the long-term average. Credit, monetary, and debt-management actions have also tended to introduce a dangerous element of instability into our financial markets.

Two major shifts, in the spring of 1953 and again late in 1954, have been made in the direction of monetary restraint in 2 years. The opinion of most economists is that the first was overly restrictive and probably unnecessary. The most recent shift is regarded as premature. These shifts in the direction of monetary and credit restraint have been motivated primarily by upward pressures, coming from the administered price sectors of our economy and more recently because of Federal Reserve fears about the development of a dangerous speculative psychology in the stock market. Intermittent monetary and credit restraint, however, has contributed to a continuous deflationary movement in the more competitive sectors of our economy.

Federal Reserve administration of monetary policy has shown a tendency to induce frequent and rather wide fluctuations in the prices of United States Treasury securities.

Treasury officials have displayed a doctrinaire approach to debt-management and exaggerated the need for funding the national debt. Because of these tendencies a higher than necessary level of interest rates on new issues of the public debt has resulted and may persist for a long time.

Credit policy has been marked by a pattern of inconsistent and apparently uncoordinated actions. Outstanding examples include the 33 percent lowering of margin requirements to stimulate margin trading in early 1953 when general credit restraint was being imposed throughout the economy. Another was the increase of interest rates on Government underwritten home mortgages 4 days before the commencement of substantial Federal open market purchasing which eased the tight mortgage situation.

More recently the lack of coordination between fiscal and credit policies has made it necessary to resort to general measures of monetary restraint to curb a speculative fever in the stock market. This move was made although the Federal Reserve could have chosen to place securities transactions on a 100 percent cash basis.

General measures of monetary restraint run the risk of choking off full recovery from the low levels of the 1954 recession. Lack of coordination between fiscal and monetary policies has also raised a question about the continued ability of the monetary authority to effectively influence business decisions on plant and equipment expenditures.

As a result of the 1954 tax revisions business has been freed to a larger extent than before from reliance upon external sources to finance their fixed capital requirements. Unrestricted accumulation of undistributed profits and increases in depreciation allowances will produce an increasing internal source of funds for financing business. In 1954 these 2 sources accounted for almost 90 percent of total fixed capital outlays by United States corporations. In a few years the larger corporate businesses may become even less dependent than they are today upon the organized capital markets and the banking system.

This prospect brings into question the policy of overreliance upon monetary actions as the chief instrument in effecting economic stabilization.

The events of the past 2 years have in large part justified the apprehensions of those who questioned the desirability of shifting major responsibility for implementing the objectives of the Employment Act to the monetary authorities. Continued overemphasis of monetary actions may lead to the same undesirable consequences of the 1920's when the power of the Federal Reserve to keep us on a steady keel and avoid either inflation or depression was similarly overestimated.

The enormous fiscal and monetary powers of our Federal Government have come under the control and influence of individuals, many of whom have spent their entire adult lives in big banking and/or big business. They have not used these powers for the purpose the Congress intended when it passed the Employment Act of 1946. Instead of being used to promote full employment, maximum production, and purchasing power, fiscal and monetary policies have been and are being used to promote the interests of the lending and investing classes and a handful of giant corporations at the expense of the farmer, the small-business man and employees.

SUPPLEMENTAL VIEWS OF SENATOR WATKINS IN WHICH HE IS JOINED BY SENATORS FLANDERS AND GOLDWATER AND REPRESENTING WOLCOTT

ECONOMIC OUTLOOK FOR 1955

The President's Economic Report makes it abundantly clear that:

> Today, after a small and brief overall decline, though one that affected individual industries and localities unevenly; production and employment are again increasing on a broad front. The recovery has already carried economic activity to the highest level of the past 12 months. And although aggregate production and employment during 1954 fell somewhat short of the goals reached in 1953, the year just concluded will go down in history as one of our most prosperous years (p. 11).

This conclusion is well documented by the charts and tables contained in chapter 2 and appendixes B and D of the report which most witnesses, who appeared before the committee, characterized as excellent statistical materials.

The President's report, however, makes it very clear that:

> When the year ended, the traces of contraction had not yet been erased (p. 17).

While indicating that many factors exist which are peculiarly favorable to economic progress, the report does not hesitate to point out that:

> This outcome of current tendencies is not—and cannot be—assumed, and that the Government must remain ready to deal with any setback that might develop (p. 48).

The President's report likewise does not reattempt to hide the fact that there are still some "soft spots" in the economy. Although it points out that the recovery is widespread, it does not neglect to indicate that but "half of the decline" which occurred in industrial production has been made up; nor does it neglect to make the point that "the prospects for plant and equipment expenditure" are somewhat uncertain (p. 24). Quite to the contrary, the report objectively cautions that:

> At this juncture of our economic life, when confidence is running especially high, it is well * * * to keep in mind the sobering fact that there is no way of lifting more than a corner of the veil that separates the present from the future. How long the current phase of expansion will continue before new international trouble or a cyclical reversal of business occurs, or how far the expansion will carry, it is impossible to say with great assurance. The uncertainty of economic predictions requires that the Federal Government be prepared to adjust its policies promptly if economic events should not bear out current expectations (pp. 24–25).

Significantly, however, the report concludes that:

> With economic activity continuing to expand, it is reasonable to expect that the Nation's output within the coming year will approximate the goals of "maximum employment, production, and purchasing power" envisaged by the Employment Act (p. 24).

The President, in his letter of transmittal, very significantly states that "the Government will shoulder its full responsibility to help realize that goal." Careful and objective review of the President's report clearly reveals that a *balanced view of the condition of the economy is presented to the public.*

The facts do not justify the observations of some critics that there exist certain overtones of the 1920's which are disturbing to thoughtful people. Expert testimony before the committee indicates that such statements are in reality more apparent than real, and superficial in nature.

Numerous competent witnesses who appeared before the committee expressed confidence in the outlook for 1955 and did not seem to see in the economy overtones of the 1920's. For example, Dr. Calvin B. Hoover, professor of economics at Duke University, and former president of the American Economic Association, concluded that:

> The legislative measures proposed by the President appear well balanced in their design to encourage the expansion of business activity and of consumer purchasing power while attempting to balance the budget and to maintain a stable price level (hearings, p. 138).

In addition, Gerhard Colm, chief economist, National Planning Association, stated that:

> During this period [1952–54] we have turned from a national-security buildup to what I perhaps might call a continued war-preparedness economy. I think that this transition is the most important fact of the period from 1952 through 1954 * * *. I have reached the conclusion that in the transition from a full employment national security buildup economy to a continuing-preparedness economy, we have made the adjustment about halfway—$30 billion goal, $16 billion accomplished. This accomplishment in the past year and a half is cause for satisfaction. It speaks for the vitality of the American economy * * *, (hearings, p. 60).

Mr. William F. Butler, consulting economist, Chase National Bank, summarized in a typical manner the opinion of most witnesses as follows:

> The record shows that the economy has successfully negotiated the difficult shift from a defense boom to a more normal prosperity. In the process, the decline in production and employment was remarkably moderate. And, in large part because of appropriately timed tax cuts, buying power in the hands of consumers and businesses was maintained at a high level. What is more, economic activity is on the upgrade now. When all the statistics are finally compiled, they should show a sharp upturn in production and employment in the fourth quarter of 1954 (hearings, pp. 61–62).

Recognizing, as the President's report does, that there are some "soft spots" in the economy, it appears unreasonable in the light of such testimony to dwell upon these uncertainties to the point where one can only view the outlook as a whole with misgiving and pessimism. The facts simply do not warrant such a view. The private economy has exhibited and is continuing to exhibit a healthy vitality. And it is characteristic of a healthy private competitive economy that simultaneously, we find as some industries experience negative cumulative movements, others experience positive cumulative movements, making for overall stability or expansion. All segments of the economy do not experience simultaneous cumulative movements in the same direction, regardless of the general direction of cumulative movement of the economy.

Obviously, as the President's report indicated:

> the wise course for Government would be to concentrate this year on basic policies for fostering *long-term* [italics supplied by Senator Watkins] economic growth. We should direct our program for 1955 principally to this purpose, rather than seek to impart an immediate upward thrust to general economic activity (p. 48).

The President's report presents in chapter III a program for long-term economic growth and development. Our economic policies, as the President indicated:

must therefore be designed not merely to foster growth, but to foster *a rate of growth that can be sustained* (p. 48). [Italics supplied by Senator Watkins.]

In this respect, it should be pointed out that Mr. Martin Gainsbrugh, chief economist, National Industrial Conference Board, in his testimony before the committee observed that:

the economy since 1952 has been undergoing a broad shift of activity and resource allocation away from Government and toward the private sector * * * [and that] within the private sector there has been a shift away from capital formation and toward consumption. In combination these shifts have acted to move the composition of national output toward a sustainable normal peacetime balance (hearings, p. 65).

EMPLOYMENT SITUATION

What some observers do not make clear is that although unemployment, which usually rises sharply between December and January, increased by 500,000 to an estimated 3.3 million in the week ending January 8, 1955, the rise in unemployment since fall continues to be relatively smaller than in *most* previous postwar years. The fact is that month by month since September 1954, the decline in unemployment has been clearly greater than might have been expected from seasonal forces alone. Civilian employment in January 1955, was actually 400,000 greater than a year earlier, while unemployment, seasonally adjusted, was some 800,000 less than the worst month of 1954.

The seasonally adjusted index of unemployment (1947–49=100), which was presented for the first time in the February 1955, Current Population Reports Labor Force, published by the Bureau of the Census (p. 2), stood at 114 in January 1955, compared with 142 in May 1954. This index, from which average seasonal fluctuations have been removed insofar as it is possible to do so by the statistical methods employed at present, also clearly indicates that unemployment has steadily been decreasing since August 1954, when the index stood at 141.

As the President's report indicated:

Employment, which fell from the summer of 1953 to the summer of 1954, rose again in the last part of 1954, and unemployment declined *much more* [italics supplied by Senator Watkins] than seasonally in the last 3 months of 1954. * * * From August 1954 to December 1954, seasonally adjusted employment rose in 15 of 21 manufacturing industry groups. The largest increases occurred in transportation equipment and in lumber and wood products (pp. 86 and 88).

The committee staff's report, the Economic Outlook, according to table I, indicates that the 1954 actual employed civilian labor force numbered 61.2 million. In comparison, this table indicates that the employed civilian labor force for 1954, which the committee staff indicates would have been *needed* to be consistent with the estimates shown in the staff study, Potential Economic Growth of the United States During the Next Decade (table 2) was 61.9 million. This figure indicates, then, that the actual employment in 1954 was but 0.7 million less than that needed to meet the potential maximum gross national product for the 1954 calendar year.

Although it may not appear evident to the average layman it is important to recognize, as the President's report points out:

that the unemployed are not all the same individuals month after month; the turnover among them is substantial. During the first 11 months of 1954, of those unemployed in a given month, roughly one-third, on the average, had found employment the following month, and roughly 15 percent had left the labor force to return to school or to resume full-time household duties (p. 89).

Now, no responsible person will belittle in the slightest, the human costs due to unemployment. However, it is necessary to realize that certain adjustment in Federal expenditures had to be made after the end of the Korean war. For example, although the gross national product declined $7.5 billion in 1954 it is well to remember that purchases by the Federal Government declined nearly $14 billion, which represents a reduction of nearly one-fourth of the total demand the Federal Government had for domestic goods and services. Whereas such purchases amounted to nearly 15 percent of the gross national product in mid-1953, they had been reduced to 11 percent by the last quarter of 1954.

Unless the economy was to be permanently propped up by "defense" expenditures as a policy-end in themselves, certain adjustments from the high post-Korean levels not only should have been expected but were imperative. Actually, however, it is evident that the $7.5 billion decline in gross national product was a modest decline in view of the adjustments which were necessitated, and which were accomplished, by and large, during 1954. It is well to remember that for 1954, the gross national product was only 2 percent less than it was in the record year 1953, and that the rate in the fourth quarter of 1954, evidence in itself that the adjustment process was a moderate one, has only been surpassed in two 3-month periods in the history of this country. We have thus made in large part the readjustments which were necessitated. In this process employment is increasing and at a rate *greater* than the seasonally adjusted index indicates is to be generally expected.

EMPLOYMENT ACT MACHINERY

I am at variance with that part of the committee report which concludes that:

> we regret the failure of the report [President's] again this year to include a clear statement of the goals needed to meet the objectives of the Employment Act as prescribed by section 3 (a) of that act.

Specifically, section 3 (a) in this respect provides that the Economic Report shall set forth:

> * * * the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in section 2 * * *.

Section 2 provides:

> The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power (15 U. S. C. 1021).

Interpretation must be left to the President as a matter of practical necessity, and the President and the Council of Economic Advisers have, as the Chairman of the Council has reached the following conclusion concerning the phrase quoted from section 3 (a) of the Employment Act:

The phrase can be interpreted as calling for a numerical specification of economic goals, or it can be interpreted as calling for as good a specification of objectives, whether in terms of numbers or otherwise, as can be made. In the former case, one would assert that "to carry out the policy declared in section 2," employment must be X, production must be Y, etc. In the latter case, one might assert that "to carry out the policy declared in section 2," employment must be a little higher, or substantially higher, etc., the drop in employment and production, if any, during the recent past, after allowing for an increment of growth, would suggest the general order of the magnitudes that are involved (hearings, p. 44).

It should be recognized by all concerned that the President is a political officer and, as such, he must necessarily be permitted to interpret such legislation in a manner which will lend consistency to and facilitate his leadership role. Not to allow such leeway is to cast the purposes of the Employment Act into narrow partisan politics.

To require by law, or by an interpretation of law, that the President should execute his responsibilities in this area in a definitive and narrowly construed manner is inconsistent with the basic nature of that office and our political system. Dissatisfaction with his administration of the act should be reflected through our political processes utilizing the two-party system, and his position, be he a Republican or Democrat, should not be compromised by the narrow interpretation the committee report places upon the meaning of section 3 (a) of the Employment Act. It appears, as Heinz E. Luedicke, editor, the Journal of Commerce, New York, told the committee, that:

Whenever pressure is exerted on an administration to pinpoint its economic goal for any specific year, the suspicion is that this is done for political rather than economic reasons (hearings, p. 146).

A staff agency is essentially an organ advisory to a responsible official, but without operating responsibilities of its own. The Council of Economic Advisers, as its name implies, is such a staff agency, and in this capacity provides the President with information, advice and recommendations, but the policy decisions resulting therefrom are the President's, not those of the Council. Necessarily, in such a capacity, as the Council Chairman told the committee:

the Council utilizes and makes all sorts of quantitative estimates:

but that—

It seems unwise * * *, to publish near-term estimates that rest heavily on assumptions and conjecture, and that is bound to be the case with numerical "goals" or "targets." The use of such estimates by the President in his Economic Report would not render a useful service to the Nation (hearings p. 44).

It is upon this basis that the Council must demonstrate the utility of its services. Members of the Council are of course political appointees, but this does not imply nor require in this respect that they be something more than economists. It is to be regretted that on occasion, since the passage of the Employment Act, Council members have been employed in the role of policy spokesmen for the administration in power. To the degree that this is done, the Council will not only lose that objectiveness which is so essential to a staff agency, but the President's Economic Report itself will also be discredited as a factual and reliable document.

As the testimony of a great number of the 80 witnesses who appeared before the committee indicates, this year's report of the President is a concrete expression of progress in economic understanding and application of economic knowledge. Typical of the expert comments with respect to the competency of the Council and the excellence of the President's report are the following:

> * * * I accept the Economic Report of the President as a competent and honest statement of the facts (Dexter M. Keezer, director, department of economics, McGraw-Hill Publishing Co., hearings, p. 61).
>
> * * * I do not wish to add or to try to add anything to the factual material before us and I do not wish to question any of the estimates which have been made. I also accept the Economic Report of the President as a competent, workmanlike job (Calvin B. Hoover, professor of economics, Duke University, and former president of the American Economic Association, hearings, p. 62).
>
> First, in my opinion I find the 1955 Economic Report several cuts above its predecessors in the quality of its analysis. I think there will be professional agreement on that position * * *. I am impressed with the professional competency of the 1955 Economic Report. I think it is a cut above any we have had (Martin Gainsbrugh, chief economist, National Industrial Conference Board, hearings, p. 65).
>
> This year's report of the Council of Economic Advisers, which the committee has before it, is a lucid and workmanlike review of the state of the economy. It is a credit to the distinguished economists who authored it. The administration, in turn, is to be congratulated on the talent it commands (John K. Galbraith, professor of economics, Harvard University, hearings, p. 389).

I cannot agree that the President's report would have been more useful had it included estimates covering more detailed parts of the economy or that their inclusion necessarily would render easier the economy's task of reducing present levels of unemployment.

The Chairman of the Council of Economic Advisers, although recognizing that such projections form the basis of the Council's work as a staff agency of the President, told the committee at great length why it was undesirable for these projections to be included in the President's report:

> It is important to recognize the limitations of economic knowledge, and how difficult it is to make useful economic predictions or projections. Serious uncertainties surround even historical descriptions. * * *
>
> Economists who are familiar with statistical vagaries such as this, and who know how difficult it is to measure with tolerable accuracy even experiences of the past, will hesitate to specify numerical goals for the Nation's economy over the next 6 months or year or two. They know that in setting goals some arbitrary assumptions * * * which often are no less reasonable than the particular ones selected, can lead to such a wide range of results, that the calculated goals cannot have great value for policy decisions (hearings, p. 44).

Specific practical problems which led the President to omit projected numerical levels of "needed" employment, production, and purchasing power are described by the Council Chairman as follows:

> For example, if we are to specify numerically what the gross national product would be in a later period under conditions of full employment, we must rely on a great variety of assumptions. The most important of these relate, first, to the increment of the labor force, second, to the increment of productivity, using this term in the sense of a ratio of output to labor input. * * * But what do statistics tell us about the increment of the labor force between, say, the final quarters of successive years? For the civilian labor force, the figures range from about 100,000 to 1.4 million between 1947 and 1954, excluding the drop between 1950 and 1951. For the total labor force, the figures range from 50,000 to 1.5 million. If we attempt to look a year ahead, which figure within the indicated range shall we use? Not being content with any of them, we might take their average, but what reasons have we for supposing that the year ahead will be an average year? This variability of economic experience is, of course, reflected also in the case of productivity increments. We might assume that the gain in productivity will be 2.5 percent, as some historical averages suggest. But statistical estimates recently made by the staff of the Joint Committee show that in years that have

immediately followed business-cycle troughs since 1911, the increment in productivity has ranged from a minus 4.4 percent to a plus 7.9 percent (hearings, pp. 44–45).

Now, it is true that all economic planning, private as well as public, involves a certain degree of forecasting; that is inevitable. And although spokesmen for the business sector of the economy are the first to recognize that projections of past trends are invaluable for analytical purposes, they voiced to the committee the same concern that did the Council of Economic Advisers.

Mr. William F. Butler, consulting economist, the Chase National Bank, New York, did tell the committee, as the staff director's letter of transmittal indicates, that—

> In my opinion, projections of past trends in employment, productivity, production and consumer and business purchasing power are invaluable for analytical purposes. You need to know what the economy's potential is in order to understand where you stand at any given time (hearings, p. 135).

But he also said:

> Having said this, let me now stress the importance of interpreting all such projections most carefully. As one of my colleagues says: "These figures are fine so long as you don't believe them fully."
>
> In interpreting such projections three things should be kept in mind:
>
> (1) In the current state of the art of economic forecasting, there is a margin of error involved in all projections. I personally think the margin has been narrowing steadily—the more competent practitioners have come amazingly close to the bull's-eye in the postwar period. *Nevertheless, most economists would agree that there should be a margin of tolerance of at least 5 to 10 billion dollars in all estimates of what gross national product will be a year in the future.* [Italics supplied by Senator Watkins.]
>
> Moreover, all economic projections are based on a set of assumptions, which are not always explicity laid out. Some of the key assumptions are in some instances: No change in the international scene; no wave of speculative psychology; no prolonged and widespread labor-management disputes; no large shifts in Government monetary or fiscal policy. Economists generally say that changes in any of these assumptions require a reappraisal of the business outlook. However, those who are responsible for framing policy in a world as uncertain as that we now live in should keep a wary eye on the things that economists assume to be equal.
>
> (2) A second point is that all projections of our economic growth potential are based on long-run trends. Yet in looking at the next year or two, short-run factors may be most important. As the saying goes: "In the long run we are all dead * * *."
>
> To make the point in specific terms, the growth in gross national product resulting from the long-term rate of advance in productivity amounts to about 9 to 9½ billion dollars each year at the present time. Suppose the Government were to adopt fiscal and monetary policies on the assumption that this amount of growth would be forthcoming and suppose no rise in productivity occurred. If there had already been reasonably full employment the result would be a large dose of inflation.
>
> The point is that, in the present state of our knowledge about short-and-long-term trends in productivity, we should treat projections with great caution.
>
> (3) A third point about projections of our economic potential relates to the period that should be considered in formulating economic policies. We are below our potential now, but business activity is moving up. If the projections for the year ahead show that activity will continue to increase, should we take steps now to accelerate the advance? This is another way of asking how close we can expect to come in any given year to the ideal of continuous high-level production.
>
> To sum up: I believe projections of the economy's potentials are an important and necessary tool. However, I believe they must be interpreted with great care, for reasons which I have attempted to explain (hearings, p. 135).

Dr. Heinz E. Luedicke, editor, the Journal of Commerce, New York, was more specific and energetic in also telling the committee that:

> No economic planning can function without a certain degree of economic forecasting.
>
> However, the pinpointing of annual employment and production or GNP goals under the Employment Act seems an extremely hazardous and objectionable procedure.
>
> Even the development of long-range normal-growth projections is subject to criticism because it necessitates the use of more or less arbitrary "averages" for such key factors as the annual increment of the labor force or annual productivity gains. These averages are based either on past performance or on personal "hunches." Neither method is satisfactory. It is therefore not surprising that existing long-range GNP projections show considerable variations.
>
> The margin of error is compounded if an attempt is made to translate such long-range projections into near-term goals for 1 or 2 years ahead. In that case, they are not only useless, but psychologically and politically dangerous.
>
> The forecasting needed for a reasonable interpretation of the Employment Act goals for any short period, can best be accomplished by an intelligent and open-minded study of available business indicators and their behavior against the background of the whole economy. Unemployment and related figures must, of course, be given a high priority in such evaluation of current trends and nearby prospects.
>
> Uninformed use of GNP projections is apt to cause more harm than good. These projections should be taken with a grain of salt. But long-range projections for 10, 15 years, or even longer ahead are not nearly as objectionable as their use in short-term forecasting.
>
> The use of long-range GNP projections as guideposts for industrial expansion will be limited until this statistical yardstick is further refined. Meanwhile, investment spending will remain dependent on sales and profits prospects.
>
> It would be highly dangerous if the feeling were to spread that industry might as well go ahead taking chances, because the Government won't have any choice but to bail it out in case of trouble. The spread of such an attitude would jeopardize the preservation of a free and competitive enterprise system because such a system can function dynamically only as long as a system of rewards and penalties exists (hearings, pp. 140–141).

Certainly, it is necessary to know something about the potential of the economy, but it is just as essential that we recognize the limitations of projections which form, or would form, the basis of public policy. Long-range projections such as those made by the staff committee are very useful to the Congress, and the committee staff and its director are to be commended for their contribution, but it must be realized that their projections suffer the same limitations as those of other professional economists. Given our political system, it is one thing for the Congress to require the President to provide specific projections of production and employment and quite another for a committee of the Congress, through its professional staff, to make such forecasts.

Dr. Paul J. Strayer, professor of economics, Princeton University, in an article published in the American Economic Review for December 1954, entitled: "Full Employment—1954 Model," recognizes that the President had valid reasons not to include projections in the Economic Report:

> There is reason to have some sympathy with the Council and the Executive in what must have been a conscious decision to abandon the projections of the Nation's economic budget type * * *. Model projections also invite reaction when not realized and may have a tendency to lead to overcompensation that will result in an inflationary bias. The failure of the forecasts following the Second World War can also be cited in defense of the Council (p. 885).

Dr. Strayer further concludes:

To act effectively to stabilize the economy we must either have an accurate diagnosis of the problem, including a forecast of the outlook for a substantial period in advance, or a degree of flexibility in Government programs that will permit us to act boldly to offset known variations from the path of stability with confidence that policies can be reversed as required by further intelligence * * *.

In most of the reports and testimony [1954 hearings] it is agreed that we cannot have much confidence in our ability to forecast the economic future (Martin Gainsbrugh dissenting) in the short run although there is greater agreement that long-range projections of the future potential may be more accurate. Even if our ability to predict the course of events in the short run should increase, the current state of the world leaves so many external forces free to upset any calculations as to discourage reliance upon a policy geared to projections of even so long as a year. This leads to the conclusion that flexibility must be increased if we are to hope to prevent minor as well as major fluctations in the economy (p. 892).

It is in full recognition of the political and economic limitations of forecasting, that the President's report has emphasized the role of Government in preventing fluctuations and, therefore, the need for "built-in" flexibility in governmental programs as the President clearly indicated:

The past quarter-century has taught our generation to be highly sensitive to economic changes. The protracted depression of the thirties, and the inequities of wartime and postwar price inflation, have made us intolerant of extensive fluctuations in incomes, in employment, or in prices. Economic statistics are now closely scrutinized and widely commented upon by men and women in different walks of life * * *.

The growing confidence of people in their Government's ability to moderate economic fluctations is desirable and not misplaced. A better-informed public with an increased awareness of economic change will tend to bring about higher standards of economic performance. This increased knowledge on the part of the public should, however, be accompanied by a realistic understanding of the practical difficulties in attaining increases in total production, employment, and personal income, entirely free from interruptions. Neither in our own history nor that of any other country has an economy ever attained this ideal for a long period of time.

The experience of Government in dealing with fluctuations in employment and incomes is not of long standing, and there is much yet to be learned about the problem of economic stability. For this reason, it is to be hoped that rigidity of judgments will not interfere with continued flexibility of policies and administration. We have learned from experience that the Government can do a great deal to moderate economic fluctations, but there is as yet no good basis for the belief that it can entirely prevent them (pp. 65-66).

The Eisenhower administration has taken several steps to insure flexibility. First, as the Council Chairman told the committee:

A unit was established in the Council for public works planning last April. A Coordinator of Public Works Planning was first appointed to the Council's staff. Then a small group of experts was assembled to assist him in that work. This is an activity in which members of the Council have taken a very keen interest.

We feel—I personally feel, and so do my colleagues—that this activity is so important that it should be enlarged and put on a semipermanent basis. The President's recommendation in his state of the Union message, and once again in the Economic Report, is designed to do that.

For many years we have gone along in our country making ad hoc decisions about public works. At long last we now have the beginnings of a mechanism for doing systematically, within the Federal Government, what many States and municipalities have been doing for years. I think it is a progressive step (hearings, p. 23).

Second, the Council has and is receiving valuable assistance from the:

Advisory Board on Economic Growth and Stability. This Board, established by the President in mid-1953, assures close liaison between the Council and Government agencies that have administrative responsibility for various economic programs. It also provides the Council with timely information and advice on a wide range of current economic issues. The exchange of views that takes place at the Board's weekly meetings is of great help to the Council in its deliberations and in the preparation of its reports to the President and the Cabinet (President's report, p. 131).

In summary, the President's Economic Report does contain an appraisal of the economic outlook for 1955. But it is in the nature of an appraisal that recognizes the limitations of forecasting and emphasizes the standby role that the Federal Government must play. The Council Chairman has summarized it as follows:

After noting that the economy has recently been operating at a high level and analyzing the forces now at work, the report proceeds to appraise what seem to be the likely developments. It points out that the annual rate of the gross national product increased by about $5½ billion (6½ according to more recent estimates) between the third and fourth quarters of 1954, and that the current recovery has some momentum. It describes the economic forces now in motion and concludes: (*a*) That they hold out the promise that we shall achieve a high and satisfactory level of employment and production within the current year; and (*b*) that if this expectation is not fulfilled the Government must be ready to revise its policies so as to help to bring this result about as promptly as feasible. This is a reasonably clear indication of how the economic situation is judged. It admittedly leaves room for discussion concerning the interpretation of some of the phrases used, but this difficulty could not be overcome by specifying numerical targets.

In handling problems of economic policy, nothing is more important than full recognition of the limitations of economic forecasting, and therefore of the need, first, for flexible policies, second, of being in a position of preparedness to meet various economic contingencies. These are the matters that the Council has repeatedly stressed (hearings, p. 45).

These are also matters amply discussed in the President's report.

AGRICULTURAL POLICIES AND PROGRAMS

I cannot agree with the committee that the President's Economic Report:

should have given a more complete appraisal of the agricultural situation. * * *

As the Chairman of the Council of Economic Advisers told the committee:

* * * may I remind you that the Congress last year passed several basic agricultural bills, and that it is the recommendation of the President, as stated in his state of the Union message, that the bills that were passed by the Congress be allowed to take effect. It is important that the new program for agriculture be given a chance to prove its worth (hearings, p. 12).

This same view was shared by Dr. Murray R. Benedict, professor of agricultural economics, Giannini Foundation, University of California, Berkeley. Concerning this matter Dr. Benedict testified before the committee that:

I assume that the reason for that was that, by implication, many of the actions taken during the last year were in line with the President's program with respect to agriculture, and that would imply to me the idea that perhaps with the adjustments now taking shape, as they come fully into effect, they would meet most of the problems that we have been talking about (hearings, p. 616).

The basic legislation for the stabilization of farm prices and incomes which was passed by the 83d Congress is the Agricultural Act of 1954, which provides for a flexible price-support program on basic commodities.

This law, which became effective on January 1, 1955, just 10 weeks ago, will become fully operative with the 1955 crops which have not been harvested yet. Since this is the case, obviously there was no valid reason for the President to dwell at any great length upon agricultural price and income problems. Since the committee has expressed a desire for more detailed information as to the causes for the decline in farm prices and income, I feel obliged to comply.

It should be recognized that the price support levels now in effect for the 1954 crops of basic commodities, which are now being marketed, are based on the old rigid 90 percent price support law. Therefore, it should be evident that present difficulties cannot be attributed to the flexible price support provisions of the Agricultural Act of 1954, but to the rigid 90 percent price support legislation which has been in effect since the early years of World War II. This 90 percent rigid price support legislation has utterly failed to prevent the decline in farm prices for which its proponents are now attempting to hold the Eisenhower administration responsible.

As Martin Gainsbrugh, chief economist, National Industrial Conference Board, told the committee:

> * * * I would say the ills and evils of agriculture now are directly attributable to the policies that were pursued in terms of rigid support, in terms of overexpansion of agriculture in the earlier years. * * * We gave them a while to readjust postwar levels of consumption. We also gave them rigid supports for the basic commodities. We recognized that the prices of agricultural commodities would be driven up in World War II. We wanted maximum production for the farms, and we pledged for a period of years after World War II we would continue to support agricultural prices at levels above their warrant relative to the current market. Production did not come down to market levels. It did not adjust to existing levels of demand (hearings, pp. 69–70).

During World War II, abnormal domestic and foreign demand for agricultural commodities gave American farmers prices the likes of which they had never before enjoyed. Under the impact of postwar inflation and a still strong export demand, farm income rose from the wartime peak of $12.0 billion in 1944 to a postwar peak of $15.6 billion in 1948. But during the period 1945–49, agricultural production outside the United States had almost completely regained prewar production levels and actually exceeded them in many areas. The result was a sharp drop in American exports of agricultural commodities accompanied by a sharp decline in farm income in 1949 to $13.6 billion and $12.4 billion in 1950.

But then along came the Korean war in 1950 which, as did World War II, provided an abnormal market demand for agricultural commodities, and farm income rose to $14.5 billion in 1951. From 1951 on, there was a steady decline in farm income to $13.6 billion in 1952, $13.3 billion in 1953, and $12.0 billion in 1954.

The conclusions to be drawn from these historical facts are simply these:

1. The increase in farm income during World War II and the Korean war was due to the tremendous increase in the market demand for agricultural commodities. This was the work of the law of supply and demand, since high demand caused high prices and brought forth an increase in production, or the supply, which meant that farm income increased.
2. Rigid 90 percent price supports neither was responsible for increased production, except at the early stages of World War II,

nor has it been able to stop the decline in farm income since the abnormal wartime demand subsided. Primarily this is due to the fact that 90 percent rigid price supports, as a substitute for the market place, operating under the influence of the law of supply and demand, have evoked a larger production or supply than normally would be the case. The result has been a level of production greatly in excess of market demand with the result that the parity rates of farm prices have dropped consistently and with them farm income.

3. Rigid 90 percent price supports have caused American farmers to produce for Government storage, not consumption. For example, we have on hand for the current marketing year an alltime record supply of 1,872 million bushels of wheat. At the present rate of consumption, this unprecedented supply is enough to meet our domestic and export requirements *for more than 2 full years.* As of February 15, 1955, 43.8 percent of the 1954 wheat crop had been placed under loan. If, for example, mandatory rigid price support at 90 percent of parity were the solution to our wheat problem, we would have no problem. But the fact is we have a serious wheat problem, and it was under the 90 percent rigid price support law that the present difficulties developed.

This is ample evidence that due to rigid 90 percent price supports, farmers have been producing for storage, not consumption.

The August 1, 1954, carryover of cotton was 9.7 million bales. The 1954 crop produced 13.5 million bales, giving us a total supply for the 1954 marketing year of 23.2 million bales. This is enough cotton to meet our domestic needs and foreseeable exports for 1¾ years.

The August 1, 1954, carryover of rice was 7.5 million hundredweight. The 1954 crop produced 59.0 million hundredweight, giving us a total supply for the 1954 marketing year of 66.5 million hundredweight. This is enough rice to meet our domestic needs and foreseeable exports for 1½ years. Fifty-one percent of the 1954 rice crop was under price-support loan as of February 15, 1955.

Nor are these the only detrimental effects of the rigid 90 percent price support program. The following "Summary of realized cost of agricultural programs primarily for stabilization of price and income showing distribution of cost by commodity groups" obtained from the United States Department of Agriculture is most revealing:

Statement of realized costs for basic commodities in agricultural programs primarily for stabilization of farm prices and income, fiscal years 1932–54

[Millions of dollars]

	Total	CCC nonrecourse loan, purchase, and payment programs	CCC supply, commodity export, and other activities	CCC administrative and other general costs	CCC total	International Wheat Agreement	Emergency assistance to Pakistan and other friendly nations	Removal of surplus agricultural commodities [1]	Sugar Act
Basic commodities: [5]									
Corn (including cornmeal and AAA corn-hog program):									
Program expense	1,490.2	151.4	16.5		167.9			19.9	(6)
Miscellaneous receipts	[7] .6								(6)
Processing taxes (net)	[7] 261.4								(6)
Total, corn	1,228.2	151.4	16.5		167.9			19.9	(6)
Cotton:									
CCC nonrecourse loans, purchases, and payments:									
Upland cotton	[7] 266.4	[7] 266.4			[7] 266.4				(6)
Puerto Rican cotton	.1	.1			.1				(6)
Cotton export differential	41.4	41.4			41.4				(6)
Cotton-rubber barter	[7] 11.1	[7] 11.1			[7] 11.1				(6)
Total	[7] 236.0	[7] 236.0			[7] 236.0				(6)
Other cotton programs:									
Program expense	2,074.2		[8] 12.5		12.5			[9] 348.9	(6)
Miscellaneous receipts	[7] 9.6								(6)
Processing taxes (net)	[7] 247.2								(6)
Total, cotton	1,581.4	[7] 236.0	12.5		[7] 223.5			348.9	(6)
Peanuts:									
Program expense	168.3	116.0			116.0			26.8	(6)
Miscellaneous receipts	[7] 1.6								(6)
Processing taxes (net)	[7] 3.7								(6)
Total, peanuts	163.0	116.0			116.0			26.8	(6)
Rice:									
Program expense	34.8	.9			.9			6.6	(6)
Processing taxes (net)	.5								(6)
Total, rice	35.3	.9			.9			6.6	(6)

Tobacco:									
Program expense	193.2	[7] .6			[7] .6			18.1	(6)
Miscellaneous receipts	[7] 27.7								(6)
Processing taxes (net)	[7] 68.5								(6)
Total, tobacco	97.0	[7] .6			[7] .6			18.1	(6)
Wheat (including wheat cereal and wheat flour):									
Program expense	2,232.5	166.4	30.6		197.0	602.4	73.1	136.0	(6)
Miscellaneous receipts	[7] 15.4								(6)
Processing taxes (net)	[7] 244.9								(6)
Total, wheat	1,972.2	166.4	30.6		197.0	602.4	73.1	136.0	(6)
Total	5,077.1	198.1	59.6	(10)	257.7	602.4	73.1	556.3	(6)

See footnotes at end of table, p. 59.

Statement of realized costs for basic commodities in agricultural programs primarily for stabilization of farm prices and income, fiscal years 1932–54—Continued

[Millions of dollars]

	Federal crop insurance	Acreage allotment payments under the agricultural conservation program	Agricultural adjustment programs (principally acreage allotments and marketing quotas)[2]	Parity payments	Retirement of cotton pool participation trust certificates	Agricultural Adjustment Act of 1933 and related acts	Removal of surplus cattle and dairy products	Agricultural Marketing Act revolving fund, and payments to stabilization corporations for losses incurred[3]	Miscellaneous[4]
Basic commodities:[5]									
Corn (including cornmeal and AAA corn-hog program):									
Program expense	[7] 1.0	441.0	15.7	347.5		488.7	(6)		10.5
Miscellaneous receipts						[7] .6	(6)		
Processing taxes (net)						[7] 261.4	(6)		
Total, corn	[7] 1.0	441.0	15.7	347.5		226.7	(6)		10.5
Cotton:									
CCC nonrecourse loans, purchases, and payments:									
Upland cotton							(6)		
Puerto Rican cotton							(6)		
Cotton export differential							(6)		
Cotton-rubber barter							(6)		
Total							(6)		
Other cotton programs:									
Program expense	67.9	771.2	36.8	279.7	1.3	416.7	(6)	139.2	
Miscellaneous receipts			[7] 7.8			[7] 1.8	(6)		
Processing taxes (net)						[7] 247.2	(6)		
Total, cotton	67.9	771.2	29.0	279.7	1.3	167.7	(6)	139.2	
Peanuts:									
Program expense		6.2	15.6			3.7	(6)		
Miscellaneous receipts			[7] 1.6				(6)		
Processing taxes (net)						[7] 3.7	(6)		
Total, peanuts		6.2	14.0				(6)		

Rice:									
Program expense		11.7	.4	5.6		9.6	([6])		
Processing taxes (net)						.5	([6])		
Total, rice		11.7	.4	5.6		10.1	([6])		
Tobacco:									
Program expense	[7] 1.1	85.0	23.7	6.1		62.0	([6])		
Miscellaneous receipts			[7] 25.6			[7] 2.1	([6])		
Processing taxes (net)						[7] 68.5	([6])		
Total, tobacco	[7] 1.1	85.0	[7] 1.9	6.1		[7] 8.6	([6])		
Wheat (including wheat cereal and wheat flour):									
Program expense	5.8	351.2	34.9	328.2		354.6	([6])	147.2	2.1
Miscellaneous receipts			[7] 15.4				([6])		
Processing taxes (net)						[7] 244.9	([6])		
Total, wheat	5.8	351.2	19.5	328.2		109.7	([6])	147.2	2.1
Total	71.6	1,666.3	76.7	967.1	1.3	505.6	([6])	286.4	12.6

NOTE.—Details may not add to totals shown due to rounding.

[1] Includes the cost of commodities purchased and distributed to the school lunch program but excludes cash payments to schools for part of their school lunch program expenditures during fiscal years 1943 to 1949, inclusive.

[2] The amounts indicated hereunder are principally for salaries and expenses for fiscal years 1947 to 1954 in connection with acreage allotments and marketing quotas on the commodities shown. Prior to 1947, such work was handled as a part of the agricultural conservation program, and administrative expenses for this work were not maintained separately from administrative expenses of the agricultural conservation program. Accordingly, amounts for acreage allotments and marketing quotas for 1946 and prior years are not included in this statement.

[3] Represents principally losses incurred on loans made from the revolving fund by the Federal Farm Board to stabilize the prices of wheat and cotton. A large portion of such losses resulted from donations authorized by Congress to the American Red Cross, without reimbursement to the fund, of wheat and cotton acquired in stabilization operations. In accordance with congressional authorizations, the losses were written off in the years 1932, 1933, and 1934.

[4] Distribution costs on CCC stocks for emergency feed program.

[5] The distribution by commodities is necessarily estimated in most instances since accounting records were not required to be maintained on an individual commodity basis.

[6] No basic commodities involved.

[7] Represents income or minus expenditures.

[8] Represents cost of commodity export program on cotton exclusive of export differential on cotton owned or pooled by CCC.

[9] Includes $163.2 million for cotton price adjustment.

[10] CCC administrative and other general costs include net interest cost on money borrowed by the CCC and administrative and overhead expenses, none of which can be distributed by commodities. For the period covered by the statement, these costs total $402.3 million.

MARCH 1955.

This chart reveals that the amounts which farmers actually received under the price and income support programs on the basic commodities—wheat, corn, cotton, tobacco, rice, and peanuts—includes these items:

Actual or reflected payments to farmers, 1932–53, on basic commodities by price and income support programs

	Millions
1. CCC nonrecourse loan, purchase, and payment programs	$198. 1
2. CCC supply commodity export and other activities	59. 6
3. International Wheat Agreement	602. 4
4. Emergency assistance to Pakistan and other friendly countries	73. 1
5. Removal of surplus agricultural commodities	556. 3
6. Federal crop insurance	71. 6
7. Acreage allotment payments under agricultural conservation program	1, 666. 3
8. Parity payments	967. 1
9. Retirement of cotton pool participation trust certificates	1. 3
10. Agricultural Adjustment Act of 1933 and related acts	505. 6
11. Agricultural Marketing Act revolving fund and payments to stabilization corporations for losses incurred	286. 4
12. Miscellaneous	12. 6

This makes a total cost of actual or reflected payments to farmers of $5,000,400,000.

Realized net losses under the Commodity Credit Corporation nonrecourse commodity loan and purchase program—only one of several price or income support programs on basic commodities, as this table reveals—amounted to $198.1 million during the period 1932–54. But the *startling* thing is that in 1 year—1954—the realized net losses amount to $167.4 million under the rigid 90 percent price support program! This represents an increase in realized net losses for 1 year of *8 times* what it had been in the previous 22 years!

The realized net cost of agricultural programs primarily for stabilization of prices and farm income by basic commodity are, as follows:

Actual or reflected payments to farmers under price and income support programs, 1932–54, by basic commodities

[Millions of dollars]

Basic commodity	Program costs	Program revenues
1. Corn:		
(a) CCC nonrecourse loan, purchase, and payment programs	151.4	
(b) CCC supply commodity export and other activities	16.5	
(c) Removal of surplus agricultural commodities	19.9	
(d) Federal crop insurance		1.0
(e) Acreage allotment payments under agricultural conservation program	441.0	
(f) Parity payments	347.5	
(g) Agricultural Adjustment Act of 1933 and related acts	226.7	
(h) Miscellaneous	10.5	
Subtotal, corn	1,213.5	1.0
2. Cotton:		
(a) CCC nonrecourse loan, purchase, and payment programs		236.0
(b) CCC supply commodity export and other activities	12.5	
(c) Removal of surplus agricultural commodities	348.9	
(d) Federal crop insurance	67.9	
(e) Acreage allotment payments under agricultural conservation program	771.2	
(f) Parity payments	279.7	
(g) Retirement of cotton pool participation trust certificates	1.3	
(h) Agricultural Adjustment Act of 1933 and related acts	167.7	
(i) Agricultural Marketing Act revolving fund and payments to stabilization corporations for losses incurred	139.2	
Subtotal, cotton	1,788.4	236.0

Actual or reflected payments to farmers under price and income support programs, 1932–54, by basic commodities—Continued

[Millions of dollars]

Basic commodity	Program costs	Program revenues
3. Peanuts:		
(a) CCC nonrecourse loan, purchase, and payment programs	116.0	
(b) Removal of surplus agricultural commodities	26.8	
(c) Acreage allotment payments under agricultural conservation program	6.2	
Subtotal, peanuts	149.0	
4. Rice:		
(a) CCC nonrecourse loan, purchase, and payment programs	.9	
(b) Removal of surplus agricultural commodities	6.6	
(c) Acreage allotment payments under agricultural conservation program	11.7	
(d) Parity payments	5.6	
(e) Agricultural Adjustment Act of 1933 and related acts	10.1	
Subtotal, rice	34.9	
5. Tobacco:		
(a) CCC nonrecourse loan, purchase, and payment programs		.6
(b) Removal of surplus agricultural commodities	18.1	
(c) Federal crop insurance		1.1
(d) Acreage allotment payments under agricultural conservation program	85.0	
(e) Parity payments	6.1	
(f) Agricultural Adjustment Act of 1933 and related acts		8.6
Subtotal, tobacco	109.2	10.3
6. Wheat:		
(a) CCC nonrecourse loan, purchase, and payment programs	166.4	
(b) CCC supply commodity export and other activities	30.6	
(c) International Wheat Agreement	602.4	
(d) Emergency assistance to Pakistan and other friendly nations	73.1	
(e) Removal of surplus agricultural commodities	136.0	
(f) Federal crop insurance	5.8	
(g) Acreage allotment payments under agricultural conservation program	351.2	
(h) Parity payments	328.2	
(i) Agricultural Adjustment Act of 1933 and related acts	109.7	
(j) Agricultural Marketing Act revolving fund and payments to stabilization corporations for losses incurred	147.2	
(k) Miscellaneous	2.1	
Subtotal, wheat	1,952.7	

SUMMARY OF REALIZED COST OF PAYMENTS TO FARMERS UNDER AGRICULTURAL PROGRAMS PRIMARILY FOR STABILIZATION OF PRICES AND FARM INCOME BY BASIC COMMODITY

1. Subtotal of payment costs of all actual or reflected program expenditures	5,247.7	
2. Subtotal of CCC and Federal crop insurance revenues from sales over payments		247.3
3. Realized cost (expenditures less revenues of programs for basic commodities)	5,000.4	

Nor is this $5,000,400,000 the only cost of the price and income-support programs on basic commodities. In addition, the administrative costs of the acreage allotment and marketing quota programs, an integral part of the rigid 90 percent nonrecourse loan programs, have amounted to $76.7 million, making a total net cost of agricultural programs primarily for the stabilization of price and farm income on basic commodities—wheat, corn, cotton, tobacco, rice, and peanuts—of $5,077,100,000.

In addition, reliable statistics published by the Department of Agriculture do not support the committee report's conclusion that there exist basic "unfavorable trends in farm income which offer a serious threat to the economy as a whole."

First, due primarily to the fact that the gross national product (GNP) in 1954 was only 2 percent less than it was in the record year 1953 and personal disposable income was $253.5 billion—the highest on record—the demand for farm products remained at a high level, and, as a result, the parity price ratio *remained* remarkably stable during 1954. In this respect, it is interesting to observe that in the 23 months before January 1953, the price parity ratio dropped a total of 19 percentage points. By comparison, the parity ratio stood at 86 in February 1955, which is only 8 percentage points below the figure for 2 years ago when the Eisenhower administration assumed office. However, during most of last year, the parity ratio fluctuated in a very narrow range, with the average for 1954 being 89.

This means, as Secretary Benson told the House Agriculture Committee on February 17, 1955, that:

> The considerable amount of stability that has been achieved in the agricultural price structure is indeed encouraging to the outlook for the months ahead. Prices received by farmers for this year are expected to average close to prevailing levels, and cost rates or prices paid by farmers probably will show some decline in the year ahead. As a result, the parity ratio likewise will remain fairly stable.

The inappropriateness, however, of crediting parity prices as being the sole objective of farm price and income support programs is also revealed by the testimony of Secretary Benson on that same occasion:

> Since 1910–14 farm *prices* have *fallen* 11 percent relative to nonfarm prices but *per capita net farm income* has *increased* 29 percent relative to per capita incomes of nonfarmers. *Thus*, since 1910–14 farmers have improved their net income position relative to nonfarmers. They did this by turning out greater volume and by increasing their efficiency, and in spite of a relative decline in prices.

For example, it should be kept in mind that while the total farm income was declining from 1947 to 1954 by some 25 percent, our farm population declined during the same period by about 20 percent. Therefore, a correct evaluation of the farm-income situation must obviously take into consideration the *total number of farm people sharing in that income*. During this 7-year period, average per capita total income of farm people actually increased 6 percent, due, as Don Paarlberg, Assistant to the Secretary of Agriculture, told the committee, primarily, to a *declining* farm population (hearings, p. 710).

The Farm Income Situation, released by the Department of Agriculture, on March 4, 1955 (p. 6), in summarizing the 1954 farm-income picture, indicates that although farm income declined from $13.3 billion in 1953 to $12 billion in 1954, the number of persons living on farms declined by 3.5 percent in 1954 compared with the decline of 3 percent in the total income of the farm population during that same year. As a result, the average per capita total income of farm people rose from $914 in 1953 to $918 in 1954.

So, although the total farm income aggregate has declined, per capita income of farm people is continuing to rise over the long run. This trend can be expected to continue, since:

> as we increase efficiency of our production of food and fiber, it is possible to do our production job with fewer workers on the farm. This results in a higher living standard for our farmers as well as for our urban people. (See testimony of Secretary of Agriculture, Ezra Taft Benson, February 17, 1955, before the House Committee on Agriculture.)

In spite of this fact, an argument continually advanced in favor of 90 percent rigid price supports runs something like this: Since the average per capita income of the farm population is but one-half that of the nonfarm population, it is imperative that the total income aggregate of the farm population not be permitted to decline further, and that 90 percent rigid price supports will not only prevent such a decline but will increase the total income going to the farm population. This argument, however, will not stand up under critical examination.

From the above discussion, it is already evident that following both World War II and the Korean war 90 percent rigid price support programs did not prevent a decline in the total income going to the farm population, when as in each case an abnormal wartime demand returned to prewar levels plus the natural increase due to population increases. According to The Farm Income Situation, released by the Department of Agriculture on March 4, 1955, the average income per capita of the farm population for 1954 was $918 compared with the average income per capita of the nonfarm population of $1,836. It is obvious that the per capita income of the farm population is exactly one-half that of the nonfarm population, and, at first glance, these statistics would seem to support the position of those who earnestly believe that a rigid 90 percent price support program will improve this ratio between the per capita income of farm and nonfarm people. However, there are several basic reasons why 90 percent rigid price support programs have not and will not improve this relationship.

The latest figures indicate that we have a farm population of some 21.9 million persons—about 13.5 percent of the total population of 162 million—actively engaged in farming as a vocation. These people live on approximately 5¼ million farms of which more than two-thirds are tenant operated.

In 1940 there were more than 3 million farms—over half of all the farms in the country—from which the average value of products produced was only $700. In 1945, 80 percent of our marketable crop value was produced by one-third of our farms, 16 percent by the middle third, and the remaining 4 percent by the lowest one-third. If adjustments are made for inflationary effects, the position on this score has not altered very much during the past 10 years. In 1948 almost 43 percent, or over 2½ million farms, were too small to yield a satisfactory level of living for their occupants, producing *only 6 percent* of the gross farm income. This, mind you, in a year which saw the total farm income aggregate at the postwar peak of $15.6 billion.

What significant conclusions can be drawn from these statistical facts? Every witness who appeared before the committee with respect to agricultural policy drew the same conclusions. For example, Dr. William S. Nicholls, professor of agricultural economics, Vanderbilt University, concluded:

> Unfortunately, given the unsatisfactory nature of national employment statistics, such people are considered "fully employed" although at best their employment is part time and very unproductive. Their inclusion among America's farmworkers also pulls down the farm income per worker or per capita to levels which compare very unfavorably with nonfarm income, lending support to public farm policies which help them hardly at all while concealing the need for a positive public program, largely nonagricultural in nature, to alleviate their low state of productivity and income.
>
> The magnitude and difficulties of the low-income rural problem in the United States almost stagger the imagination. * * *

In tackling the problem of rural poverty, we must first recognize that there are far more American families trying to make a living from farming than our agricultural resources can possibly support at a level of living comparable with that afforded by similar nonfarm occupations. Second, we must at long last recognize that, while primarily benefiting those farm families which are least in need of public financial aid, our agricultural price-support policies can contribute practically nothing to a solution of rural poverty (hearings, p. 598).

Dr. Theodore W. Schultz, professor of economics, University of Chicago, stated:

But we have really now for a decade just been talking and talking around and not coming to grips with this low-income group in agriculture. We have thought we could do it with price supports, but the problem is deeper. * * * This means you have to do more than parity prices. I am not afraid of having prices on a head 100 percent or some fraction of real values which can be put before the farmer so he can make plans accordingly, forward prices. Therefore, I am not against parity prices if these prices have meaning, if they have long-run value. Then we can bring much greater certainty to farming as it deserves and there will be much greater efficiency. *But let me repeat, the really small poor farmer, 1 million and more, we do not get at in prices.* [Italics supplied by Senator Watkins.] (Hearings, p. 629.)

Plainly, here is not only the answer as to why 90 percent rigid price support will not narrow the gap between the average per capita incomes of the farm and non-farm populations, but also a very clear and astounding presentation of the *basic or number one problem confronting American agriculture:* Too many small, ineffiicent farming units and too many people in agriculture. It is *plain* that its cause does not have one thing to do with whether farm prices are supported or not, or whether they are supported at 75 percent of parity, 90 percent of parity, or 100 percent of parity.

It is evident then that the *chief beneficiaries* of the $5,000,400,000 of actual or reflected payments to farmers under the price-support programs on basic commodities *have been the upper one-third* of our farmers—some 9 million who live on 2 million of the most efficient and well-operated farms. As Dr. Nicholls told the committee:

Nine percent of the farms produced 51 percent of the total value of farm products sold, and 22 percent produced 74 percent of the total value of farm products sold.

Obviously, price-support programs, as we now know them, primarily benefit those larger farmers, and I would probably agree with you that they are the ones who need financial aid from the Government least, because they are large and efficient and have rather high incomes.

On the other hand, I think that at the lower end of the scale, the end of the scale that you are speaking of, price support will simply not do much good. Let me give an example. You know, we have minimum tobacco allotments in burley of, I believe, about seven-tenths of an acre now, and this is the minimum, as far as the small farmer is concerned. He cannot be cut below that, as I understand it, but what does this mean in terms of income? Seven-tenths of an acre would produce, let us say, a thousand pounds of tobacco; that is $500 gross income per year, and that is certainly not going to make any small farmer very well off, it seems to me—especially after he has paid for his seed, fertilizer, and other expenses.

In other words, I think the solution to the low-income farmer's problem really lies largely outside of agriculture (hearings, pp. 629–630).

For every dollar that the small farmer receives through price support, many more dollars go to the big operator, and the competitive advantage of the big operator is thereby increased.

For example, in Kansas, for the 1953 crop, the average wheat loan was $1,525 and the average of the 5 largest loans was $106,963. In Mississippi the average cotton loan was $372 and the average of the 5 largest loans was $479,535. In Iowa, the average corn loan was $2,154, while the average of the 5 largest loans was $98,535.

For wheat, corn, and cotton in the above States the 5 largest loans averaged 25, 46, and 1,290 times as great, respectively, as the State averages.

It should immediately become obvious that the problems associated with lifting the levels of living of about two-thirds of our farm people who live on farms which, for one reason or another, are uneconomic units, have not been and can never be solved through price support programs.

It helps a farmer very little to have prices go up if he has little or nothing to sell, which is just about the size of it for two-thirds of our farmers.

From the foregoing, therefore, *it is evident that the average "family-sized farm"—which we hear so much about the need for preserving these days—is really not much of a farm at all!*

Under these circumstances it is not too difficult to understand why agricultural spokesmen have exhibited little awareness of basic agricultural problems outside the two orbits of price and credit. From a practical point of view, it is only being realistic to recognize that we can help only a small number of farmers to find their niche in agriculture. As our economy grows, agriculture's part will become relatively smaller, that is, a smaller percentage of the total population will be needed to produce our food. Our conclusion, based upon cold economic fact, is not that we should have less agricultural policy, but rather that in speeding the improvement of productivity, marketing and consumption through basic research, *we must also make adequate provision for expediting the migration out of agriculture which that improvement necessitates.*

One of the proposals of the Republican farm program last year was to study this situation and make recommendations for actions to be taken to assist our low-income families. During 1954, the President's National Agricultural Advisory Commission gave paramount attention to this problem as did an interagency task force of the Council of Economic Advisers, and as the President's report indicated, a later special report will shortly be forthcoming.

As the facts indicate, only one-third of our farmers benefit from the price support programs, they also are the best off financially of the farm population. Yet, it is also an inescapable fact that even these farmers who produce 85 percent of the annual marketable crop value need governmental assistance in the form of price support during certain periods.

However, as many witnesses testified before the committee the level of farm prices and income depends far more on general economic conditions than it does on the level of price supports. Secretary Benson, in a talk entitled "Meeting the Needs of Agriculture," at Waynesboro, Va., on August 28, 1954, phrased it this way:

> While price supports will remain relatively high, I believe there has been a tendency in recent years to place too much emphasis upon price supports alone as a means of strengthening our farm economy. There are other and more important factors affecting the welfare of agriculture.
>
> Year in and year out, the general level of prices exerts a greater influence upon agricultural prices than any other single force. Full employment, high wages, and an expanding economy provide the strong market demand which assures relatively favorable prices for farm products. Important as our export outlets are for some commodities, we must never lose sight of the fact that it is our domestic market which absorbs about nine-tenths of the total annual production of our farms.

> Agriculture has never prospered when there were breadlines in the cities. Conversely, we have never known an agricultural depression when the rest of the Nation was enjoying good times.

Dr. Murray R. Benedict stated it this way:

> The most serious setback to farmers and to the Government's farm program would be a severe slump in on-farm employment and incomes. The maintenance of high activity in the nonfarm economy is, therefore, the most important objective both from the standpoint of farmers and of the Nation as a whole (hearings, p. 586).

Since, President Eisenhower's report indicates, however, that:

> with economic activity continuing to expand, it is reasonable to expect that the Nation's output within the coming year will approximate the goals of "maximum employment, production, and purchasing power" envisaged by the Employment Act,

and since the flexible price support program will be operative with respect to the 1955 crops of basic commodities, the year 1955 should be a relatively good year for agriculture.

FOREIGN TRADE POLICY

Undoubtedly the Nation's foreign-trade program, as the committee indicated is important as an instrument of foreign policy, one which should be used in the cold war. While the committee report recognizes the need for expanding trade, as does the President's Economic Report, and while it implies the necessity for moving gradually and selectively in the removal of import controls and tariffs because of the adjustment problems which would confront both domestic workers and capital, it fails to recommend to the Congress any concrete machinery for implementation of these views.

In an endeavor, therefore, to implement the committee report, the Congress is respectfully urged to examine and consider the proposed amendments by me to the bill H. R. 1, which extends the authority of the President to enter into trade agreements under section 350 of the Tariff Act of 1930 as amended. These proposed amendments were received by the United States Senate on February 28, 1954, printed and appropriately referred to the Senate Finance Committee. Before discussing the provisions of the proposed Watkins amendments to H. R. 1, it seems desirable to review the history of tariffmaking by the United States Senate.

Several decades ago when changes were needed in our tariff laws, the Congress, under its constitutional authority "to lay and collect taxes, duties, imports, and excises," almost did the job unassisted by the executive branch of the Government.

As the economy grew and developed, it likewise produced a vast number of complex problems of interest to and with multifarious ramifications involving thousands of economic interest groups. Thus our complex society, as we are only too well aware, has been productive of an ever-increasing volume of legislation of major concern to the Congress. Limitations of time and the complexity of certain aspects of these legislative demands have, necessarily, forced the Congress to delegate some of its responsibilities to the executive branch of the Government. Tariffmaking, the subject matter of which involves schedules covering thousands upon thousands of products, was one such activity which, over a period of time, has progressively passed by delegation to the Executive.

Exclusive tariffmaking by the Congress was plainly no longer tolerable by the time of the First World War and, in 1916, the Congress created the United States Tariff Commission to assist the Congress. At that time the Commission's activities were limited to the continuous investigation of all economic matters which had a bearing upon tariff policy, and the reporting of its findings to the President and the Congress; it had no independent authority to make changes in the tariff laws or in their administration.

The Tariff Acts of 1922 and 1930, however, give the United States Tariff Commission the authority to investigate cost of production differences between domestic and foreign products and required it to recommend to the President, on the basis of its findings, specific increases or decreases in the appropriate tariff rates. The President, in turn, was given authority to readjust tariff rates either up or down, within a range of 50 percent. The effect of these two acts was to provide the United States, for the first time, with a flexible tariff policy which enabled cost differentials between domestic and foreign production to be adjusted without awaiting the necessarily slow and very uncertain results of congressional attention and detailed legislation.

With the passage of the Reciprocal Trade Agreement Act in 1934, the Congress began what many believe was the gradual disintegration of its control, except in theory, over the tariffmaking procedure. The United States Tariff Commission, they would say in effect, has been reduced to a Presidential staff agency in the purest sense of the word "staff," for its administrative history indicates that it serves mainly as an informative and advisory agency, an agency whose recommendations are seldom followed. By 1945, trade agreements were in operation between the United States and 28 countries. The result of these agreements by 1945 was that the general tariff level had been reduced almost to that prevailing under the so-called Underwood "low tariff" act of 1913. More recent extensions, as you are aware, have given the President added authority to reduce tariff rates still further.

Simultaneously with vigorous activity on the part of the Executive in developing the trade-agreements program, there arose a growing volume of protest from certain segments of American industry. The complaints have charged that such negotiated agreements contained tariff and other concessions which resulted not only in American producers losing domestic markets but also in the demise of American industries. And as the years have gone by this conflict has grown and magnified, producing in its wake voluminous but conflicting opinions and literature on the subject of trade agreements.

As I indicated in my remarks to the Senate on January 26, 1954, I am in general agreement with President Eisenhower's statement in his special message on foreign economic policy to the effect that all nations should mutually undertake the lowering of unjustified barriers to trade "on a mutual basis so that the benefits can be shared by all," just as I am in general accord with the committee's views concerning the desirability of expanding trade. But, as I said on that occasion, the "all" must include those efficient domestic industries which are operating in the face of ruinous and disadvantageous competitive conditions with foreign imports. I firmly believe that in formulating an American trade policy, the Congress must not confine its attention only to those features that will work toward the enlargement of international trade, but also must consider policies that can be applied to that end in a manner consistent with maintaining a sound domestic economy.

Our experience to date, however, seems to indicate that certain revisions in the trade agreements program are necessary if these two objectives are to be realized. It is evident, I believe, that the Congress must return to itself a larger share of the direct responsibility for tariff-making policy, especially in those areas where intense conflict has been generated by the trade agreements program. The pendulum of tariff-making authority has simply swung too far toward the expediency of administrative negotiation and execution by the executive branch. It has swung so far, in fact, that it would cause a reasonably prudent person to conclude, I am sure, that the Congress de facto has completely abdicated its constitutional authority in this field.

An analysis of escape-clause applications and their administrative disposal will make this quite clear. The escape clause was not an original part of the Reciprocal Trade Agreements Act. Rather it was the product of extensive liberality in granting tariff and other concessions by the executive branch under the trade agreements program and the result of increasing protest by American industries adversely affected by excessive imports. The function of the escape clause is, of course, to compromise the conflict which arises between the need and desirability of freer international trade and the need for protecting defense industries and certain other industries fundamental to the economies of certain sections of the United States, the customs and traditions of our people, and for maintaining safeguards which protect wages, industry, and agriculture.

The early trade agreements negotiated under the Reciprocal Trade Agreements Act of 1934 contained no general means of providing realistic relief if a particular concession proved unexpectedly injurious to a domestic industry. Although escape clauses had been contained in bilateral trade agreements since 1941 and in the General Agreement on Tariffs and Trade since 1947, it remained for the Congress, because of the difficulty of foreseeing the contingencies that might arise, to make the inclusion of an escape clause in new trade agreements a statutory requirement. This was accomplished in 1951 by the passage of the Trade Agreements Extension Act.

The facts, however, indicate that the executive branch of the Federal Government and the United States Tariff Commission have not, in general, interpreted and administered the escape-clause provisions as the Congress intended. It is interesting to note that of 56 applications to the President for relief, which were filed during the period 1948–54, the United States Tariff Commission recommended relief in only 12 instances, all but 2 of which involved only products of minor importance.

These 12 favorable recommendations were made with respect to—

1. Women's fur, felt hats, and hat bodies (unanimous, September 25, 1950).
2. Hatter's fur (unanimous, November 9, 1951).
3. Garlic (4 to 2, June 6, 1952).
4. Watches, movements, and parts (first investigation, 4 to 2, June 14, 1952).
5. Dried figs (unanimous, July 24, 1952).
6. Tobacco pipes and bowls (unanimous, December 22, 1952).
7. Screen-printed silk scarves (unanimous, April 13, 1953).

8. Scissors and shears (4 to 2, March 12, 1954).
9. Groundfish fillets (second investigation, 3 to 2, May 7, 1954).
10. Watches, movements, and parts (second investigation, 4 to 2, May 21, 1954).
11. Lead and zinc (unanimous, May 21, 1954).
12. Alsike clover seed (unanimous, May 21, 1954).

Rather an unimpressive list. But why only 12 favorable recommendations out of 56 applications? In part, the answer is that the Congress has failed to establish definite criteria for the Commission to follow in arriving at decisions. But primarily the answer is that the Commission, in considering the effect of increased imports on production, profits, and employment, has consistently held that an industry is deemed to include, for purposes of escape-clause relief, all the operations of the constituent firm making the application, rather than only those operations that are directly related to the production of the product identified in the escape-clause application.

This interpretation of what constitutes an "industry" has directly served to nullify the intent of the Congress to give needed tariff relief.

How closely has the President followed what we must presume to be the expert recommendations of the Tariff Commission? Of the 12 favorable Commission recommendations, 7 were unanimous decisions and included—

(*a*) Women's fur-felt hats and hat bodies.
(*b*) Hatter's fur.
(*c*) Dried figs.
(*d*) Tobacco pipes and bowls.
(*e*) Screen-printed silk scarves.
(*f*) Lead and zinc.
(*g*) Alsike-clover seed.

Four were 4-to-2 decisions and included—

(*a*) Garlic.
(*b*) Watches, movements, and parts (first investigation).
(*c*) Watches, movements, and parts (second investigation).
(*d*) Scissors and shears.

One was a 3-to-2 decision and was made with respect to ground-fish fillets.

In only five instances did the President follow the recommendations of the United States Tariff Commission. These five favorable actions by the President involved the following:

1. Four products which the Commission unanimously believed needed relief. They included—

(*a*) Women's fur-felt hats and hat bodies.
(*b*) Hatter's fur.
(*c*) Dried figs.
(*d*) Alsike-clover seed.

2. The other product—watches, movements, and parts (second investigation)—involved a favorable recommendation decided by a 4-to-2 vote of the Commission.

In other cases the President failed to grant relief, even though by unanimous vote, the Tariff Commission had recommended such action. These included—

(1) Tobacco pipes and bowls.

(2) Screen-printed silk scarves.
(3) Lead and zinc.

Likewise, he refused relief with respect to three 4-to-2 decisions and one 3-to-2 recommendation, which, respectively, involved—
(1) Garlic.
(2) Watches, movements, and parts (first investigation).
(3) Scissors and shears.
(4) Ground-fish fillets (second investigation).

In these cases, despite the recommendation of the Tariff Commission, an expert body, the President held to the contrary that serious injury to the domestic industry had not been established.

It is absolutely useless for the Congress of the United States to create an expert body that is largely investigational in nature and designed to lead to expert recommendation for administrative action in areas where it has delegated to the executive branch extensive authority, as it has done with respect to trade and tariff matters.

A typical case in which the effect of delegating too much authority to Executive discretion, concerning the escape clause in trade agreements, is well illustrated by the *Screen Printed Silk Scarves* case, an instance in which the President refused to act favorably on a *unanimous* recommendation of the Commission. The original application for investigation was filed on April 14, 1952; the hearing date was set for February 24, 1953—nearly 10 months later. The Tariff Commission rendered its decision on April 13, 1953, and recommended to the President that tariff rates be increased to 65 cents. Three months later, on June 10, 1953, the President asked the Commission to restudy the case. Fourteen months later on August 6, 1954, the Commission sent to the President a second unanimous recommendation for relief. Yet on December 23, 1954, the President, in spite of two unanimous recommendations for relief, held, in denying relief to the industry, that no basis of injury could be found.

By the time the President rendered his final denial there was no screen-printed-silk-scarf industry in the United States. During the 2 years and 4 months that elapsed from the date of the original application to that upon which the Tariff Commission made its second favorable recommendation, 11 of the 13 domestic producers of screen-printed-silk scarves went out of business. The other two domestic producers closed down in the 5½ months between the date of the Commission's second recommendation and the President's denial of relief in which he accurately reported that he could find no basis of injury to a domestic industry. At the time of his report, there was no domestic silk-scarf industry.

It is quite evident that the pendulum of responsibility for escape clause actions must swing toward greater control by the Congress. This is a portion of its constitutional authority which should be recalled from the executive branch. At the same time, it should be made clear that we cannot, with respect to the general responsibility for negotiating trade and tariff matters, return to the cumbersome and slow procedure under which the Congress in the early 1900's sought to write detailed tariff legislation.

The proposed Watkins amendments to the bill H. R. 1, to extend the authority of the President to enter into trade agreements under section 350 of the Tariff Act of 1930, as amended, are designed to accomplish the objectives which the committee report deems essential with respect to our foreign trade program.

Section 3 (a) and (c) of the proposed amendment, by extending the trade-agreements program, as requested by the President, would give authority to the President, for a 2-year period, to—

1. Reduce tariff rates on selected commodities by not more than 5 percent per year for 2 years.
2. Reduce any tariff rates in excess of 50 percent to that level over a 2-year period.
3. Reduce, by not more than one-half over a 2-year period, the tariff rates in effect on January 1, 1945, on articles which are not now being imported or which are being imported only in negligible quantities.

The administrative facilities and services of the executive branch of the Federal Government, under the direction of the President, would be continued for the negotiation of trade agreements. The fact remains that the actual negotiation with regard to the thousands of items covered by trade agreements and tariff legislation is better handled by the executive branch of the Federal Government than by the Congress.

Section 3 (d) of the proposed amendment would require the President to submit an annual report on the operation of the trade agreements program to the Congress which must include—

1. Information regarding new negotiations.
2. Modifications made in duties and import restrictions of the United States.
3. Reciprocal concessions obtained.
4. Modifications of existing trade agreements in order to effectuate more fully the purposes of the trade agreements legislation, including the incorporation therein of escape clauses.
5. Other pertinent information and data.

Section 5 (2) of the proposed amendment to H. R. 1 would require the United States Tariff Commission to submit a report to the Congress on all "peril point" investigations

The Trade Agreements Extension Act of 1951, as amended, requires the President, before entering into negotiations concerning any proposed foreign-trade agreement under section 350 of the Tariff Act of 1930, as amended, to furnish the United States Tariff Commission with a list of all articles imported into the United States. Upon receipt of this list, the Tariff Commission shall make a study and report to the President with respect to each article—

1. The limit to which such modification, imposition, or continuance may be extended without causing or threatening severe injury to the domestic industry producing like or directly competitive articles.
2. Whether or not increased duties or additional import restrictions are required to avoid serious injury to the domestic industry producing like or directly competitive articles and, if so, the minimum increases in duties or import restrictions required.

Section 5 would require the Tariff Commission to transmit such a report to the Congress as well as to the President.

The proposed amendment would amend section 6 (a) of the Trade Agreements Extension Act of 1951 so as to provide that no reduction *of tariff rates or any other concession shall be permitted to continue in effect when—*

1. Importation, or *prospective* importation, of increased quantities of any product *upon which such a concession* has been granted *under a trade agreement* causes or threatens serious import injury to the domestic industry producing either like or directly competing products.

Heretofore it has not been spelled out clearly that relief is to be granted from the effects of concessions given under trade agreements.

Section 7 (c), (f), and (i) of the proposed amendment directs that should the Tariff Commission find that the importation or prospective importation of any product, upon which a concession has been granted under a trade agreement, results in or threatens serious import injury to the domestic industry producing either like or directly competitive products, it shall find and declare the extent to which and the time for which the following actions are necessary in order to prevent or remedy such injury:

1. Permanent withdrawal of the concession shall be made;
2. Modification of the concession;
3. Suspension of the concession in whole or in part;
4. Limitation of the quantity of the product which may enter or withdraw from warehouse for consumption; or
5. Any combination of these four items.

The Tariff Commission's findings would be contained in a plan for their implementation which must be transmitted to both Houses of the Congress on the same day and while both are in session. The provisions of any plan transmitted shall take effect on the expiration of the first period of 60 days of continuous session of the Congress, following the date on which the plan is transmitted to it unless, between the date of transmittal and the expiration of the 60-day period, either House of the Congress, by affirmative vote of a majority of its authorized membership, passes a resolution stating that it does not favor the plan. An essential step in bringing the tariffmaking process back into equilibrium again is to reserve to the Congress, which is more representative of the will of the people, final decision in controversial areas of our national trade and tariff program.

After concluding its investigations and hearings, should the Tariff Commission find that relief is not necessary, it shall likewise make and transmit to the Congress a report of its findings and conclusions.

Specific criteria are established upon which the Tariff Commission is to base its findings under escape-clause proceedings by section 7 (d) of the proposed amendment to H. R. 1

The Tariff Commission is directed to consider any of the following factors as constituting import injury with respect to a domestic *article* when caused, or threatened to be caused, in whole or in part by the importation of competitive imported articles:

(1) Unemployment, layoffs, or curtailment of workweek;

(2) Reduction in actual or relative wages, including reduction of fringe benefits enjoyed in lieu of wages;

(3) Decline in prices or sales;

(4) Rising inventory;

(5) Decline in profits of, or operation at a loss by, the manufacturer, producer, grower, or wholesaler;

(6) In the case of an agricultural product, a return to the grower or producer below the established parity price for such product;

(7) Decline in flow of investment into plant expansion, new equipment, or other improvements;

(8) Decline in proportionate share of the domestic market enjoyed by the domestic article;

(9) Increase in the importation of like or directly competitive imported articles accompanied by unused, but available and suitable, capacity to produce, manufacture, or grow domestic articles;

(10) Inability to meet promotion, advertising, and customer services provided for a like or directly competitive imported article, to the extent that such inability is due to the lower landed costs of the imported article or to payments from foreign sources not included in the landed cost of the imported article; and

(11) In the case of any natural-resource industry or to any industry determined to be essential to the national security by the National Security Council, a productive capacity of the domestic industry which is less than the peacetime requirements of the domestic market for the article produced or manufactured by the domestic industry, plus a reasonable reserve over and above peacetime requirements for emergency use.

By providing such criteria, the Congress can insure that its policies with respect to escape-clause actions are carried out as intended.

For purposes of escape clause proceedings a definition of an industry is provided by section 7 (e) of the proposed amendment to H. R. 1

Where a particular business enterprise is engaged in operations involving more than one such industry, or more than one such segment of a single industry, the Commission shall distinguish or separate the respective operations of such business enterprise for the purpose of determining import injury.

A domestic industry is held to include only those operations that relate directly to the production of the products under investigation.

WATER RESOURCE DEVELOPMENT [1]

Inasmuch as the President's letter of transmittal accompanying his report recommended that :

> our partnership policies of water resource development should be further implemented by appropriate congressional and local action:

it is to be regretted that the committee failed to endorse specifically this program, while its report treated several related aspects.

In the semiarid West, the development of water resources is absolutely essential, not only to agriculture, but also to industrial development, community growth, and general physical and economic wellbeing. In these days, such water development also is needed for reasons of civil defense, since if this country seriously considers shifting strategic industries, and military installations into that natural mountain defense bastion, development of additional water supplies is an absolute and primary prerequisite.

These factors were recognized by the President in his recommendations to the committee, and he had preceded those suggestions by making specific estimates in his budget message of January 17, 1955.

[1] Senator Flanders has certain reservations to this section.

Contingent allocations were made for initial construction of several partnership water resources projects.

One of the largest water resource developments recommended by the President was the Colorado River storage project, a basinwide, long-range development program of primary importance to four States—Colorado, New Mexico, Utah, and Wyoming.

This project has been in a planning status for many years, at a cost of approximately $10 million which had accrued to the 4 States named from revenues allocated to them from Hoover Dam power receipts. Several large projects are virtually ready for construction, and plans for others could be completed and held in readiness in case the need develops for accelerated public works, as recommended in sections 10 and 11 of the committee report. Furthermore, unlike most public works, the projects contemplated under the Colorado River storage project are reimbursable in nature. Revenue from irrigation districts, communities, and power users in the four-State area, will return to the Government the full construction costs of this project, with interest on the power and community water features.

The committee in its report expressed—

> concern with distressed conditions which persist in certain industries and regions, even under conditions of an expanding economy.

The four-State upper Colorado River Basin contains many mining communities in such distressed areas, essentially in coal and lead-zinc mining districts and processing centers, where mineral production has been heavily curtailed or eliminated.

Many of these communities are one-industry towns, so the solution to their immediate economic problem goes far beyond the "retraining," "loans and technical assistance" recommended in section 12 of the committee report. If their distress continues, the Nation not only may lose essential producers of defense materials, but entire communities may have to be relocated and a new rash of mining and mineral processing ghost towns will have been created.

If this area, however, can gain access to needed water and hydropower now possible through the proposed Colorado River storage project, many of these communities may be able to attract other industries which not only will help solve local economic problems, but also will help retain trained miners and organized communities accessible to those vital defense mineral producing centers.

TAX POLICY

One of the major recommendations made by the President in the economic report was that the Congress postpone the reduction in the corporate income tax and certain excise taxes which are scheduled to take place on April 1, 1955, and that reductions in personal income taxes not be made at this time. This recommendation seems to be justified by the budget estimates presented by the President to the Congress.

The administrative budgets for the current fiscal year and for fiscal 1956 show deficits of $4.5 billion and $2.4 billion, respectively. The cash budget, which reflects receipts from and payments to the public, for the same 2-year period is closer in balance, with a deficit of $2.4 billion for the current fiscal year and a surplus of $0.6 billion for fiscal 1956.

These budget estimates, however, are based upon several assumptions, which if they do not hold true would result in greater deficits. For example, they assume that the Department of Defense will succeed in effecting the $1¾ billion savings in expenditures which have not been allocated in the budget among departmental programs and upon estimates of corporate and individual incomes, *at present tax rates.*

Should the scheduled reductions in the corporate tax rate from 52 to 47 percent be made as scheduled on April 1, 1955, there will obviously be a very significant increase in the administrative budget deficit for the 1956 fiscal year. This would convert the cash budget surplus into a deficit, since the tax reduction would result in a loss of about $1.2 billion in that same fiscal year. Other scheduled reductions on excises such as liquor, tobacco, gasoline, and automobiles would cost an additional $0.8 billion.

The House of Representatives' version of the income-tax reduction bill would, it is estimated, reduce governmental revenues $815 million in fiscal 1956 and $2.2 billion in the next fiscal year.

In the light of these facts, it appears to be sound public policy for the country to bring Federal cash receipts and cash expenditures into balance. Especially is this action needed at this time, since our economy is currently operating at rather high levels and a recovery from the contraction of last year is well underway with considerable upward force and momentum. Since governmental expenditures are continuing at a high level, it does appear that the fiscal needs of the Government will not permit reductions this year from our present tax rates.

However, as the President's report indicated:

> Fortunately, with our economy continuing to expand, we can look forward to larger Federal revenues from existing tax rates. This, together with further economies in expenditures, should make possible next year another step in the reduction of taxes. Congress might then consider enacting a general, though modest, reduction in taxes and, at the same time, continue the program which was begun last year of reducing barriers to the free flow of funds into risk-taking and job-creating investments (p. 49).

COMMITTEE STAFF

I wish to thank publicly the committee staff director, Grover W. Ensley, and the committee clerk, John W. Lehman, as well as other staff members, who have exhibited a zeal for impartiality and objectivity in their work, and who have been most cooperative in assisting the minority members of the committee.

SUPPLEMENTAL VIEWS OF REPRESENTATIVE CURTIS

I concur in the committee report. However, I feel a supplemental statement is needed to clarify a few points in the report and point up certain additional economic factors which I believe are basic to our present-day economy. Inasmuch as whatever supplemental views have been expressed by my colleagues were neither submitted to the committee nor myself, I have no comments to make on them.

1. The committee report discusses a decline in farm income. The matter of immediate concern to our people is per capita farm income, not total farm income as long as farm production continues to rise and meet the demands of our population. Per capita farm income has increased in the past few months and seems to be rising. Farm population is continuing to decline which lies at the base of the foregoing economic fact. Of course, in a proper appraisal of the economics of our society the ratio of farm income to national income is an important factor. However, the ratio has been declining since pre-Revolutionary days as our society has continued to industrialize. I believe we can expect the ratio to continue to decline. What is of immediate concern, however, is the fact that per capita farm income has not been rising to the same extent that per capita national income has.

2. I believe the overall tax rate in our society has gone beyond the point of diminishing return and even with the recent tax reductions and revisions the normal growth of our economy is being restricted. The statements of governmental witnesses and economists appearing before the joint committee as well as the Ways and Means Committee, seem to indicate an obliviousness to the possibility that the retention of high tax rates is not only causing economic damage but is likewise defeating the professed objective of obtaining necessary revenues.

3. I believe it is important to emphasize that inflation is a form of taxation, indirect and hidden. It is a tax upon the consumer with no exemptions or graduations. Continued deficit financing means a continuation of this form of taxation which I believe proper study will reveal is the form potentially most dangerous and damaging to any society. This form of tax should and can be eliminated at once.

4. Tax take can be increased even though rates are decreased by expanding the tax base. In 1929 the ratio of private capital investment to governmental capital investment was 9 to 1. By 1952 this ratio had declined to less than 5 to 1.[1] Essentially private capital investment is the tax base of a society. By switching human endeavor from Government capitalization to private capitalization the following things are accomplished:

   1. Government capitalization (debt) is reduced.
   2. The tax base is increased.
   3. Competition is substituted for governmental cost accounting and appropriation procedures as a method of controlling efficiency and administration to social needs.

[1] Conclusions based upon Facts and Figures on Government Financing, 1953-54, by the Tax Foundation, table 16, estimated national wealth in current 1929 dollars.

4. The personnel is returned to the free labor market where the rights to organize and bargain collectively are regained.

5. The personnel operates under a system more suited to efficient production in that it is freed from the restrictive features of civil service made necessary to protect against the greater evils of spoils politics.

6. Federal expenditures are reduced (so substantially that the budget can be balanced).

This indicates that greater efforts should be made to move Government out of, and to keep Government from moving into, all human endeavors except those which by analysis and reappraisal require governmental operation.

5. The rise in the stock market comes directly from our tax structure. For several years corporation expansions have been financed more and more from bank borrowings and bonds and less and less from new stock issues—equity financing. In fact, many corporations have called in capital stock pro rata and refinanced through bonds or bank borrowing. The reason for this action by corporate management is as follows: Earnings on bond or note financing escapes the 52-percent corporate income tax while earnings from equity financing pay the 52-percent tax. The stockholder in the higher income brackets prefers to have equity investment in a corporation that expands through bond and note financing because added to the normal growth of the company is the savings of the 52-percent corporate tax. His equity investment reflects this growth in terms of capital gain which is taxed at only 25 percent instead of a maximum of 87 percent. The higher income bracket taxpayer, furthermore, does not need regular dividends for income to take care of his consuming needs, and prefers the corporation to plow back earnings, thus escaping the maximum 87-percent tax and paying only a 25-percent tax when he takes his capital gain.

Thus corporations have been increasing in wealth while their equity investment base remains the same or has been lessened. So the supply of available equity investment has not kept pace with demand, particularly when threats of further inflation increase the normal demand. (Equity investment along with investment in real and personal property alone escapes the tax of inflation.) The individual stock shares which represent a given percentage of the equity value of the corporate assets have indeed increased in real value. To a large extent the stock market is reflecting an appreciation on the part of the investing public of the real values of the equity shares. But it is the higher income bracket taxpayer who can afford to compete in the market for the limited supply of equity capital.

It was to check this trend that the tax dividend credit was included in the recent tax-revision bill. It was the reasoning of the Ways and Means Committee that the tax incentive to corporate management to finance through bonds and notes instead of equity investment had to be lessened. The original thought was to do the equalizing at the corporate level, but in considering the mechanics required, the similarity to the retained earnings tax became apparent and the unhappy experience with the economic effects of this tax suggested applying the equalization at the stockholder level. Certainly corporate management would prefer equity financing to debt financing if the tax treatments were somewhat equalized, because in event of poor business conditions dividend declarations can be passed up, while payment of debt interest could not. From a Federal revenue standpoint, it is obvious if more corporation financing is done through stock issue instead of bonds and notes, the Federal tax take will be greater even after deducting the loss from the tax dividend credit, e. g., $1 billion 6-percent bond issue yields $60 million annual earnings, which is deducted from the 52-percent tax. The same $1 billion financed through stock issue yield $31.2 million in revenue.

The only question is whether the tax dividend credit has been sufficient incentive to corporate management to finance through new stock issues. Certainly the demagoguery on this complicated and difficult matter has badly hurt an intelligent understanding of it by the people and their representatives in Congress. As is frequently the case, the demagog hurts the most the very people he professes to be helping.

More equity financing produces (1) healthier corporation financial structures, (2) more revenue for the Government, (3) more inflation tax-free investment for more people. (In simple language, the little fellow has a fairer chance to invest in good common stock.)

6. Today very little machinery and equipment—or buildings—wear out. Most are junked because of obsolescence. This is a present day and brand new economic fact and deserves basic consideration in present day economic thinking. The subjects of technological improvements and automation are allied subjects but they are old economic forces and not the same as obsolescence. The new provisions in regard to depreciation in the recent tax revision bill reflect some thinking on this matter but more study and understanding are needed. Again, demagoguery has badly hurt public understanding of the economic implications of this problem.

THE ECONOMIC OUTLOOK FOR 1955 AND OTHER MATERIALS

PREPARED FOR THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

BY THE COMMITTEE STAFF

LETTER OF TRANSMITTAL

MARCH 1, 1955.

The Honorable PAUL H. DOUGLAS,
United States Senate, Washington, D. C.

DEAR SENATOR DOUGLAS: Transmitted herewith are committee staff materials on the economic outlook for 1955. Also attached, at your request, are staff memoranda on other subjects related to the committee's report.

A recent report, *Business and Economic Forecasting*, published by the Chamber of Commerce of the United States, says:

> In spite of the enormous pitfalls and hazards of forecasting, the business executive nevertheless must forecast. Even if he has little faith in forecasting, he is nevertheless constantly engaging in an art which he claims to be of dubious merit.

As the chairman of the President's Council of Economic Advisers has wisely stated:

> The Council could not very well function without making judgments, assumptions, and projections concerning the economic future. Much of this estimating has been expressed in formal, arithmetical terms for the year 1955. The results of these intricate labors have been made available to the agencies of the Government that are especially concerned with the development of the President's program.

(See January 1955 hearings, p. 43.)

While the question of whether economic projections are possible and necessary is thus academic, the advisability of publication by the executive branch of detailed economic assumptions underlying the President's program continues to be debated. The committee staff has no intention of entering this controversy.

The Congress also is called upon to make specific decisions with respect to Federal economic programs, and needs the same type of quantitative information required by policy planners in the executive branch.

To supply these data to the committee, the staff has followed the practice of previous years and compiled (*a*) projections of the levels of employment, production, and purchasing power for 1955 "needed to carry out the policy declared * * [in the Employment Act]," and (*b*) projections of the "foreseeable trends" of economic activity for 1955 which are believed to be consistent with the outlook assumptions underlying the President's Economic Report and the Budget.

During the recent committee hearings on the President's Economic Report, there was a high degree of unanimity among representatives of business, labor, academic, and research groups supporting the usefulness of these quantitative projections as a basis for intelligent analysis of policy alternatives. Dr. William F. Butler, economic consultant to the Chase National Bank of New York, for example, stated:

> In my opinion, projections of past trends in employment, productivity, production and consumer and business purchasing power are invaluable for ana-

lytical purposes. You need to know what the economy's potential is in order to understand where you stand at any given time.

Dr. Martin Gainsbrugh, chief economist of the National Industrial Conference Board, said:

* * * I would recommend that the Joint Committee continue its [projection] work. * * *

The Economic Report assures the Congress that "it is reasonable to expect" that the "maximum employment, production, and purchasing power" objectives of the Employment Act will be approximately realized "within the coming year." A number of witnesses before the committee, hesitating to accept this rate of recovery as probable, pointed to possible weaknesses in the economy later in the year.

The cautious attitude of these witnesses, together with the qualifications in the Economic Report, suggests that the Congress should be prepared to consider effective action to stimulate private economic activity later in 1955 and in 1956 if the present rise, sparked largely by automobile production, home building, and inventory reversal, should falter.

One word of caution: While it is necessary to use detailed and precise figures in preparing a budget for the Nation which is internally consistent, 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.

The accompanying materials will be amended with the latest data, until final printing.

Sincerely yours,

Grover W. Ensley, *Staff Director.*

THE ECONOMIC OUTLOOK

In the January Economic Report of the President, the outlook for 1955 is summed up in these words:

> With economic activity continuing to expand, it is reasonable to expect that the Nation's output within the coming year will approximate the goals of "maximum employment, production, and purchasing power" envisaged by the Employment Act.[1]

These goals and expectations for the coming year are not spelled out in the Economic Report itself, nor were quantitative data supplied the committee by the Chairman of the President's Council of Economic Advisers in response to questions by members of this committee.[2] The committee staff, therefore, has compiled economic projections which are believed to be consistent with the outlook assumptions underlying the Economic Report and the Budget. These projections are compared with staff estimates of the levels of economic activity "needed" to achieve the "maximum" employment and production objectives of the Employment Act.

The assumptions of the Economic Report and the Budget seem to imply an estimate of demand by Government, business, and consumers for goods and services totaling about $375 billion for 1955. Since the year started at an annual rate of about $365 billion, or less than the "maximum" employment and production level, this demand for 1955 as a whole implies a rise to an annual rate of about $385 billion by the end of the year. Such a year-end rate, in the staff's judgment, would, perhaps, approximate that needed to satisfy the employment and production goals of the Employment Act.

If realized, this expansion would be a substantial accomplishment. It would call for a continuance in succeeding quarters of a rate of advance in economic activity close to that prevailing since the third quarter of 1954. The consensus of views of the witnesses appearing before this committee a month ago was that this rate of acceleration might not be maintained.

The accompanying chart illustrates the potential "maximum" employment and production trend estimated by the committee staff for 1954 and 1955, and the "assumed" rise implied in the Economic Report for the year 1955.

Potential "Maximum" Employment and Production During 1955

The estimates of employment and production needed during calendar 1955 to carry out the objectives of the Employment Act are founded upon the long-run projections in the staff's report, Potential Economic Growth of the United States During the Next Decade,[3] supplemented by testimony received at the recent committee hearings.[4] The assumptions are:

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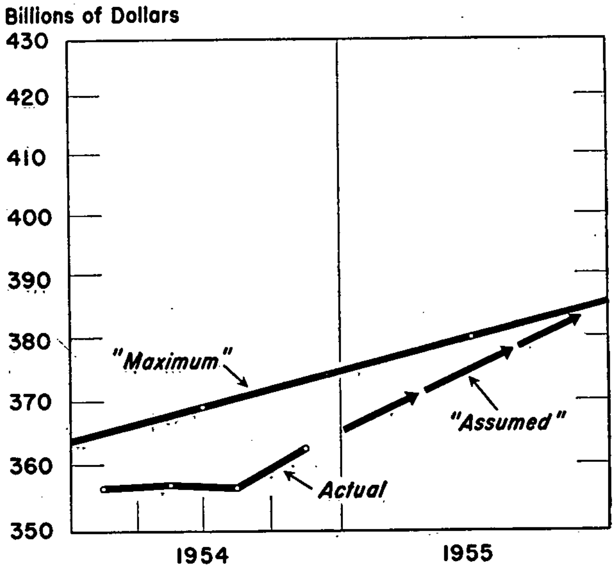
[1] Economic Report of the President, January 1955 (cited hereafter as Economic Report), p. 24.

[2] See hearings on the January 1955 Economic Report of the President, before the Joint Committee on the Economic Report, 84th Cong., 1st sess. (cited hereafter as hearings), p. 43.

[3] Joint Committee print, Materials Prepared for the Joint Committee on the Economic Report by the committee staff, 83d Cong., 2d sess., pp. 4-9.

[4] The hearings held on the January 1955 Economic Report of the President.

Potential "Maximum" Gross National Product Compared to Actual Calendar 1954, and "Assumed" Rise in Calendar 1955 Implied in the Economic Report



Source: Department of Commerce and Staff, Joint Committee on the Economic Report (See Tables 1, 2, and 3).

General assumptions

(1) International conditions will not change in a manner which will cause any marked change in the presently contemplated Federal Government's demand for goods and services, including the size of the Armed Forces.

(2) Both supply and demand estimates are stated in 1954 prices in order to show changes in real terms.

Specific production assumptions

(1) The total labor force will increase about 700,000 between 1954 and 1955.[5]

(2) Armed forces will decline by about 340,000, from an average of 3.3 million in 1954 to 3.0 million in 1955. About 275,000 of those released by the Armed Forces may be expected to stay in the labor force seeking civilian jobs.[6]

(3) The civilian labor force, therefore, will increase almost a million between 1954 and 1955.[7]

[5] See statement by Aryness Joy Wickens, Acting Commissioner of Labor Statistics, hearings, January 26, 1955, p. 118.
[6] See Wickens, hearings, op. cit., p. 118.
[7] Ibid, p. 118.

(4) Unemployment is assumed to average about 4 percent of the civilian labor force.[8] This assumption would mean, on an unadjusted basis, a seasonal swing from a high of about 3 million in February to a low of about 2 million in October 1955. Actual unemployment in February 1955 [3.4 million] was above this 3 million because the economy started the year with unused resources.

(5) Agricultural employment will slowly decline while private nonagricultural employment and total civilian Government employment rise.[9]

(6) Average annual hours of work will decline slightly less than 1 percent per year.

(7) Output per man-hour is assumed to increase about 3 percent per year in agriculture, and about 2.5 percent in private nonagricultural industries.[10]

The above assumptions imply a rise in gross national product from a potential of about $369 billion in 1954 (about $12 billion more than was actually attained) to a potential of $380 billion in 1955. (See table 1.) The year-end rate would be about $385 billion. This is a projection of the potential output if "maximum" employment and production objectives are attained. It is not a forecast of the demand for gross national product which will actually develop.

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[8] These assumed unemployed persons would be largely new entrants into the labor force, the frictional unemployed (i. e., those in process of changing jobs), and those shifting to new industries or occupations because of technological advances. The use of this assumption does not imply that the committee staff necessarily believes that this level of unemployment is "the level" consistent with the goals of the Employment Act. Such a determination would be a value judgment beyond the scope of staff responsibilities. However, such data as are available suggest that unemployment in years not marked by war or severe recession has averaged close to 4 percent of the civilian labor force.

[9] See Wickens, hearings, op. cit., p. 118.

[10] These are rates of change which correspond to the long-term trend. Actual changes in any particular year-to-year comparison may be somewhat greater or smaller, depending upon a variety of factors reflecting the way in which our flexible economy adapts itself to changing demands. In the case of agriculture, particularly, the change for any individual year may differ from the assumed 3 percent because of temporary departures of growing conditions from average or Government restrictions on crop acreage.

TABLE 1.—*Potential "maximum" gross national product, calendar years 1954 and 1955*

Item	1954 Actual preliminary	1954 Potential [1]	1955 potential [1]
Population (in millions):			
Total	162.4	162.4	165.4
14 years and over	117.7	117.7	118.8
Total labor force (in millions)	67.8	67.8	[2] 68.5
Armed Forces	3.3	3.3	3.0
Civilian labor force	64.5	64.5	65.5
Unemployment	3.2	2.6	2.6
Percent of civilian labor force	*5*	*4*	*4*
Employed (total)	61.2	61.9	62.9
Private	55.1	55.8	56.7
Agricultural	6.5	6.5	6.4
Nonagricultural	48.6	49.3	50.3
Government—Civilian [3]	6.1	6.1	6.2
Private:			
Average annual hours:			
Agricultural	2,443	2,445	2,425
Nonagricultural	1,972	1,995	1,980
Output per man-hour:			
Agricultural	$1.340	$1.315	$1.355
Nonagricultural	$3.173	$3.220	$3.300
Gross national product (billions of 1954 dollars):			
Private (total)	$325.4	$337.4	$349.0
Agricultural	[4] 21.3	[4] 20.9	[4] 21.0
Nonagricultural	304.1	316.5	328.0
Government (total) [5]	31.6	31.6	31.0
Total	357.1	369.0	380.0

[1] The estimates are consistent with those shown in the staff study, Potential Economic Growth of the United States During the Next Decade, table 1, p. 19.
[2] See Wickens, hearings, p. 118.
[3] Total civilian Government employees less the estimated number reported in Government but actually working in business-type enterprises publicly owned, such as the post office and publicly owned power systems.
[4] Actual agricultural gross national product was above the long-term trend in 1954 and, in fact, was above the projected trend for 1955. This was reflected in the excess of production over demand which increased farm inventories, including those held by the CCC. Obviously, agricultural production could be expanded substantially above the potential, or long-term trend, if some emergency or changed conditions, created a need for such a use of resources.
[5] Compensation of general Government employees.

NOTE.—Detail will not necessarily add to totals because of rounding.

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

ASSUMED DEMAND FOR NATIONAL PRODUCTION DURING 1955

The estimates of demand for goods and services during calendar 1955 reflect outlook assumptions contained in executive branch statements or the staff's understanding of what would be consistent with the analysis in the President's Economic Report and Budget.

Government demands for goods and services

(1) Federal Government purchases of goods and services are assumed to amount to \$47.3 billion in calendar 1955, down \$2.7 billion from 1954.[11]

(2) State and local government purchases are expected to increase at about the rate of recent years, or up about \$2 billion over the calendar 1954 level.

[Billions of 1954 dollars]

Demand for gross national product	Actual, 1954	Estimated, 1955
Government	77.5	76.8
Federal	50.0	47.3
National security	43.6	42.0
Other	6.4	5.3
State and local	27.5	29.5

Business demand

(1) Funds available to business for investment (other than realized from stock issues and borrowing) are assumed to increase reflecting—

(*a*) An increase in corporate profits before taxes to about \$38.5 billion in calendar 1955;[12]

[11] This estimate was derived from statement by Louis J. Paradiso, Chief Statistician, Office of Business Economics, U. S. Department of Commerce, hearings, pp. 57-59. On a fiscal year basis, Mr. Paradiso summarized official budget estimates as follows:

Federal Government receipts and expenditures, fiscal years 1953-56

[Billions of dollars]

Basis	Fiscal years			
	Actual		Estimated	
	1953	1954	1955	1956
Administrative budget:				
Receipts	\$64.8	\$64.7	\$59.0	\$60.0
Expenditures	74.3	67.8	63.5	62.4
Surplus	−9.4	−3.1	−4.5	−2.4
Cash budget:				
Receipts	71.5	71.6	66.6	68.8
Expenditures	76.8	71.9	69.0	68.2
Surplus	−5.3	−.2	−2.4	+.6
National income accounts:				
Receipts	70.5	66.6	64.3	68.1
Expenditures [1]	75.3	75.6	67.9	67.7
Surplus	−4.8	−9.0	−3.7	+.4

[1] In addition to purchases of goods and services this item includes transfer payments, net interest, subsidies, and current surplus of Government enterprises.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Administrative and cash budget data for 1954-56 from The Budget of the United States Government for the Fiscal Year ending June 30, 1956; 1953 data from The Budget for fiscal year 1955; National income accounts data from the U. S. Department of Commerce; estimates for 1955 and 1956 are based on the estimates in The Budget for fiscal year 1956.

[12] Assumption underlying revenue estimates in the President's Budget of January 1955. See letter of M. B. Folsom, Under Secretary of the Treasury, hearings, pp. 1146-47.

(*b*) Present tax rates on corporate profits as recommended in the President's budget message; and

(*c*) A further rise in capital consumption allowances, especially for those businesses taking advantage of changes in depreciation rules under the Internal Revenue Code of 1954.

(2) Residential nonfarm construction in calendar 1955 is assumed to average $1.7 billion above calendar 1954.[13]

(3) Business investment in new plant and equipment in calendar 1955 is assumed to exceed slightly the 1954 rate of such outlays.[14]

(4) In view of increases in other demands, it is assumed that there will be an accompanying net increase in inventories in calendar 1955 of $1.5 billion compared to a liquidation of $3.7 billion in 1954.[15]

(5) Net foreign investment is assumed to be close to $0.6 billion in calendar 1955.

[Billions of 1954 dollars]

Demand for gross national product	Actual, 1954	Estimated, 1955
Business	45.7	54.0
Residential nonfarm construction	13.3	15.0
Other private construction	14.3	14.5
Producers' durable equipment	22.2	22.4
Net change in business inventories	−3.7	+1.5
Net foreign investment	−.4	+0.6

Consumer demand

(1) Disposable personal income is calculated to increase from $253.5 billion in calendar 1954 to $264.7 billion in calendar 1955. This rising trend is based on—

(*a*) The Treasury's assumption that personal income in calendar 1955 will average $298.5 billion compared to $286.5 billion in calendar 1954.[16]

(*b*) Present tax rates and Government transfer payments as set forth in the President's budget.

(2) Personal savings are assumed to be about 7.7 percent of disposable personal income in calendar 1955, the same as the average of calendar 1954. This seems to be consistent with the analysis in the Economic Report, though it does not contain any definite statement on the outlook for personal savings.[17]

(3) On the basis of the above assumptions, consumer expenditures, therefore, are estimated to continue to rise from about $234 billion in calendar 1954 to about $244 billion in calendar 1955.

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[13] See forecast of construction expenditures in calendar 1955, prepared jointly by the Departments of Labor and Commerce, released November 16, 1954. (Reproduced in Construction, Department of Labor, November-December, 1954, pp. 4–5.)

[14] The McGraw-Hill survey of industrial capital spending plans for 1955, released November 5, 1954, indicated intentions to spend about 5 percent less for new plant and equipment in 1955 than in 1954. However, the statement of Dexter M. Keezer, vice president and director, department of economics of McGraw-Hill Publishing Co., at the hearings indicated that a recheck of such plans indicated very little change between the 2 years. Other evidence, including new orders for machine tools and contracts for industrial and commercial building, are more optimistic. The staff, therefore, has assumed a slight rise in 1955 over 1954. Dr. Keezer's analysis will be found in hearings, pp. 113, 127–129. The Economic Report was also optimistic—for example, see pp. v, 24.

[15] Economic Report, p. 24; and Keezer, hearings, pp. 129–130. Mr. Keezer's estimate was slightly higher than assumed here.

[16] Assumption on which revenue estimates in the President's budget are based. See letter of M. B. Folsom, hearings, pp. 1146–47.

[17] The Economic Report, p. 24, says, however: "Further expansion of consumer spending may be expected as economic recovery cumulates." This statement in the context of the report probably relates to increased consumption growing out of increased personal income.

[Billions of 1954 dollars]

Demand for gross national product	Actual, 1954	Estimated, 1955
Consumer:		
Disposable personal income	253.5	264.7
Savings:		
Amount	19.5	20.5
Percent of disposable personal income	*7.7*	*7.7*
Expenditures	234.0	244.2
Durable goods	28.9	31.0
Nondurable goods	120.5	126.2
Services	84.6	87.0

The preliminary findings of the 1955 Survey of Consumer Finances were released March 14, 1955, by the Board of Governors of the Federal Reserve System. The results—

indicate that consumers view their current financial situation a little more favorably than a year ago, and about as favorably as in early 1953. They appear to be more optimistic than a year ago about their own income prospects and the general business outlook.

The Nation's Economic Budget for 1955

The foregoing estimates of demand for goods and services have been combined by the committee staff into a Nation's economic budget, showing consolidated accounts for 1954 (actual) and 1955 (estimated), covering personal, business, and Government sectors—including income, expenditures, and savings or dissavings for each. This statement is shown in table 2. The concepts are those of the national-income accounts of the Department of Commerce. The summary table presents key information similar to that shown in a projected operating budget of a private business.

The projection for 1955 of $375 billion gross national production, if achieved, would represent an increase of almost 5 percent from 1954. As shown in table 3, it would represent nearly a 5 percent increase in national income to $315 billion, and about a 4 percent increase in personal income.

It would result in continued gradual reduction in unemployment while providing jobs to the expected 700,000 increase in the labor force. It would be accompanied by a moderate advance in productivity and an increase of about 2.5 percent in per capita consumption of goods and services.

If attained, these increases would represent a substantial achievement for the economy during calendar 1955, even though the average production level for the year would be somewhat below the potential previously suggested as needed if the objectives of the Employment Act are to be achieved.

TABLE 2.—*Summary of the Nation's economic budget on the basis of executive branch assumptions and statements as to the economic outlook, calendar years: Actual, 1952–54; estimated, 1955*

[Billions of dollars]

Item	Actual			Estimated, 1955 [1]
	1952	1953	1954	
Personal:				
Income: Total disposable	236.9	250.1	253.5	264.7
Expenditures:				
Durable goods	26.8	29.7	28.9	31.0
Nondurable goods	116.0	118.9	120.5	126.2
Services	75.6	81.4	84.6	87.0
Total expenditures	218.4	230.1	234.0	244.2
Savings (+) [2]	18.4	20.0	19.5	20.5
Business:				
Income:				
Undistributed corporate profits	8.1	8.9	7.9	10.3
Capital consumption allowances	25.3	27.2	29.3	31.5
Inventory valuation adjustment	1.0	−1.0	−.2	0
Total income	34.3	35.1	37.0	41.8
Expenditures:				
Residential nonfarm construction	11.1	11.9	13.3	15.0
Other construction	12.6	13.6	14.3	14.5
Producers durable equipment	23.3	24.4	22.2	22.4
Change in business inventories	3.6	1.5	−3.7	1.5
Net foreign investment	−.2	−1.9	−.4	0.6
Total expenditures	50.4	49.5	45.7	54.0
Dissavings (−)	−16.1	−14.4	−8.7	−12.2
Government:				
Income:				
Personal tax and nontax payments	34.4	36.0	32.9	33.8
Business tax and nontax payments	48.0	51.1	47.5	49.0
Contributions for social insurance	8.7	8.8	9.7	10.5
Less: Transfer payments [3]	16.8	17.3	19.8	21.1
Total income	74.3	78.6	70.3	72.2
Expenditures:				
Federal	54.0	60.1	50.0	47.3
National security	48.5	52.0	43.6	42.0
Other	5.4	8.1	6.4	5.3
State and local	23.2	25.1	27.5	29.5
Total expenditures	77.2	85.2	77.5	76.8
Dissavings (−)	−2.8	−6.6	−7.2	−4.6
Statistical discrepancy (+) or (−)	+.6	+1.0	−3.7	−3.7
Total gross national product	346.1	364.9	357.2	375.0

[1] Estimates for 1955 reflect assumptions contained in executive branch statements or the staff's interpretation as to what estimate would be consistent with the President's Budget and Economic Report. The estimates assume that prices in 1955 will be about the same as in 1954.

[2] Personal savings in 1955 are estimated at 7.7 percent of disposable personal income, the same as in 1954, compared to 8 percent in 1953 and 7.8 percent in 1952.

[3] In addition to Government transfer payments as defined by the Department of Commerce, this item includes net interest, and subsidies, minus current surplus of Government enterprises.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Actuals, 1952-54, Department of Commerce; estimates for 1955 by the staff, Joint Committee on the Economic Report.

TABLE 3.—*Relation of gross national product, net national product, national income, and personal income, calendar years: Actual, 1952–54; estimated, 1955* [1]

[Billions of dollars]

Item	Actual			Estimated, 1955 [1]
	1952	1953	1954	
Gross national product	346.1	364.9	357.2	375.0
Less: Capital-consumption allowance	25.3	27.2	29.3	31.5
Equals: Net national product	320.8	337.6	327.9	343.5
Plus: Subsidies minus current surplus of Government enterprise	−.2	−.5	−.3	−.2
Less:				
Indirect business tax and nontax payments	28.0	30.0	30.3	31.2
Business transfer payments	1.0	1.0	1.0	1.0
Statistical discrepancy	.6	1.0	−3.7	[4] −3.7
Equals: National income	291.0	305.0	300.0	314.8
Less:				
Corporate profits before taxes	37.2	39.4	35.0	[2] 38.5
Corporate inventory valuation adjustment	1.0	−1.0	−.2	0
Contributions for social insurance	8.7	8.8	9.7	10.5
Excess of wage accruals over disbursements	0	−.1	0	0
Plus:				
Government transfer payments	12.1	12.8	14.8	15.8
Net interest paid by Government	4.9	5.0	5.3	5.4
Dividends	9.1	9.4	9.9	10.5
Business transfer payments	1.0	1.0	1.0	1.0
Equals: Personal income	271.2	286.1	286.5	[2] 298.5
Less: Personal tax and nontax payments	34.4	36.0	32.9	33.8
Equals: Disposable personal income	236.9	250.1	253.5	264.7
Less: Personal consumption expenditures	218.4	230.1	234.0	244.2
Equals: Personal savings [3]	18.4	20.0	19.5	20.5

[1] Estimates for 1955 reflect explicit assumptions contained in executive branch statements or the staff's interpretation as to what estimate would be consistent with the President's Economic Report and Budget. The estimates assume that prices in 1955 will be about the same as in 1954.

[2] Assumptions on which revenue estimates in the President's Budget are based. See letter of M. B. Folsom, hearings, pp. 1146–47.

[3] Personal savings in 1955 are estimated at 7.7 percent of disposable personal income, the same as in 1954, compared to 8 percent in 1953, and 7.8 percent in 1952.

[4] It is assumed that the statistical discrepancy is the same in 1955 as in 1954. For a discussion of this item, see Economic Report, pp. 84–85.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Actual 1952-54, Department of Commerce; estimates for 1955 by the staff, Joint Committee on the Economic Report.

WILL THE ECONOMY ACHIEVE THE EMPLOYMENT ACT GOALS IN 1955?

The President's Economic Report expresses confidence that the economic levels needed to approximate the objectives of the Employment Act will be achieved in 1955. The assumptions implicit in the Economic Report suggest a continuation of the recent rapid rate of increase in activity through the second half. Thus, a gross national product of $375 billion for 1955 as a whole implies a rise from an estimated annual rate of about $365 billion at the start of 1955 to about $385 billion by the end of 1955.[18]

The hearings of the committee developed testimony confirming this optimism. But the consensus of the testimony presented a month ago suggested that the rate of advance needed might not be achieved, particularly in the second half.[19]

[18] The 1955 year-end rate, which is generally in line with the staff's estimates of potential "maximum" gross national product, probably agrees with the estimates of the goals of "maximum employment, production, and purchasing power" underlying the Economic Report. See, for example, Economic Report, pp. 3–5, especially charts 1 and 2.

[19] For a summary of sentiment see, hearings, especially p. 110 ff.

Areas toward which a cautious attitude was exhibited include automobiles, housing, inventories, business spending on plant and equipment, and agriculture. Some analysts point to the possibility of a modest decline in the second half rather than continued advance or even stability. They believe that production in some industries is being "bunched" in the early part of the year. Thus, instead of economic activity proceeding smoothly upward during the entire year and into 1956, an overacceleration is expected by these economists in the first half, followed by a modest correction later.

It is to be hoped that business and consumer spending during the coming year will increase aggregate demand enough to permit "maximum" employment and production. If demand does not rise sufficiently, however, the resulting failure to utilize available production resources may work itself out through one or some combination of the following:

(1) A "voluntary" reduction in the labor force or a sidewise movement if, for example, married women and older persons accelerate their withdrawals or young people stay in school longer on the average.

(2) A rise in unemployment. Between 1953 and 1954, below capacity use of resources resulted in a doubling of unemployment from 1.6 million to 3.2 million.

(3) An acceleration of the trend toward shorter average annual hours of work.

(4) A reduction in the average gain in output per man-hour for the economy as a whole as a result of (*a*) shifts of workers to industry or occupations with lower output per man-hour,[20] and (*b*) operating in important industries at sufficiently low percentage of capacity to impair efficiency. Similar results appear to have occurred during the past year and overall output per man-hour probably increased by less than the long-run average rate.

(5) A reduction in prices such as normally occurs in a private competitive economy, when there is an excess of supply over demand, leading to an increase in the physical quantities demanded.

(6) The balanced Federal cash budget anticipated by the President in his January budget would become unbalanced since (*a*) the estimates of personal and corporate tax revenues rest on the assumption that the economy will achieve maximum production and purchasing power, and (*b*) some expenditures may rise above levels anticipated in the budget because of automatic flexibility provisions, such as those in the agricultural price support programs, unemployment compensation, etc. These automatic compensating features of the Federal budget would operate as intended, in the desirable direction of counteracting such a failure of demand, but would shift the Federal cash budget in the direction of a deficit.

This analysis of possible pessimistic factors in the outlook is not a forecast by the staff. It is only intended to reflect cautions expressed at recent committee hearings.

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[20] This may result either from changes in demand preferences by consumers, business, and Government, or from inadequate aggregate demand for national product.

ECONOMIC POLICY IF THE RECOVERY SHOULD FALTER LATER THIS YEAR

It is impossible at this juncture to predict which course the economy will follow beyond mid-year; namely, whether it will continue upward to approximately "maximum" employment and production levels as the Economic Report believes it reasonable to expect, or level off, or decline. Action on the April 1 tax extensions, particularly excises, will have to be taken at a time when economic activity, seasonally adjusted, appears to be on the rise.

If later in the spring and summer the economy shows signs of faltering, the Congress may wish to consider action to bolster consumption and investment. The Economic Report makes this point, stating, in part:

> The uncertainty of economic predictions requires that the Federal Government be prepared to adjust its policies promptly if economic events should not bear out current expectations.[21]

In reply to a question, the Chairman of the Council of Economic Advisers amplifies this and states that the Economic Report—

> * * * concludes: (*a*) that they [economic forces] hold out the promise that we shall achieve a high and satisfactory level of employment and production within the current year, and (*b*) that if this expectation is not fulfilled the Government must be ready to revise its policies so as to help to bring this result about as promptly as feasible.[22]

Such compensatory action is not to be confused with actions for improving basic programs of the Government for long-run economic stability and growth which are recommended in the President's Economic Report, and which were suggested at the recent committee hearings—programs that should be considered and resolved irrespective of economic trends this year.

Prompt action to bolster a faltering economy could be taken in the following areas:

1. *Further credit ease.*—Congressional action has been about exhausted in this area since authority has been delegated to the monetary authorities—the Federal Reserve and the Treasury—to take such steps as become necessary.

2. *Tax reductions.*—The most immediately stimulating reductions would be in the areas of individual income taxes and excise taxes.

3. *Housing.*—Stimulate middle- and low-income housing and slum clearance. The public-housing program is largely at a standstill as a result of the private-housing boom and provisions of the law. These provisions could be relaxed and increased authorizations provided. It is recognized that actual expenditures under this program would not increase quickly, but the authorization would have immediate stimulating effects upon construction and related industries.

4. *Accelerate public works for schools, highways, and community development.*—Again, this would be slow in terms of actual expenditures, but the indirect effects of the authorizations should have an immediate stimulating effect.

[21] Economic Report, pp. 24–25.
[22] Hearings, p. 45.

APPENDIXES

Appendix A

Congress of the United States,
Joint Committee on the Economic Report,
March 9, 1955.

Memorandum.
To: Senator Paul H. Douglas, chairman.
From: Grover W. Ensley, staff director.
Subject: Derivation of full-time equivalent unemployment.

You have asked that the staff submit a memorandum on the relationship between reported unemployment and full-time equivalent unemployment, including those on temporary layoff, part time, and available for, but not actively seeking, job opportunities. After consulting with the Bureau of the Census, the following material on the derivation of the full-time equivalent of such underemployment is respectfully submitted.

The Bureau of the Census reports on labor force, employment, and unemployment show as unemployed those who did not work at all during the survey week and who were looking for work.[1] Additional worktime may be lost by members of the working population from at least 3 sources: (1) Persons who are counted as employed even though they are not at work, particularly those on temporary layoffs (less than 30 days); (2) persons involuntarily working part time because of economic factors or because of the unavailability of full-time jobs; and (3) persons classified as "not in the labor force" because they do not report themselves as seeking work although they are available for employment if job opportunities existed.

If we wish to measure the number of people who are either working or looking for work, the existing series present, on the whole, satisfactory estimates. On the other hand, these series are not designed as indicators of the degree to which there is maximum utilization of the labor force. They, therefore, do not measure directly the amount of labor time lost which people were able and willing to make available to the market. A reasonably accurate and consistent set of estimates measuring this latter concept of full-time equivalent employment and unemployment could be made by rather extensive estimating procedures. Maximum accuracy might involve obtaining some information not revealed by present surveys. On the other hand, fairly simple procedures can yield estimates of the equivalent full-time unemployment which illustrate the rough magnitudes involved and their relationship to present measurements of the unemployed by the Bureau of the Census.

In brief, the estimates presented below take the unemployed as reported by the Census and to them add two elements: (1) temporary layoffs as reported by the Census, and (2) an estimate of the full-time unemployment which would be equivalent to the time lost by people working part time for economic reasons. The tabulation below shows the calculations involved:

[1] The Census concept also includes as unemployed those (*a*) who would have been looking for work except that they were temporarily ill, (*b*) who were awaiting a call to jobs from which they were on indefinite layoff, or (*c*) who believed no work was available in their line of work or in the community. These "inactive" groups are included when survey respondents report these circumstances in reply to the regular questions. No specific inquiry is made to identify them so that some may be omitted from the unemployed count.

[In thousands]

Item	December 1953	1954 March	1954 May	1954 August	1954 November	February 1955
(1) Unemployed (Census)	2,313	3,724	3,305	3,245	2,893	3,383
(2) Temporary layoffs	195	236	294	143	120	145
PART-TIME WORKERS IN NONAGRICULTURAL INDUSTRIES (CENSUS): WORKED LESS THAN 35 HOURS PER WEEK						
(3) Usually work full time at present job but worked part time because of economic factors	1,258	1,712	1,548	1,451	1,285	1,148
(4) Man-hours equivalent to full-time work (37.5 hours per week)	47,213	64,200	58,050	54,413	48,188	43,050
(5) Man-hours actually worked	31,397	43,550	39,286	37,532	31,932	28,137
(6) Time lost (4−5)	15,816	20,650	18,764	16,881	16,256	14,913
(7) Full-time equivalent unemployment (6 divided by 37.5 hours per week)	420	550	500	450	430	400
(8) Usually work part time at present job but prefer and could accept full-time work	467	794	866	1,059	935	810
(9) Man-hours equivalent to full-time work (37.5 hours per week)	17,513	29,775	32,475	39,713	35,063	30,338
(10) Man-hours actually worked	9,046	15,890	18,601	20,814	18,402	16,053
(11) Time lost (9−10)	8,467	13,885	13,874	18,899	16,661	14,285
(12) Full-time equivalent unemployment (11 divided by 37.5 hours per week)	230	370	370	500	440	380
(13) Total full-time equivalent unemployment (1+2+7+12)	3,158	4,880	4,469	4,338	3,883	4,308

Source: Computed from data in the monthly sample survey of the labor force of the Census Bureau, U.S. Department of Commerce.

Lines 4 and 9 show the total number of man-hours that would be worked by all those on involuntary part time if they had been working a full-time workweek. These calculations assume that the full-time workweek for some workers would be 40 hours, for others perhaps 35 hours, and that the average full-time workweek therefore might be 37.5 hours per week.

Line 5 shows the number of man-hours actually worked in the survey week by those who usually work full time at their present job but who worked part time because of economic factors.[2] Line 10 gives the same information for those who usually work part time on their present job but prefer and could accept full-time work. The difference between these 2 figures gives the total number of man-hours actually lost by all those in each of these 2 groups. When the total man-hours lost by part time are divided by 37.5 hours per week (assumed full-time workweek) we obtain lines 7 and 12, which show for each group of part-time workers the full-time unemployment equivalent to the time lost because of part-time work. In view of the roughness of the calculations these have been rounded to the nearest 10,000. These calculations indicate (see last line of the tabulation) that the full-time equivalent unemployment in 1954 varied between about 3.9 and 4.9 million.

If one wished, some allowance might be made for underestimation of unemployment resulting from the fact that some workers theoretically covered by the concept are not reported as looking for work, or they are not reported to be in the special circumstances which would result in their classification as "inactive" unemployed. In the main, these are persons with marginal attachments to the labor force whose status is uncertain and difficult to determine.[3] The Census Bureau has made seven surveys since 1947, the latest of which was taken in June 1950. These surveys were designed to find out how many people who were not classified as unemployed actually wanted work and could take a job if it were available, and who, therefore, resembled the inactive unemployed in some respects.

[2] Computations are confined to nonagricultural workers. A small number of agricultural workers are also reported in this category but since most of them are self-employed farmers, working short hours in slack periods of the year, the significance of the classification is somewhat obscured.
[3] See footnote 1 for a description of the "inactive" unemployed.

Only five of these were strictly comparable with each other. These were made in February 1948, June 1948, May 1949, January 1950, and June 1950. These surveys revealed that this fringe group would add between 400,000 and 700,000 to the labor force and hence to the unemployed if included in the regular surveys. This group amounted to between 15 and 21 percent of the unemployed as counted by the Census in the months in which these 5 special surveys were made. The average percentage was about 18 percent. The group seems to be more stable than total unemployment. For example, the group was 19 percent as large as unemployment in February 1948 and only 15 percent in January 1950 when unemployment was higher.

Most of this fringe group are teen-age males or women. Males 20 years of age and over accounted on the average for about 16 percent of this fringe group.

Appendix B

Congress of the United States,
Joint Committee on the Economic Report,
February 25, 1955.

Memorandum.
To: Senator Paul H. Douglas, chairman.
From: Grover W. Ensley, staff director.
Subject: Investment trusts.

In connection with recommendation No. 4 in the Economic Report of the President, you have asked the staff to submit material on the tax aspects of investment trusts, especially as they relate to the President's proposal. We hope that the following material will be helpful.

Tax status of investment trusts

Present tax treatment of regulated investment trusts.—Regulated investment companies meeting certain specific requirements are treated as "conduits" of income and are taxed only on their undistributed earnings. To qualify for this treatment, the company must derive at least 90 percent of its gross income from dividends, interest, or gain from the sale of stock or securities. In general, at least 50 percent of the company's portfolio must consist of holdings no one of which exceeds 10 percent of the voting securities of the issuer or 5 percent of the assets of the regulated investment company. Exception is made to permit regulated investment companies furnishing capital for so-called development companies to hold more than 10 percent of the voting stock of such companies. No more than 25 percent of the value of the total assets of the regulated investment company may be invested in any one company or group of associated companies under the investment company's control. Finally, the investment company must distribute at least 90 percent of its ordinary income to its shareholders.

Tax treatment of shareholders.—Specific provision is made in the law to permit shareholders to treat as capital gains that portion of the dividends received from qualified regulated investment companies which has been identified by the company as capital gains. Shareholders may claim the dividends received exclusion and credit on the full amount of dividends, other than that identified as capital gains, where at least 75 percent of the company's income is from dividends. Where less than 75 percent of the regulated investment company's income is derived from dividends, the dividends received exclusion and credit are allowed only on the portion of the company's distribution which actually represents dividend income. The dividends received credit and exclusion are not allowed, however, with respect to dividends from foreign corporations. On the other hand, where more than 50 percent of the company's investments are in foreign securities, shareholders may claim the foreign tax credit.

This tax treatment of regulated investment companies and their shareholders is intended to facilitate the investment of savings in corporate securities. Investors are encouraged to pool their resources through the use of a corporation in order to obtain the benefits, which otherwise might not be available to them individually, of skilled and diversified investment in corporate stocks and bonds. The requirement that the company distribute 90 percent or more of its ordinary income to its stockholders reflects the desire by the Congress to confine this favorable treatment to those situations where the company is truly the agent of its shareholders. In this event, the conduit character of the regulated investment company is intended to provide substantially the same tax treatment for the shareholders as would result if the company's income were received directly by them.

Number and assets of investment companies

As of the end of the first quarter of 1954, 353 investment companies with total assets of about $8.7 billion were registered with the Securities and Exchange Commission. Over 95 percent of the total assets were held by 145 open-end and 77 closed-end companies. The following table broadly outlines the composition of the assets of these companies:

	Total	Open end	Closed end
Number of companies	222	145	77
	Millions	*Millions*	*Millions*
Total assets	$8,353	$4,727	$3,626
Cash and cash items	218	157	61
Government securities	207	152	55
Securities of other investment companies	474	6	468
Other securities	7,445	4,411	3,034
Other assets	8		8

NOTE.—Detail will not necessarily add to totals because of rounding.

The data on investment company holdings of Government securities are not sufficiently detailed to indicate whether any substantial investments have been made in debt issues of State and local governments. In view of the relatively low rate of return earned on such securities and the fact that the tax exemption of the interest on these issues may not be passed through to shareholders under the present law, it is thought that very few, if any, of these companies hold an appreciable amount of such securities.

No information is available in the Securities and Exchange Commission with respect to the earnings of these investment companies. However, the National Association of Investment Companies compiles data with respect to 115 open-end investment companies, which account for about 97 percent of the total assets of open-end companies registered with the SEC. The distributed earnings of these 115 companies in 1954 amounted to $331 million, of which $200 million was investment income (interest and dividends), and $130 million was capital gains. The association's data for 30 closed-end companies, which accounted for about 27½ percent of the total assets of the 77 closed-end companies registered with the SEC, show distributed earnings of about $59 million, including $49 million of dividends on common stocks, $9 million of dividends from preferred stocks, and $1 million of interest. Since these companies, in order to obtain the preferential tax treatment described above, are required to distribute at least 90 percent of their earnings, these data suggest that investment company earnings in 1954 approximated $500 million to $750 million.

President's recommendation

Recommendation No. 4 in the Economic Report of the President is to revise the tax laws to permit a regulated investment company, holding the bulk of its assets in the form of tax-exempt securities, to pass through to its shareholders the tax-exempt status of the income received on such securities. The purpose of this proposed revision of the tax law is to provide a broader market for bond issues of small and little-known local governments in order to facilitate their financing of school and highway construction and other local public works. The proposal is based on the assumption that many local governments, particularly the smaller ones, cannot finance the increasing requirements for public improvements out of current tax revenues. Moreover, it is assumed that these governments are severely circumscribed in financing their public works by debt issues because individual investors are unwilling to purchase their securities, in view of the inadequacy of the tax base on which they rest, except on terms which are extremely unfavorable to the issuer.

Effectiveness of the proposal in facilitating local-government financing.—The President's proposal is intended to add breadth to the present market for tax-exempt State- and local-government securities, particularly the small issues of relatively small local units. Since investment companies specializing in local-government securities might be counted on to seek considerable diversification in their holdings of such issues, it is likely that they would include in their portfolios a significant amount of the relatively high-yield issues of small municipalities. The resulting increase in demand for such issues would provide the conditions for more economical financing of needed public improvements by these local governments. Moreover, it is also assumed that individuals investing in tax-exempt State- and local-government securities would welcome the opportunity, which would be provided by specialized investment trusts, of obtaining greater diversification of holdings in local government securities than they might achieve through direct investment.

Those opposed to the proposal maintain that specialized investment trusts would tend to be just as conservative as individual investors in appraising these smaller issues, and would concentrate their holdings in securities of larger and more prosperous cities and counties.

Opponents of the proposal also point out that among individual investors in such securities, the principal demand comes from those in high tax brackets for whom the tax-exemption feature provides an after-tax return which exceeds that obtainable on many taxable securities. For example, a 2½-percent yield on a tax-exempt bond, for an individual in the 69-percent tax bracket, is equivalent to an 8.1-percent pretax return on a taxable security. Accordingly, although such individuals might be inclined to take advantage of the diversification of investment in this type of issue afforded by specialized investment companies, it is possible that any additional investment by investment companies would be offset by a decrease in direct investment by individuals. This suggests that the solution of the financing problems of small local governments lies in finding means for increasing their revenue base.

Implications for tax policy.—The President's report points out that the "pass through" treatment of tax-exempt interest would represent an extension of, rather than a departure from, a principle already found in the tax treatment of regulated investment companies and their shareholders, as, for example, in the case of capital gains. This would seem to follow, clearly, from the characterization of regulated investment companies as conduits. Since the company acts merely as an agent for its shareholders, it should presumably be permitted to transmit to them the tax-exempt status of income from State- and local-government bonds, which would be tax free in their hands if they were to invest directly in these issues.

Those opposed to the proposal maintain that to the extent that investment trusts specializing in tax-exempt securities succeeded in attracting investible funds, financial resources would be diverted from investment in corporate equities and debt issues. This result, it is claimed, would be contrary to the intent of Congress in providing special tax treatment for regulated investment trusts and their shareholders, i. e., the encouragement of broader investment in corporate securities.

Adoption of the proposal would also give rise to claims for similar concessions with respect to income from other sources in which investment companies are discouraged from investing under the present tax law. The result, accordingly, might well be an extension of the present regulated investment company treatment into areas where no real occasion for this preferential treatment exists.

A further argument offered against the proposal is that the present tax status of interest from State- and local-government securities is one of a number of fundamental issues in Federal, State, and local government fiscal relations. Any change in the Federal tax laws affecting this status should be considered in the context of an overall approach to the problem of intergovernmental fiscal relations. This suggests, accordingly, the desirability of deferring action on any specific proposal relating to a relatively narrow aspect of the problem until such time as broad outlines of policy in this area are formulated.

CHECKLIST OF PUBLICATIONS OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT[1]

January 1947—March 1955

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.

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.

[1] 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.

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.

Prevalence 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.

**Joint Economic Report* (Report of the Joint Committee on the January 1952 Report of the President together with National Defense and the Economic Outlook for the Fiscal Year 1953, materials prepared for the Joint Committee on the Economic Report by the Committee staff): March 1952.

**The Taxation of Corporate Surplus Accumulations,* The Application and Effect, Real and Feared, of Section 102 of the Internal Revenue Code dealing with Unreasonable Accumulation of Corporate Profits (study prepared for the Joint Committee on the Economic Report by Dr. J. K. Hall), committee print (sale price 55 cents): May 1952.

*Hearings, Subcommittee on General Credit Control and Debt Management (March 10, 11, 12, 13, 14, 17, 18, 19, 20, 21, 24, 25, 26, 27, 28, and 31, 1952) (sale price $2.25): May 1952.

**Monetary Policy and the Management of the Public Debt* (Report of the Subcommittee on General Credit Control and Debt Management) Senate Document No. 163 (sale price 25 cents): July 1952.

Federal Tax Changes and Estimated Revenue Losses under Present Law (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print.

**Sustaining Economic Forces Ahead* (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print (sale price 20 cents): December 1952.

Pensions in the United States (A Study prepared for the Joint Committee on the Economic Report by the National Planning Association), committee print (sale price 30 cents): December 1952.

Index of Joint Economic Publications: January 1947 through December 1952. Committee print. January 1953.

Historical and Descriptive Supplement to Economic Indicators (sale price 30 cents): December 1953.

*Hearings, January 1954 Economic Report of the President (February 1, 2, 3, 4, 5, 8, 9, 10, 11, 15, 16, 17, 18): March 1954.

**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the 1954 Economic Report of the President), House Report No. 1256 (sale price 30 cents): February 1954.

*Hearings, Subcommittee on Economic Statistics of the Joint Committee on the Economic Report (July 12 and 13, 1954) (sale price $1.50): August 1954.

Economic Statistics (Progress Report prepared by the Subcommittee on Economic Statistics). House Report No. 2628: August 1954.

Congressional Action on Major Economic Recommendations of the President, 1954 (Materials prepared by the Joint Committee on the Economic Report by the Committee Staff), committee print: September 1954.

**Potential Economic Growth of the United States During the Next Decade* (Materials prepared for the Joint Committee on the Economic Report by the Committee Staff), committee print (sale price 15 cents): October 1954.

*Hearings, Subcommittee on Economic Stabilization (December 6 and 7, 1954) (sale price $1.25): December 1954.

**Trends in Economic Growth, A Comparison of the Western Powers and the Soviet Bloc* (Materials prepared for the Joint Committee on the Economic Report by the Legislative Reference Service of the Library of Congress), committee print (sale price $1): January 1955.

*Hearings, January 1955 Economic Report of the President (January 24, 26, 27, 28, 31, February 1, 2, 3, 8, 9, 10, and 16, 1955) (sale price $3.50): February 1955.

Joint Economic Report (Report of the Joint Committee on the Economic Report on the 1955 Economic Report of the President) (sale price 30 cents): March 1955.

**Economic Indicators* (a monthly publication of the Congress under Public Law 120, 81st Cong., 1st sess.) (sale price 20 cents a copy, $2.00 a year): Issued monthly.

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