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Union Calendar No. 39

91st Congress, 1st Session - - - - - - House Report No. 91–142

# 1969
# JOINT ECONOMIC REPORT

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## REPORT

OF THE

## JOINT ECONOMIC COMMITTEE
## CONGRESS OF THE UNITED STATES

ON THE

## JANUARY 1969 ECONOMIC REPORT
## OF THE PRESIDENT

TOGETHER WITH

## MINORITY, SUPPLEMENTARY, AND DISSENTING VIEWS

APRIL 1, 1969

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1969

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 – Price 65 cents

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

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# 1969 JOINT ECONOMIC COMMITTEE REPORT

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# Union Calendar No. 39

91st Congress, 1st Session } HOUSE OF REPRESENTATIVES { Report No. 91–142

# REPORT ON THE JANUARY 1969 ECONOMIC REPORT OF THE PRESIDENT

April 1, 1969.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

## REPORT

together with

## MINORITY, SUPPLEMENTARY, AND DISSENTING VIEWS

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

# I. Introduction

# REPORT OF THE JOINT ECONOMIC COMMITTEE ON THE JANUARY 1969 ECONOMIC REPORT OF THE PRESIDENT

## I. INTRODUCTION

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

The Employment Act requires that the President's Economic Report contain (1) the levels of employment, production, and purchasing power obtaining in the United States and the levels necessary to carry out the policy declared in section 2 of the act; (2) current and foreseeable trends in the levels of employment, production, and purchasing power; (3) a review of the economic program of the Federal Government and a review of economic conditions affecting employment in the United States or any considerable portion thereof during the preceding year and of their effect upon employment, production, and purchasing power; and (4) a program for carrying out the policy declared in section 2, together with such recommendations for legislation as he may deem necessary or desirable.

This year, for the third time in its 23-year history, the committee is confronted by a problem arising from a change of administration. The act's requirement for a timely report to the Congress by the committee has not permitted sufficient time for the new administration to prepare and file its own report. While we have an Economic Report from the previous administration, the committee was limited to hearing testimony of a general nature from the top economic policy representatives of the present administration. In the course of this year, we expect to hear again from the administration, and it is our hope that at that time they will submit specific program proposals. Meanwhile, it seems clear that there is little difference of opinion between this committee and the present administration spokesmen on the present state of the economy.

During 1968, gross national product grew at a rate of 9 percent; of this, 5 percent represented an increase in real output and 4 percent an increase in prices. The unemployment rate fell to 3.3 percent, the lowest level since 1953. In these respects, commendable progress toward the goals of the Employment Act was made.

But serious problems remain.

The 4-percent rate of inflation that prevailed in 1968 is the highest since 1951.

Interest rates, at the highest level in our history, are producing distortions in the economy.

A sizable proportion of Americans remain at an intolerably low level of living.

High unemployment in ghetto areas is a serious factor in social unrest.

Imbalances exist in the allocation of Federal Government resources, with the result that fundamental needs like education, urban transportation, and pollution control are not adequately met.

Nor have we yet established adequate methods of assessing and asserting priorities for public expenditures and assuring an efficient and effective expenditure of the public dollar.

The outlook for reduction of defense expenditures is clouded by the Vietnam war and proposals for more expensive missile defenses.

The Nation continues to face stubborn international trade and balance-of-payments problems.

Much progress has been made under the Employment Act in articulating public economic policy. Yet, there are important unmet needs in this process of establishing public economic policy.

We are concerned by the lack of any comprehensive statement from the administration setting forth the long-range goals and requirements necessary to carry out the full objectives of the act. We also believe that economic policymaking in a number of significant areas has been handicapped by absence of economic analysis in the economic reports and recommendations from the executive branch. We refer to issues such as urban deterioration, the defense budget, pollution control, and manpower policy, all of which are central to the objectives of the act.

One evidence of this at the present time is the absence of any public policy directed toward substantially reducing unemployment, particularly in low income and urban ghetto areas. The seriousness of this problem was brought out in this committee's report of last summer on "Employment and Manpower Problems in the Cities." We are disturbed at the apparent tendency of the new administration to acquiesce in permitting unemployment to rise as a result of measures to reduce price increases, without adequate measures to offset increases in unemployment.

Another example is the absence of any concrete analyses, plans, or proposals to bring interest rates down in the future. High interest rates are endangering the housing industry and frustrating construction of vitally needed public facilities. We cannot afford complacency in this matter.

Further, we have had little concrete analysis of the defense budget or guidance from the administration on the important question of the allocation of our resources between military and civilian programs. At the moment, there is uncertainty as to how much, if any, of the expenditure reduction that would derive from deescalation in Vietnam would be available for social programs. This decision is fundamental to any program for allocating resources to high-priority national needs.

Considering the importance of these many other serious national economic problems, this committee urges the administration to focus attention on assessment of our Nation's requirements and goals, the definition of long-range objectives of economic policy, and development of more realistic means of establishing priorities in public expenditure.

We would expect that the Council of Economic Advisers and the Bureau of the Budget would play a key role in conducting this effort.

The Council of Economic Advisers should undertake to enumerate the comprehensive long-range goals and requirements necessary to carry out fully the objectives of the Employment Act. The Bureau of the Budget, in particular, can provide additional help to the Congress in advising us on the long-term commitments involved in program choices. It can also provide the Congress with increased evidence on the benefits and costs of various Federal programs and an analysis of the ultimate recipients of the outputs from these expenditures.

These issues are more fully covered in the sections that follow.

# II. Economic Prospects in 1969

## THE ECONOMIC SITUATION AND OUTLOOK

As 1969 unfolds, the Nation faces the problem of maintaining high employment and at the same time halting the inflationary spiral of price and wage increases.

Last year, actual developments proved to be more exuberant than initial expectations. It was the eighth year of the expansion that started in early 1961. In 1968, increased demands in all principal markets brought the Nation's total production of goods and services to $861 billion, a rise of $71 billion or 9 percent over 1967. About 5 percent of the rise in GNP represented an increase in real output with almost 4 percent reflecting higher prices. Personal income also rose 9 percent to $686 billion. A very large expansion in payrolls was the largest single contribution to this advance.

Corporate profits recovered following the 1967 decline of 4.7 percent, showing an increase of about 13 percent. Total employment rose 1.5 million, or about 2.8 percent. Unemployment fell to its lowest level in 15 years—averaging 3.6 percent for the year—and declined to 3.3 percent, a rate that has now prevailed for 4 months.

Average hourly earnings in private industry scored a 6.3-percent advance. Average hourly compensation, including social security and various supplements, of all persons in the private economy rose 7.5 percent. This compares with an increase of 6.1 percent in 1967, and an average of about 5 percent a year between 1947 and 1966. Since output per man-hour for all persons in the private economy rose about 3.3 percent (in line with the long-run trend), unit labor costs rose about 4.1 percent.

Both the outgoing and the incoming administrations estimate an expectation of a gross national product of about $921 billion for 1969; unemployment averaging less than 4 percent; and a year-to-year price increase as measured by the GNP deflator of around 3.5 percent. They differ mainly in that the outgoing administration expected a modest acceleration of demand in the second half, and the present administration believes policy must be restrictive enough to prevent this acceleration.

At present, the leading indicators are still revealing substantial strength. Prices, output, employment, and incomes continue to rise. The underlying pattern appears to be one of continued strong expansion—indeed, the most recent reports suggest a further strengthening.

The State and local purchases of goods and services are likely to rise at least $10 billion as these governments try to meet the growing demand for public services and facilities. This is in line with increases recorded in recent years.

Federal Government purchases are programed to remain approximately level during the first half of the year in accordance with stipulations in the Revenue and Expenditure Control Act of 1968.

However, an increase is expected in the second half, in part because of the addition to Federal payrolls on July 1 at an annual rate of $2.8 billion. Federal purchases of goods and services for calendar year 1969 on the basis of the January budget would be about $3 billion higher than in calendar 1968. But already there are indications that expenditures may rise more than the January budget suggested unless Congress takes resolute action to cut back less essential outlays.

Private and public investment surveys, new orders for machinery and equipment, and construction contracts for business plant indicate a substantial rise in business fixed investment this year. Indeed, investment plans have been revised upward repeatedly over recent months. Last November, the McGraw-Hill survey concluded that business planned to increase their plant and equipment purchases in 1969 by 8 percent over the level of 1968. In December, the quarterly survey by the Office of Business Economics estimated a rise of 9 percent in the first half of 1969 alone. Later private surveys suggested 12 to 14 percent rises. Now, the March release from the Department of Commerce (survey taken in January and February) reveals projected investment spending for 1969 of 14 percent over 1968, compared to rises of 4 percent in 1968 and 2 percent in 1967. The expected rise in manufacturing is about 16 percent and in nonmanufacturing 12 percent.

Taken at face value, the latest survey suggests a rise of $9 billion in plant and equipment spending from 1968 to 1969. However, backlogs of projects carried over to future periods have been rising steadily since last spring as firms have been unable to fulfill plans on time. This suggests that availability may control the total more than business plans.

As we indicated a year ago, rising disposable personal income, combined with an increase in population and family formation, produce a demand for at least 2 million additional housing units a year. Homebuilding activity, however, has been and will continue to be restricted by the tightness of credit, high interest rates, and rising construction costs. Although housing starts rose sharply in the latter months of 1968, and in January 1969 reached about 1.8 million per year, most analysts believe that continued tight money will cause private nonfarm housing starts in 1969 to average somewhat below their recent level. At best, they expect about 1.6 million units for the year. On this basis, residential construction expenditures for the year may rise approximately 10 percent above the average of last year. This would imply only a modest rise from the annual rate in the fourth quarter of 1968.

If disposable personal income increases about in line with expectations this year, or by approximately $35 to $40 billion from last year, then consumer expenditures should increase by about the same amount or slightly less. As implied earlier, the advance should be somewhat more rapid in the second half than in the first half of the year—in part, because of the Federal pay raises at midyear and the completion by midyear of the Federal income tax settlements.

Summing up these expectations, the most probable total GNP for calendar 1969 seems to be between $920 and $930 billion, with forecasts for the year ranging from a low of about $910 billion to a high of about $935 billion. Witnesses at our public hearings presented detailed projections with a somewhat narrower range of $914.9 billion to $923 billion. The outgoing Council of Economic Advisers forecast a GNP of $921 billion for 1969, a figure with which the new Council agreed though commenting that the figure could be slightly lower if monetary policy prevented the acceleration of demand in the second half.

It is noteworthy that forecasts for 1969 have tended to rise since the first ones started appearing late last summer. For example, the Michigan econometric model presented by Professor Suits suggests now a GNP of $915 billion for 1969 compared to a range of $886 to $909 billion generated in tests last November. Despite the fact that retail sales have been on a plateau since last summer, and Federal spending is on a quite flat trend, the strength of investment, State and local government spending and the leading indicators suggest that policy decisions must rest for the immediate future on the assumption of strong inflationary pressures.

Uncertainties in the economic situation and outlook suggest the necessity for constant alertness to changing developments during the year and flexibility in the implementation of policy. Any sudden violent change in the course of policy should be avoided since it could, as in the past, enlarge fluctuations in output and prices. At the same time, reduction of present inflationary pressures must continue to be the primary objective, along with strengthened manpower and related measures to assure that poorer, lower paid employees are not forced to bear the burdens of increased unemployment.

We must also be prepared for the possibility that Government spending may differ from present expectations as a result of changes in the domestic and/or international situation. But at this time, Congress must face decisions about the budget—on both the expenditure and revenue sides—that take into consideration the continued strongly inflationary character of economic forces accentuated by rising investment prospects. These decisions must reflect the need for continuing to achieve a significant surplus in the Federal budget in order to prevent such a disastrous tightening in monetary policy as to bring about a serious downturn in output and employment in the midst of an inflationary process. The outlook for small business, for residential housing, and for some types of State and local expenditures could worsen if the monetary situation is allowed to tighten excessively.

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## OBJECTIVES FOR ECONOMIC PERFORMANCE

The Employment Act of 1946, under which this committee was established, calls upon Government and private groups to coordinate their plans, functions, and resources so as to create a climate favorable to achieving within a free enterprise system "maximum employment, production, and purchasing power." The act stipulates that this entails, among other things, the creation of employment opportunities, including self-employment, for those "able, willing, and seeking to work." In the language of more recent economic debate, this requires achieving a growth rate of the economy sufficient to generate jobs for our rising labor force so that we can have continuous full employment with stability in the general level of prices.

**We reiterate that the appropriate long-run unemployment goal should be 3 percent—a goal within our reach since the unemployment rate has fallen to 3.3 percent.**

It is interesting to examine how much of an increase in the output of goods and services will be necessary this year if we are to move toward the goals implied in the Employment Act, and to compare this needed output with the economic outlook spelled out for the committee by the outgoing Council of Economic Advisers, by the incoming Council, and by nongovernment witnesses before the committee. The civilian labor force has been increasing by between 1½ and 2 percent per year, while output per worker has been rising between 2½ and 3 percent.

The hours of work have been fluctuating within a narrow margin but with a slightly declining long-term trend.

**If the employment objectives are to be realized, the Nation's output of goods and services should increase by about 4½ percent from 1968 to 1969. In terms of constant prices, this implies a rise from $861 billion in 1968 to at least $900 billion in 1969. If prices rise by 3½ percent, as assumed by the Council of Economic Advisers, the current dollar GNP consistent with the Employment Act's objectives in 1969 would be at least $930 to $935 billion; higher if the price rise does not decelerate.**

The $921 billion GNP in current prices estimated for 1969 by both the outgoing and the incoming Council of Economic Advisers, therefore, implies some rise in unemployment this year, so that progress toward this committee's goal of an unemployment rate of 3 percent will be reversed. Indeed, this adverse development was conceded in the Council's statement before the committee, and the Secretary of Labor admitted that by the end of the year between 300,000 and 500,000 workers might be added to the unemployment rolls under the CEA projections.

**The rise in prices of 3½ percent, as projected and accepted by the Council, is both inconsistent with the Employment Act and intolerable, for it not only damages the retired and others on relatively fixed incomes but it robs millions of workers of the purchasing power of their wages, and everyone of the value of his savings.**

Economic policy this year must aim at reducing the rate of increase in prices. We applaud the new administration's repeated emphasis on the gradualism with which they will approach this task. It would be too high a price to pay to stop inflation if drastic monetary and fiscal policies produced recession accompanied by unemployment. At the same time, to reverse our progress toward a 3-percent unemployment rate goal, even for a short period, is undesirable.

**We urge both the administration and the Congress to shape Federal expenditure programs so as to concentrate their job-creating benefits in high unemployment areas—particularly the low-income cores of our cities. In this way, we could maintain our current low-unemployment rate, and perhaps reduce it, at the same time that we reduce inflation.**

Although we are very close to the unemployment target, there remains evidence that the low, overall unemployment rate masks wide disparities. For most primary workers in the economy, such as married men, the unemployment rates are 2 percent or less, which seem close to the minimum frictional level for these groups. Nonetheless, nonwhite workers still experience a rate slightly more than double the rate for whites—approximately the same ratio as in 1961. The jobless rate for nonwhite teenagers was 25 percent in 1968, while that for white teenagers was 11 percent.

The new survey of low-income areas in large cities, known as the Urban Employment Survey, revealed in six cities an overall unemployment rate in these low-income areas of 9.5 percent—more than 2½ times the average for the total civilian labor force. To bring the high unemployment rates in selected groups down to the overall rate would require the creation of only about a half million jobs. Programs aimed at this goal should have high priority.

## FISCAL POLICY

As this committee has warned on previous occasions, the incurrence of budgetary deficits at high employment levels can be inflationary. Consequently, we wish to express satisfaction and approval of the actions of the past year during which the Revenue and Expenditure Control Act of 1968 and accompanying action on appropriations swung the Federal budget from a deficit of $25.2 billion in fiscal 1968 to an estimated surplus of $2.4 billion in the current fiscal year. Thus, the Federal fiscal policy, which was very expansionary in the preceding fiscal year, has shifted to neutral or very slight restraint. This change has been a major factor in efforts to slow down the economy and has enabled monetary policy to seek a better balance between various demands for credit and the supply thereof.

**The momentum of inflation and evidences of economic strength, despite monetary and fiscal actions of the past year, indicate the need for fiscal restraint in the year ahead—indeed, the budgetary surplus for fiscal year 1970 should be larger than the $3.4 billion estimated in the January Budget.**

As we look ahead, it is clear from this committee's hearings that we cannot view the proposed budget for the coming fiscal year either as certain or as necessarily appropriate. Total outlays in 1970 are now estimated at about $195 billion, almost $12 billion over the 1969 estimate. Most of this change will be in relatively uncontrollable civilian outlays, including social security, medicare, other social insurance funds, interest, pay increases, farm price support, and veterans' benefits. The Budget Director has termed these proposals of the outgoing administration a "tight budget"—perhaps overtight. It is already apparent that continuing inflation and changes in the economy beyond control of the Government are creating increased pressures for larger expenditures.

In his Economic Report of January 1969 President Johnson urged the Congress to "review its procedures for acting on the annual budget and to consider ways that may improve the coordination of decisions among Federal programs and on Federal revenues in relation to expenditures." We agree as to the desirability of such measures.

Overall, the heavy upward pressures on the expenditure side make it imperative to assure adequate revenues to hold the moderate surplus or to increase it. This will depend very heavily on proposed legislation. Unless the legislation proposed in the January budget message is passed by the Congress and approved by the President, receipts in fiscal 1970 may be at least $11.9 billion below the $198.7 billion estimated in the budget message. Of this amount, $9.5 billion represents revenue from extension of the surtax and from excise taxes due to expire this year. In an inflationary situation, it would be quite irresponsible to permit the budget to go again to a substantial deficit.

The need to preserve a budget surplus emphasizes the great dilemmas before the Congress in regard to fiscal policy. One of the following courses of action, or some combination of them, is clearly needed:

1. Close scrutiny of the budget to find substantial expenditures that can be eliminated or sufficiently reduced so as to produce savings in total expenditures of at least $12 billion.
2. Quick and drastic revision of the Federal revenue structure in line with this committee's repeated recommendations.
3. Enactment of revenue legislation proposed in the January Budget Message, including the extension of the surtax and excise taxes.

It is clear that there is an imperative need for a systematic review of expenditure programs on the basis of their relative costs and benefits. This rational approach to Government spending could lead to the establishment of priorities for Federal action. A meaningful structure of priorities would provide the basis for decisions to reduce or eliminate the least essential items in the budget. Every reduction we can achieve through application of such analysis reduces the demand for additional revenue through tax legislation (as indicated in a subsequent section of this report) or enables programs of high payoff and high priority to be funded more adequately. This committee's interest in such improvements in expenditure control is of long standing. Much progress is yet to be made.

The largest segment of the Federal budget is that devoted to national defense expenditures. These outlays should especially be subject to expenditure analysis and control. So far, at least, we are not realizing substantial reductions in national defense spending, though there continues, of course, to be the hope that reduced outlays for Vietnam will be achieved as the year advances. To complicate the issue, costly military proposals are being made for improvements in our strategic forces, modernization of the tactical air force, other increased research and development efforts, and introduction of an ABM system. The potential adverse effect of adding to the non-Vietnam outlays for defense is substantial. Thus the administration and the Congress should search out and reduce defense programs and commitments of lower priority or those that have outlived their usefulness. This will not be easy but should be pursued vigorously, as recommended in subsequent sections of this report.

Immediate action to reform the Federal revenue structure is another alternative for resolving our current fiscal dilemma. It is also essential for many other reasons, and is long overdue.

**Despite pressing matters of immediate fiscal policy, we must not lose sight of the objective of revenue reform. This is an opportune time to accomplish this long-delayed job, as the public is giving strong support to this effort. Revenue reform will also eliminate some of the objections to using the tax system for short-run stabilization. It will eliminate many of the manifest inequities in the present tax structure that permit numerous individuals with high incomes to avoid paying their just share of support of Federal programs.**

As the new administration and the Congress settle down to the serious and complex task of tax reform, this committee wishes to recall the recommendations made 13 years ago by our Subcommittee on Fiscal Policy under the chairmanship of the Honorable Wilbur Mills. At the end of a year of extensive investigation during which the subcommittee heard from about 100 of the Nation's greatest experts in this field, the subcommittee laid out four criteria that Federal tax policy in the future should follow. We repeat them here:

Federal tax policy should:

1. Be related to levels of government expenditures by the need for full utilization of growing productive resources and stability in the general price level;
2. Enhance the built-in stabilizing capacity of the Federal tax system by strengthening the individual and corporation income taxes;
3. Encourage the balanced growth of the economy and most efficient use of our economic resources by maintaining a careful balance between those elements of the tax system which rest most heavily on consumption and on investment and by seeking greater neutrality among taxpayers; and
4. Protect the competitive position of small and new businesses by providing adequate tax offsets to business risks and by gearing the structure of tax rates to any differential barriers to acquiring the financial resources required for their growth and development.

(S. Rept. 1310, "Federal Tax Policy for Economic Growth and Stability," report of the Subcommittee on Tax Policy, 84th Cong., 2d sess., January 5, 1956. Page 11.)

**First priority in tax reform should be given to repeal of the 7-percent investment tax credit as a significant step toward reducing inflation. Small businesses should be protected either by retaining their right to the credit or by changes in the corporate tax rates.***

* Senator Proxmire states, "I disagree with the recommendation that the Congress repeal the investment credit. Repeal would not significantly contribute to slowing down the inflationary consequences of the investment boom. This is true for two reasons.

"First the credit, which in effect reduces the cost of investment to 93 cents on the dollar, is clearly not the dominating factor in present runaway investment spending. That factor is the psychological expectation that inflation will continue apace, that the businessman now believes that if he does not buy his equipment soon it will cost him a great deal more later.

"Secondly, there is a technical lag of at least 12 months on the average between the time the investment decision is made and the plant or equipment is in the full flood of being produced. This lag was well documented by the Treasury in 1966 when suspension of the investment credit was being considered. Because of this lag, repeal of the investment credit this spring would not seriously affect investment until the spring of 1970.

"Also I oppose repeal because the investment credit probably has helped to encourage American business to improve its efficiency by encouraging modernization.

"Finally, since this credit was first enacted in 1962, it has been suspended in 1966 and then put back into force in 1967. That off-and-on action had an unnecessarily upsetting effect on business decisions and contributed nothing to price stability. To repeal the credit after this history in 1968 would mean the fourth major tax change affecting investment in 7 years and would provide an erratic and unsettling element in business investment decisions."

One of the most important sources of the recent inflation has been the excessive spending on business investment as a result of the 7-percent investment tax credit. This committee expressed concern about this inflationary, procyclical character of the investment credit when it was first proposed in 1962. Subsequent events have more than justified our fears that the credit would "* * * accentuate the instability of investment by encouraging overinvestment in boom periods" and that it would "* * * lower Government revenues in times when revenues should be rising to curb inflationary pressures, and to make Federal revenues relatively higher in recession periods, when Government receipts should be reduced." We, therefore, are convinced that this provision of the tax law should be repealed with some alternative help provided for small business.

**Should inflationary pressures worsen, we advocate strongly that purchasing power be siphoned off through increased taxes and the resulting surplus applied to reduction of the national debt. We oppose any further increase in our already excessive interest rates and urge their reduction to a level that is less dislocative and harmful to our economy. Finally, where curtailment of the money supply growth is required, it should be accomplished by following the precedent of raising bank reserve requirements rather than the discount rate.**

We note with alarm the tendency in recent discussions to propose tax incentives to induce businessmen to undertake various socially desirable programs. For example, Charls E. Walker, Under Secretary of the Treasury, testified at our hearings that—

> We are also devoting every attention to the use of tax incentives to help solve the problems of the cities and of our disadvantaged citizens. We are examining closely some of the more promising approaches recommended by the President's Task Force on Taxation. We hope that means will be developed to use the potency of tax incentives along with other programs, to enlist private capital and business ingenuity in this urgent effort.

We believe that such tax incentives open additional loopholes in the tax law's complicated structure, weaken the individual and corporate income tax, and reduce the neutrality of the tax structure. They also create, as the outgoing Secretary of the Treasury Joseph Barr testified, expenditures just as real as those on the expenditure side of the budget. We prefer that the Congress arrange for any such incentives to be in the form of expenditures directly accounted for through the annual appropriation process.*

**It is imperative that extension of the surtax and excises should not be the excuse for relaxing efforts to tighten**

*Senator Ribicoff does not share the committee's stated view regarding the use of tax incentives. Recognition that tax incentives can account for real Federal expenditures should not obscure the fact that such programs can eliminate the need for additional bureaucratic apparatus while promoting the use of private capital and initiative toward socially useful projects. The judicious use of tax incentive machinery in certain areas can produce desirable results.

NOTE.—See also, dissenting view of Senator Talmadge, p. 80.

**control over expenditures, to increase economy and efficiency in Government, to eliminate obsolete or low-priority items in the budget, and to drastically revise the tax system to produce a larger tax base, tax equity, and steady economic growth. In the longer run, no fiscal policy can long succeed unless these objectives are realized.**

In developing economic policies and carrying them out in the months ahead, the administration and the Congress must remember that fiscal policy decisions can have dramatic consequences for monetary policy. These two instruments are not independent of one another, nor are they necessarily a substitute for one another. This has become increasingly clear from the experience of recent years, particularly the traumatic experience of 1966 when the Nation came close to monetary disaster. In the present inflationary context, monetary policy would become well-nigh unmanageable if the budget were allowed to slip into deficit. It is well to recall that when the budget was allowed to swing into deficit in 1966, the Treasury's operations and the inflation threw such burdens on the monetary authorities that restraint was overdone and came very close to causing a monetary panic.

The monetary authorities cannot be excused for their part in this episode but, at the same time, it is clear in the light of subsequent events that it would have been wise in 1966 to raise taxes and to bring expenditures under control as was done in 1968. Similarly, in the present situation, if the budget is allowed to swing into deficit either through inadequate control of expenditures or failure to provide by legislation enough revenue, then the monetary authorities will face a most difficult task. In such circumstances, their efforts to maintain some degree of restraint against inflation without at the same time producing rapidly rising interest rates and severe scarcity of credit could encourage economic recession and could do so without necessarily stopping the rise of prices.

At the same time, it must be recognized that the surtax and the expenditure reductions incorporated in the Revenue and Expenditure Control Act of 1968, are having an effect on the economy. These actions by the last administration and Congress produced some slowdown in the rate of advance during 1968. During the first half of 1968, the real GNP advanced about 6½ percent a year, but in the third quarter, the rate dropped to 5.2 percent per year, and in the fourth quarter to 3.9 percent per year. Similarly, personal income that was rising at about 11 percent per year in the first quarter was down to a rate of advance of about 8 percent a year during the fourth quarter. The signs of slowing warn us to proceed with caution and flexibility lest the combination of fiscal and monetary restraint should be overdone. We cannot afford to pay the price of rapidly rising unemployment to bring to a halt the inflation resulting from the military spending in South Vietnam.

## MONETARY POLICY

The Federal Reserve Act of 1914 recognized monetary policy as a tool for stabilizing the economy. Nevertheless, the mechanism through which monetary policy operates and its effectiveness relative to other policy tools is still debated among exports and policymakers. Evidence seems to be accumulating that monetary policy may be more potent and faster acting than traditional Keynesian theories have indicated. For this reason, the Joint Economic Committee has recently devoted considerable attention to the formulation of appropriate monetary policy and in June of last year issued a report entitled "Standards for Guiding Monetary Action."

**As indicated in the report, the committee concludes that the rate of increase in the money supply should be determined to maintain a noninflationary balance between growth in the real productive capacity of this Nation and the expansion of aggregate purchasing power.***

Over the long run, the increase in the money supply should be roughly at the same rate as the growth of U.S. productive capacity. As indicated by this committee in its report, the expansion of the money supply should be somewhat above the long-run real growth rate during periods of high unemployment and excess capacity. On the other hand, monetary expansion should be below real growth in periods of inflation. We recommended a rate of increase ranging from 2 percent to 6 percent. The principle of harmony between the rate of growth of the money supply and the rate of growth of the economy has been recommended by the committee for many years. In both 1967 and 1968, the Federal Reserve ignored this recommendation and, despite the existence of inflation, permitted the money supply to expand at rates exceeding our suggested *upper* limit. Thus, the Federal Reserve has performed as an engine of inflation. By contributing to inflationary expectations and stimulating consumption, the impact of its policies has been to enlarge aggregate demand.

**As long as inflation continues at a high rate, the pace of expansion in the money supply should remain near the lower end of the range suggested; that is, near 2 percent per annum.**

The committee's report strongly criticized the Federal Reserve Board for its erratic management of the money supply. Among the instances cited was the 1966 experience, when policy jumped from

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*Representative Reuss emphasized that for short periods, the reported rate of increase in the money supply can deviate substantially from the underlying trend due to Treasury operations, seasonal fluctuations, errors and lags in statistical reporting and estimation, and the occasional inevitable exaggeration of special developments which happen to be weighted heavily in calculating the monetary aggregate. He suggested, therefore, that for policy evaluation, rates of change in monetary aggregates be measured over at least a quarter and over longer periods when appropriate.

He also suggested that the Federal Reserve System inform the Joint Economic Committee what factors other than money supply (such as time deposits, bank reserves, interest rates, credit, and financial flows) it believes should be considered as a guide to its monetary actions, and what weight should be assigned to each factor.

one of considerable ease to one of excessive tightness in a short period of time. The result was a disastrous crunch. Again in 1968, the Federal Reserve policy was destabilizing, but in the other direction.

In his testimony before us, the Chairman of the Board of Governors of the Federal Reserve indicated that the Board had been hasty in easing monetary conditions during the third quarter of 1968. He explained that they had anticipated an immediate deflationary impact from the tax surcharge enacted on June 28, 1968. Actually, consumer expenditures increased sharply in the third quarter, so there was no reduction in demand pressures.

**The Federal Reserve should not regard the state of financial markets as a reliable indicator of the extent to which monetary policy is restraining or expansionary.**

The apparent ease of credit availability and the direction of movement in interest rates are determined by the interaction between supplies of new credit channeled into financial markets and unsatisfied demands for credit. When demand for credit persistently grows faster than the supply becoming available, potential borrowers find it difficult to fulfill their desires, and interest rates tend to rise. This rise in interest rates is likely to continue even though the supply of credit may already be exceeding the limits consistent with the sustainable noninflationary expansion of real output.

Inflationary expectations play a major rôle in stimulating demand for credit. If borrowers think they will be able to repay current loans with dollars having a substantially lower real purchasing power, then they will attempt to borrow up to the limits of available lines of credit. Because of the rapid rate of inflation during 1968, the increase in real interest rates was not as great as the apparent increase in stated rates.

An approximation of the real rate of interest is the difference between the rate stated for a particular loan and the rate of inflation during the time period the loan is outstanding. Thus, if the stated interest rate is 8 percent, but the rate of inflation is 5 percent, then the real rate of interest is approximately 3 percent. The effective rate of interest could be even lower, depending upon the marginal tax rate of the borrower.

The current inflationary high interest situation is unfortunate in that as the rate of inflation decelerates, interest rates will decline, leaving users of consumer credit, recent home buyers, and hard-pressed municipalities with expensive loans contracted during the recent period of high rates. They are, in effect, locked in. This is the tragic consequence of poorly managed monetary policy.

**The Federal Reserve should exercise its authority to purchase the obligations of the Federal Home Loan Bank Board and the Federal National Mortgage Association when appropriate to avoid imposing an undue share of the burdens of monetary restraint on the housing industry.**

Monetary policy as it presently operates primarily affects residential construction, small businesses, and State and local governments. These sectors bear the brunt of tight money. Business investment is little affected. Since September 1966, the Federal Reserve has had the authority to purchase the obligations of the Federal Home Loan Bank

Board and the Federal National Mortgage Association. This authority has never been exercised, despite wide recognition of the extraordinary strains imposed upon the housing industry during periods when the supply of credit is severely limited. The Board's inaction nullifies the intent and purpose of the Congress; the public interest demands that the Federal Reserve distribute the burdens of monetary policy more equitably.

**The committee firmly supports President Johnson's recommendation contained in his January Economic Report, that the following administrative changes be made in the Federal Reserve System:**

- The term of Chairman of the Federal Reserve Board should be appropriately geared to that of the President to provide further assurance of harmonious policy coordination.
- The rigid requirement that no more than a single member of the Federal Reserve Board may be appointed from any one Federal Reserve District should be removed so that the President, with the advice and consent of the Senate, may choose the very best talent for the Board.
- The Congress should review procedures for selecting the presidents of the 12 Reserve banks to determine whether these positions should be subject to the same appointive process that applies to other posts with similarly important responsibilities for national policy.

The committee is strongly of the opinion that these changes would bring the policies of the Federal Reserve System into closer coordination with the policies of the executive branch.

## STRUCTURAL BARRIERS TO FULL EMPLOYMENT AND STABLE PRICES

Events of 1966–68 once more indicate clearly that achievement of the Employment Act objectives of full employment and stable prices in a growing free enterprise economy cannot be assured unless the Nation follows an appropriate combination of fiscal and monetary policies. However, while appropriate fiscal-monetary policies are necessary conditions for full employment and price stability, they are not sufficient. A large role must be played by both the public and private policymakers concerned with business competition and concentration, wage-price policies, consumer protection, and even the manner in which the Government executes its own housekeeping functions. These matters have generally been referred to as structural or micro elements in the economy.

Unfortunately, the progress which we were beginning to see in these areas of public and private policy have begun to be eroded. In the private sector, wage-price guidelines have been breached and competition is under a renewed and powerful threat from a new merger movement with particular emphasis on conglomerates. These new combinations bring together under one financial umbrella a wide range of often only vaguely related economic activities.

In the public sector, the new administration begins its term by scuttling the wage-price guidelines as a public policy. At the same time, it proposes an anti-inflationary mix of monetary and fiscal policies sufficiently restrictive to raise unemployment this year by between 300,000 and 500,000 workers by the end of the year. By itself, this policy provides no real assurance that a significant reduction in inflationary trends will be achieved.

**We deplore this abandonment of concern for the structural elements in our economy which hinder efforts to reduce unemployment and end inflation. Close attention to the policies that affect the detailed structural operation of the economy is a vital and unavoidable accompaniment of appropriate fiscal and monetary policies.**

### WAGE-PRICE POLICY

Structural inflation is just as much a realty in modern complex economies, such as the United States, as is the structural unemployment with which everyone has been concerned for the last decade. For the economy as a whole, productivity advances over the long pull by about 3 percent a year with rather substantial short-term variations due to cyclical and random factors. These crude estimates indicate that on the average for the economy as a whole total employee compensation, including fringe benefits of all kinds, on a per-hour basis, cannot advance by more than about 3 percent per year in monetary terms without causing a rise in unit labor costs. It is this phenomenon that forms the basis for wage-price guidelines which are simply rules of private and public behavior that would tend to maintain the average price level by maintaining stability of unit cost.

**This committee, as it has for a number of years, strongly advocates the development of an effective, realistic, and definite set of wage-price guidelines. We also advocate the establishment of a special office at a high level in the administration to assemble and analyze information on a comprehensive and fair basis in order to apply these guidelines to important industries.**

The committee has envisaged a voluntary program buttressed by competent factfinding and public awareness. For a number of years we judged that the economy could be more productive if there were general voluntary restraint on wage and price increases. There are important segments of business and labor, however, which have tremendous market power and are not subject to the force of competition in the same way that small businessmen, farmers, or corporations in less concentrated industries are. They have the power to ask for and obtain wage increases or prices which exceed the level that is best suited to promoting growth and stability.

If wages rise on the average faster than the 3 percent per year permitted by the rise in output per man-hour or if businessmen try to enlarge profit margins by raising prices or by failing to reduce them in industries with above average productivity increases, then the general price level will be higher. In this circumstance, the economy will function less effectively than it would otherwise. Distortions will tend to be created between wages and profits in various industries and occupations. Rising prices or wages in some sectors encourage increases in others. Inevitably this results in an increase in the general price level for the economy. In the process, there may well be less real output and, more importantly, certain groups of citizens with fixed incomes will tend to bear the real burden of the reduced value of the dollar.

The experience of 1968 is instructive. During the year, consumer prices rose by 4.7 percent and for the year averaged nearly 4 percent higher than the average for 1967. Disproportionately high price increases occurred in homeownership, clothing, and medical care costs. While these items account for less than a third of the average city wage earner's annual purchases, they accounted for nearly half of the overall increase in prices. About 20 percent of the overall increase in the Consumer Price Index was for higher food prices alone. Taken together, increases in the basic needs—food, shelter, clothing, and medical care—accounted for about 70 percent of the total advance in prices during 1968.

A disproportionately large share of the burden of these price increases fell upon those consumer units which have the smallest proportion of discretionary income—the poor. Those with low incomes spend a very high proportion of their incomes on basic items needed to sustain life. For this reason, the 1968 price increases bore most heavily upon the poor. Thus, the inflation has tended to aggravate the poverty conditions afflicting those at the lower levels of our society. Moreover, as aggregative fiscal and monetary measures restrain the pace of economic activity in an effort to disinflate the economy, joblessness—hence, reduced incomes—will tend to become more severe.

# III. Toward Full Employment and Stable Prices

Typically, the first to be laid off are the most recently hired and, in the present circumstances, this means the disadvantaged, including very probably those most recently placed through costly manpower retraining projects. This damage will be difficult to repair.

If the administration implements its stated intention to bring inflation to a halt while maintaining full employment, it must bring about compliance with some kind of wage-price guidelines. It can be assured that those in our economy with market power will ignore them if the Federal Government does. Private decisionmakers must be brought to realize that it is their collective behavior which enables the economy to achieve full employment with stable prices.

In addition to a wage-price guidelines policy, the Government needs to follow a positive manpower policy as outlined in part V of this report. This policy must be aimed at reducing bottlenecks in the labor markets that contribute to rapid wage inflation, and at upgrading the skills—hence incomes—of low income, unskilled workers. This will also reinforce the guidelines in industries such as construction.

The Government's expenditure policy is also a vital element in the movement of wages and prices. Federal expenditures are close to $200 billion a year, exercising a very large influence over total expenditures in the economy. The ways in which contracts are negotiated and material stockpiled and purchased have a definite effect on prices. We are convinced that the Government can do much toward improving its performance in these areas.

## The Preservation of Competition

A market system, such as ours, operates most successfully when marked by rigorous competition. Indeed, this central fact is recognized by the Employment Act which directs that public and private policymakers cooperate in achieving objectives within the context of a free competitive enterprise system. Competitive markets generate prices that encourage and discipline business firms to allocate relatively scarce resources in the most efficient manner so as to satisfy competing demands. If the Nation is to secure economic efficiency, it is imperative that we use every instrument of public policy at the Nation's disposal—primarily the antitrust laws—to foster truly competitive markets. We would also emphasize that the economic decentralization employed by competitive markets also contributes to the maintenance of the vitality and durability of democratic processes within a pluralistic society.

Quite aside from the contribution of competition to efficiency and to the maintenance of democratic processes, there is also a vital link between vigorous action against threats to competition and the unemployment-inflation problem. The President's Cabinet Committee on Price Stability in its report concluded:

> We recommend vigorous enforcement of the antitrust laws as essential for reducing further the inflationary effects of discretionary power. Only to the extent that we maintain effective market competition can we continue to place primary reliance on private decisionmakers in our quest for high employment, rapid economic growth, and price stability.

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Recent developments raise serious questions about the health of our competitive system. Increased concentration of economic control is implied by the upsurge of new mergers. This new merger movement involves the aggregation of a myriad of disparate economic activities into a few huge and conglomerate units. It involves increasing numbers of joint ventures among large concerns, interlocking officers and directors, interconnections between banks and other finance firms with other sectors, and thus an increasing concentration of financial control over operating policies.

The concentration of economic activity has increased sharply in recent years. Between 1948 and 1967 the percent of the total assets of all manufacturing corporations held by the 100 largest manufacturing corporations rose from 40.1 to 47.6, while the position of the 200 largest increased from 48.1 to 58.7. Thus, concentration in the 100 largest now nearly matches that of the 200 largest some two decades ago. Moreover, the staff report of President Johnson's Cabinet Committee on Price Stability found that the largest companies operate in increasingly more industries and increasingly occupy positions of leadership in major industries. We are concerned by that trend. For many years the antitrust agencies have been timid in utilizing their powers to bring about a restructuring of American industry. They now have increased responsibilities in reversing these trends and promoting competition.

It is true, of course, that by bringing important merger cases under the Celler-Kefauver Act, the Antitrust Division of the Department of Justice and the Federal Trade Commission have exercised a moderating influence over the trend in *market* concentration. A number of substantial horizontal and vertical mergers have been challenged, opening the way for normal competitive forces to bring about deconcentration. In certain industries, most notably in producers goods industries, there has been an actual decline in concentration during the period 1947 to 1966. On the other hand, market concentration has increased in consumer goods industries. This undoubtedly reflects the power of the dominant firms in such industries to entrench themselves in major markets through massive advertising and product differentiation.

Clearly, the enormous conglomerate merger movement which, according to the Federal Trade Commission, pushed into alltime high levels during 1967 and 1968, is the central problem confronting the effective operation of the market system today. Much of the impetus behind this movement stems from the quest on the part of many emerging conglomerates for growth at any price. There is substantial doubt concerning the effect of the merger-induced growth of conglomerate firms on real growth in the gross national product, the level of effective competition, or economic efficiency. It is essential that the Federal Trade Commission pursue expeditiously its indepth investigation of the conglomerate merger movement. In the meantime, however, the antitrust agencies should vigorously apply the antitrust laws with a view toward bringing the merger movement under control. Because of the significant economic, social, and political dangers in the merger movement, it is imperative that the Antitrust Division, the Federal Trade Commission, and, especially, the Securities and Exchange Commission exercise fully their powers to deal with this problem. It is also important that the Federal tax system be reexamined with a view to eliminating current incentives for the merger of independent enterprises.

### Consumer Protection

A healthy competitive market economy depends upon consumers being able to make informed and rational choices between competing products and services free of fraud and deception. The growing complexity of our economy has created opportunities for business practices based on the deception of consumers and has caused considerable consumer confusion even where no intentional deceit is involved. This tendency is reflected in the passage by Congress during the past few years of over 20 separate statutes designed to assist citizens in their roles as consumers. It is also indicated by the action taken last year by 137 consumer and consumer-oriented organizations in 37 States, representing millions of people, to create a single national office. The resulting organization—entitled "The Consumer Federation of America"—represents millions of citizens and provides them with an information clearinghouse and a spokesman before public bodies for their concerns. Expanding support for the consumer protection movement, both in and out of Congress, provides assurance that additional action, public and private, must be and can be taken to protect consumers from unethical business practices. This will also provide increased opportunity for ethical businessmen, small and large, who have been damaged by the competition from those engaging in questionable and deceptive practices.

Recent widespread concern for the problems of the consumer stimulated the creation of the Office of Special Adviser to the President for Consumer Affairs, the passage by Congress of the Consumer Protection Act—better known as Truth-in-Lending—the Truth-in-Packaging Act, and the establishment of National Commissions on Traffic and Product Safety. At present, consumer spokesmen are urging the Government to extend consumer protection still further into such areas as the establishment of criteria for the awarding of air routes and commercial broadcasting licenses, the prohibition of broadcast advertisements for products deemed dangerous to public safety or health, and strong measures to reduce air and water pollution.

Government action on these problems is necessary both through new legislation and through the implementation of legislation already enacted. The Truth-in-Packaging Act contained no technical standards to make it work. Truth-in-Lending was approved but no funds provided for the Commission on Consumer Finance, and enforcement of the act awaits adequate funding. The Federal Trade Commission, with its broad mandate, has perhaps the greatest responsibility for effective action in this field. It has suffered from inaction and lack of budget.

Concentration upon the protection of consumer interest is particularly important because of its relevance for the urban and rural poor. There is ample evidence that deceptive practices toward consumers are most acute in the urban and rural ghettos. Among other things, this implies strong action in the Congress looking toward establishment of consumer education programs in public elementary and secondary schools, as well as on the adult education level. In present circumstances, also, the committee wishes to express its strong conviction that positive action on the very debatable uniform consumer credit code should be opposed. Serious discussion of this matter should await the completion of studies by the Commission on Consumer Finance. This is especially significant in view of the reservations offered by many that the code forms a potential threat to the effectiveness of Federal, State, and local legislation protecting those with consumer debt against unethical practices.

# IV. National Priorities and Effective Public Policy

## NATIONAL GOALS AND PRIORITIES

The budget of the Federal Government accounts for over 20 percent of the Nation's total output of final goods and services. The allocation of this nearly $200 billion budget among the multitude of Federal programs has an enormous influence on both the structure of outputs produced by the U.S. economy and the distribution of the Nation's income. Because of this impact of Federal revenues and expenditures on the society, it is essential that allocation decisions be based on a clear statement of national goals and priorities. This necessity is reinforced by the rapid growth in Federal expenditures over the past several years.

Too often public policy has been formed in an *ad hoc* fashion because of an absence of clearly stated national objectives and priorities. Public expenditures have grown with no assurance that the objects of expenditure were those which we would have chosen if we had a clearer set of priorities and better information on the values generated by dollars spent in different areas. Indeed, much public apprehension concerning the efficacy of government is due to the fact that private citizens discern no consistent set of objectives to which they can relate and about which they can debate. Because of the Government's failure to define priorities clearly and to evaluate the social contributions of tax dollars spent in different areas, wastage and inefficiency in public expenditure programs can develop and persist, and vital social needs can remain unmet.

Recently, a number of official and semiofficial bodies have studied and spoken out on the question of national goals and priorities. These efforts have been useful. Currently, our society is confronted by serious social problems. Increasing demands for assistance and redress are arising from the poor and minority groups, from small business and labor, from consumers, and from institutions of health and education, to mention only a few. We judge that current circumstances require that Congress and the administration openly and explicitly address the question of national objectives. For the past several years, this committee has recommended that a comprehensive study of national goals be undertaken and, in the coming year, we hope to provide leadership in initiating this effort.

**We urge that the Congress, with guidance from its leadership, and the administration undertake a formal and comprehensive study of national goals and priorities with a view to establishing guidelines for legislation and expenditure policy.**

We recognize the serious difficulties which plague efforts to seek general agreement on these basic questions of national direction. Indeed, the vitality of this Nation's political system stems from the diversity of opinions and values held by the populace. We have, however, recently witnessed a period of intensive study of a large number of issues which pertain to national goals. While many of these issues were related, the task forces which were responsible for the analysis and recommendations properly viewed their mandate as being limited in scope. It is now time to seek a broader perspective: an overview in which the urgency of the individual demands generated by these reports can be subjected to a comprehensive appraisal. We believe that the following considerations are basic to any serious discussion of national priorities.

1. The study of goals and priorities should determine the dollar costs required to attain each of the substantial number of objectives which are often cited as being primary social goals. It is important that publice decisionmakers have before them an estimate of the costs of each item in the array of social objectives, all of which would be chosen if they could be afforded. This information, by demonstrating that the devotion of resources to one objective implies a foregone opportunity to support another, leads to improved public decisions by clarifying the real costs associated with any decision.

2. The study of goals and priorities should evaluate the output and financial resources which the economy and the Federal Government can call upon in attaining social objectives. It is now possible to project with some accuracy the future output of the economy and, given the existing tax structure, the budgetary resources which will become available to the Federal Government. Moreover, it is possible to estimate confidently the future expenditures in a substantial number of Federal governmental programs which, for all intents and purposes, are beyond the annual control of the appropriations process. By ascertaining the difference between these two flows—projected revenue increases and increases in unavoidable Federal outlays—we obtain what is sometimes called the fiscal dividend. This figure provides both the Congress and the executive branch with meaningful information on the future availability of resources which can be allocated among the various social objectives. Such estimates should be developed for a range of plausible assumptions and should be updated and published on an ongoing basis. This information, it should be noted, is the complement of the data on the total costs required for attainment of each of the objectives.

3. The study of goals and priorities should focus on the allocation of Federal revenues between the military and civilian budgets. Because the defense budget is substantially less visible than budgets for civilian programs and because of our past experience with national security costs which have substantially exceeded initial estimates, this allocation question should not be neglected in an analysis of national priorities. Information concerning the budgetary implications of a number of possible national security postures is essential to meaningful public policy decisions and a rational allocation of the Federal budget among its competing claims.

## THE ECONOMIC APPRAISAL OF PUBLIC PROGRAMS

Quantitative information of the economic effects of the expenditures which we are *now* making is as essential to an effective and efficient government as a clear sense of priorities and objectives for future action. Because of the rapid rise in Federal expenditures in the last decade, the experimental nature of newly legislated social programs, and the current period of budget stringency, implementation of procedures for the accurate economic analysis of spending programs is most urgent. It is also essential that information on program effectiveness now possessed by the administration be transmitted to the Congress.

This committee welcomed President Johnson's Executive Order issued in August of 1965, establishing the Planning-Programing-Budgeting System. In our judgment, the PPB System provides a meaningful framework for improved policy analysis and program evaluation. From information presented to the committee's Subcommittee on Economy in Government, we judge that a substantial amount of valuable economic analysis and information has been generated by the operation of the system in the executive branch. Many expenditure programs can now be evaluated by decisionmakers in terms of the relationship between social benefits and social costs. Moreover, the social characteristics (race, income level, age) of the people who receive the benefits of Government programs are now known by decisionmakers in the administration in substantial detail. As President Johnson stated in his Directive, this information can assist the Government to: "choose among those goals the ones that are most urgent * * * search for alternative means of reaching those goals most effectively at the least cost * * * [and] measure the performance of our programs to insure a dollar's worth of service for each dollar spent."

> **We urge the new administration to make every effort to strengthen the PPB System, increase the capability of the Bureau of the Budget and executive agencies to implement this system, and provide incentive for its effective functioning.**

While urging a renewed effort to make careful program evaluation an integral part of the budgetary process, we are aware of the complex and, to some extent, intractable problems which confront attempts to modify a process steeped in tradition. Nevertheless, we believe that there are a number of steps which can be taken to improve the effectiveness of program evaluation and to encourage the Federal budget to produce more of the kind of information essential for appropriate policy decisions. Because the Bureau of the Budget has been given responsibility for this program evaluation task, our recommendations are addressed primarily to it.

Currently, the PPB System is generating a substantial amount of data and information on the benefits of programs relative to their costs and on the distribution of the beneficiaries of these programs by their race, income, and region. To the decisionmaker who is interested in the objective appraisal of the impact of his program, this sort of information is essential. Yet it is widely recognized that substantial progress has yet to be made by the program evaluation system in bringing this information to bear on budget allocation decisions. The Director of the Bureau of the Budget should undertake wide consultation with those knowledgeable in the techniques of policy analysis in both academic and business life and with high-level decisionmakers in previous Federal administrations in a search for procedures by which to make program evaluation information more central to the budget allocation process. The impact of competent analysis is negligible if it is not brought to bear directly on the bargaining process through which public decisions are made.

The procedures for undertaking the appropriate economic analysis of public spending programs are still in an early stage of development. This fact has, in substantial measure, accounted for the unsatisfactory evaluation efforts undertaken by a number of executive agencies. Because of its responsibility for directing the PPB system, the Bureau of the Budget should, withot delay, formulate more specific and detailed guidelines for agency analysis of their expenditure programs. One area in which guidelines are necessary is in the application of discounting analysis to public investments with benefits and costs which extend into the future. The committee is concerned with the erratic nature of the discounting analysis currently performed in the executive agencies and with the wide range of discount rates applied in such analysis. While recent changes in discounting policy in evaluating natural resource and defense expenditures are to be commended, there is much that can yet be done to improve discounting analysis throughout the Federal Government. We judge that the Bureau of the Budget can be of substantial assistance in improving the appropriate use of this technique as well as in developing improved procedures for measuring the national economic benefits and costs of various public expenditures.

It is almost a commonplace to note that the evaluation of public programs will be only as good as the personnel available for implementing the analysis. Indeed, the primary impediment to the successful implementation of the PBS system has been the scarcity of personnel who are appropriately trained to do policy analysis. We recommend a major effort to secure and train competent personnel in the policy analysis offices as a means to a more successful program evaluation system.

In addition to the bottleneck provided by a lack of appropriately trained personnel, there is the problem of the positioning of the Office of Program Evaluation in the executive agencies. Because of the importance of program evaluation to the effective management of an agency and its programs, we urge that the person responsible for program evaluation in each agency be given a high rank and direct access to the top decisionmaker in the agency.

**We urge that the Director of the Bureau of the Budget develop proposals for submitting the results of program analysis and evaluation performed in the executive branch to the Congress.**

Until now, analyses of the impact of programs on the economy and on program beneficiaries have been largely retained in the executive branch. Consequently, the Congress has made many of its decisions, especially as regards budgetary appropriations, without either the information on program benefits and costs or the information on the characteristics of program beneficiaries which these analyses provide. This problem is a serious one. Clearly, the quality of decisions in both the executive and the legislative branches depends upon the amount of information which is available to the decisionmaker. Significant improvements in the legislative and appropriation processes could be achieved if a sizable proportion of the information now available to the executive branch were available to the Congress as well.

The committee recognizes the effects which the publication of the results of program evaluation studies might have on the internal evaluation process in the executive agencies. Nevertheless, we believe that the flow of evaluative information to the Congress could be substantially increased without jeopardizing the evaluation system itself. In particular, the Congress should be provided on a regular basis with summary reports which analyze the value of project and program outputs relative to their cost and describe the social and economic characteristics of the beneficiaries of these programs. Without question, such information would generate the kind of discussion necessary to improved decisionmaking in the legislative branch.

In this same context, we recommend that the Congress develop its own capabilities to use such program evaluation information effectively. This would involve appraisal of staff skills required by the various committees, and addition of qualified personnel as recommended in the report of the Subcommittee on Economy in Government in December 1967.

**We urge that the Bureau of the Budget develop a more comprehensive budget document which would include detailed breakdowns of both direct expenditures and "tax expenditures."**

In testimony presented to this committee by the outgoing Secretary of the Treasury, the concept of "tax expenditures" was presented and the volume of these expenditures for fiscal year 1968 was analyzed. While direct Government expenditures are those financed by either revenues or borrowing, tax expenditures are those expenditures which private citizens are permitted to make because of special provisions, deductions, or exemptions present in the Federal tax system. They have been referred to as "back-door spending." In the analysis presented to this committee, these expenditures totaled $45.2 billion in fiscal year 1968, or about 20 percent of direct expenditures. When allocated to the appropriate functional categories as employed in the Budget Document, tax expenditures were seen to exceed direct expenditures in some categories. This committee found this information to be most helpful in understanding the aggregate impact of the Federal expenditure and revenue system on the allocation of the Nation's resources. An analysis similar to that developed by the Treasury should be made an integral part of the Budget Document presented to Congress. We strongly recommended that the Director of the Bureau of the Budget develop an improved and more comprehensive Budget Document, including an analysis of both direct expenditures and "tax expenditures."

## VIETNAM COSTS AND THE DEFENSE BUDGET

This year's Economic Report of the President contains a separate report from the Cabinet Coordinating Committee on Economic Planning for the End of Vietnam Hostilities. The Cabinet Coordinating Committee, composed of the Secretaries of Treasury, Defense, Commerce, and Labor, the Director of the Bureau of the Budget, and the Chairman of the Council of Economic Advisers, was appointed by President Johnson in 1967. Its purpose was to coordinate post-Vietnam economic planning.

The report describes plans for sustaining prosperity during the period of post-Vietnam demobilization. On the basis of projection models, both Federal revenues and expenditures are forecast for the 1969–72 period. Because revenues are expected to expand more rapidly than built-in spending commitments, there is expected what the report described as a "peace and growth dividend." This dividend is smaller than many anticipate, largely because built-in expansion of existing expenditure programs is expected to pre-empt about one-half of the growth in revenues. While the decline of defense spending will provide some opportunity to reallocate manpower and material resources to peacetime uses, the size of the dividend is discouragingly small. Because of the increasing demands to begin new Government programs, strengthen existing ones, or reduce taxes, the key problem is establishing longrun priorities as a guide to important policy decisions.

Accepting the economic growth projections of the Cabinet Coordinating Committee, the crucial factor affecting the size of the dividend is the level of defense spending. This is so primarily because it is the largest item in the Federal budget. In a rapid demobilization, the report projects annual real defense spending reductions, from levels which they would have achieved had hostilities continued, of $8 billion at the end of four quarters, $16 billion at the end of six quarters, and $19 billion at the end of 10 quarters. While the cost of the war is currently estimated at $29 billion a year, other military uses in peacetime are expected to require $10 billion. Thus the reduction of real defense spending is limited to $19 billion at the end of 10 quarters. However, price and pay increases and "a very modest real growth" in defense expenditures are projected at $1 billion a quarter. This will partially offset any absolute decline. Therefore, the actual reduction in the post-Vietnam defense budget will be less than $19 billion from current budget levels. Indeed, the Cabinet Coordinating Committee estimates that the absolute decline in defense spending will reach an annual rate of only $10 billion at the end of six quarters. With rapid demobilization, together with the other built-in increases in the Federal budget, and with projected increases in GNP and tax revenues, the Cabinet Coordinating Committee estimates the dividend for fiscal year 1972 to be $22 billion.

Analytical efforts of this sort are most useful. The administration is to be commended for undertaking the task of planning for reduced spending and analyzing the needs of the postwar economy. The kinds of projections presented in the report and the relation of these projections to the menu of alternative Federal spending alternative is a first step in the hoped-for national discussion of objectives and priorities.

This notwithstanding, we feel that there are some limitations in the analysis of defense spending and the allocation of the fiscal dividend in the reports submitted to Congress. The Annual Report of the Council of Economic Advisers, for example, confines its analysis of defense spending to less than 2 pages, in which problems of Government procurement, including military procurement, are discussed. The Economic Report of the President, itself, makes only a brief reference to financing military efforts in Vietnam and a short statement about the work of the Cabinet Coordinating Committee on Economic Planning for the End of Vietnam Hostilities. None of the Special Analyses of the Budget cover defense spending. This committee is concerned about the failure of the annual economic reports submitted by the executive branch to Congress to sufficiently analyze the present defense budget and its policy implications.

**We urge that the Council of Economic Advisers and the Bureau of the Budget increase substantially their efforts to analyze and evaluate issues related to defense spending.**

The outgoing Chairman of the Council of Economic Advisers, while urging continued fiscal restraints through 1969 and 1970, testified that the Council accepts, without questioning, the figure which the Bureau of the Budget "and the people in the Defense Department develop, present to the President, [and] get his approval on * * *" He also stated that the Bureau of the Budget and not the Council of Economic Advisers has jurisdiction over questions of efficiency in defense programs and in defense planning. This demurrer from the Council of Economic Advisers is accentuated by the admission that the Bureau of the Budget does not attend to defense spending matters with anything like the thoroughness given to civilian programs. Both the outgoing and incoming Budget Directors conceded that only limited critical attention is given to the defense budget. In view of the fact that about 80 percent of the $100 billion of relatively controllable Federal outlays is accounted for by national defense, the quality of this review is disturbing. In light of this evidence, there is a serious question as to whether the defense budget proposed by the Pentagon is adequately analyzed elsewhere in the executive branch.

While an important effort, it should be noted that the report of the Cabinet Coordinating Committee does not attempt to analyze the defense budget. Instead, its work with the defense budget is done largely on the basis of hypothesis and assumption. As such, it is a significant guide to macro-economic planning, but of only minor assistance in meeting the needs of the Congress and the public in their attempts to frame critical judgments on national objectives and their relationship to defense spending. Effective policymaking requires information on matters such as the profitability of defense contracts, the movement of wages and prices in the defense industry, and the extent to which they contribute to inflation, the effects of defense procurement on small business, the influence of defense procurement on industrial concentration, and the "brain drain" on nondefense industries and universities and many other important economic problems related to the defense budget. The Executive Office of the President, the Council of Economic Advisers, and the Bureau of the Budget have responsibility for undertaking this kind of analysis and presenting their conclusions to the Congress.

We would also emphasize that each of the economic reports to Congress assume implicitly that the present level of defense spending is the desirable minimum essential to maintain national security. However, we have been impressed by the evidence of widespread waste, mismanagement, and inefficiency in defense spending brought to light in recent months. It now seems clear that the present level of national security can be maintained on a substantially smaller defense budget.

Much of the inefficiency, it appears, is found in defense procurement. While over $44 billion was spent on the purchase of weapons and other military goods last year, only 11 percent of the contracts were awarded through formal advertising. Sole source procurement accounts for 57.9 percent. It is in the sole source procurement of major weapons systems where much of the problem of excessive costs and cost overruns have occurred. Cost increases of 200 percent and more over original estimates have been common.

One of the most serious problems, as shown by the recent hearings by this committee's Subcommittee on Economy in Government, is the absence of uniform accounting standards for the reporting of costs by defense contractors. Due to the fact that contractors must comply only with "generally accepted accounting principles," and the fact that they are not required to maintain books and records on most defense contracts, it is often not possible as a practical matter, for the Government to determine the accuracy or reasonableness of cost estimates.

**We urge that the Executive Office of the President undertake ongoing and comprehensive investigations of defense procurement matters and submit their findings to this committee as part of the Annual Economic Report.**

In the area of defense procurement, there are a number of matters about which we are especially concerned. The exercise of inventory and management controls by the Department of Defense over the property for which it is responsible appears inadequate. This is reflected in the fact that the DOD now holds $202.5 billion in real and personal property and, in fiscal year 1968, held 29 million acres of land. The Department of Defense has placed more than $13 billion of Government-owned property in the hands of defense contractors. The Subcommittee on Economy in Government has documented the existence of inadequate property accounting records, deficient inventory practices, absence of financial controls, and other serious departures from good property management practices.

Just as fiscal restraint must be exercised on the civilian budget, there is a need that fiscal restraint be exercised on the defense budget. The Bureau of the Budget should strengthen its defense review capacity so that it can adequately scrutinize Defense Department budget requests. The Council of Economic Advisers should focus its attention on defense expenditures and their impact on the economy. Agencies such as the Department of Labor and the Department of Commerce should begin studying the effects that defense spending is having on wages and prices. The annual economic reports to Congress should present the results of these analyses. There is now substantial evidence that improved efficiency in defense spending could free much-needed resources for reallocation to higher priority civilian programs.

# V. Toward a Productive and Equitable Society

## MANPOWER TRAINING AND DEVELOPMENT

Several million families with incomes so low as to leave them in poverty are headed by individuals who either cannot find work or who are presently working full or part-time but earning an annual income below the poverty line. In many cases, the heads of these families are victims of discrimination. Almost universally, they need training for jobs providing a living wage combined with interim income support until they are able to sustain themselves above the poverty level. Often they are the victims of technological progress in agriculture, leaving them marooned in rural areas of poverty without alternative opportunity. In other cases, they have migrated to cities where, even if opportunities are available, they are not prepared to take advantage of them.

**Especially in light of the prospect of rising unemployment during 1969, this committee urges the President and the Congress to give high priority to the development of a substantial increase in the national manpower effort.**

In recent years a variety of manpower programs have been developed to help those who could work by training, counseling, new job opportunities, placement services, and a complex of supportive social services during the period of transition from dependency to self-supporting employment. But present efforts are grossly inadequate. The January 1969 Manpower Report of the President estimates that there are 11 million chronically poor people who could escape from poverty via employment. Our programs last year reached only an estimated 1½ million persons. Moreover, more than one-half million of these were served by the Neighborhood Youth Corps, a program designed primarily to prevent school dropouts.

**There is urgent need to reorganize manpower programs to provide comprehensive coordinated assistance that the disadvantaged need and to carry that assistance through until the individuals are fully self-supporting.**

Additional financial resources are necessary but not sufficient. An essential need is to proceed toward a coordinated system of manpower services that are available at the local level through a single agency which has the confidence of the disadvantaged. There must be services to discover what training and other assistance the applicant needs to enable him to prepare for and obtain meaningful employment, including retraining in specific job skills, basic education, psychological counseling, medical services, and job placement. Beyond that, there must be followups on the job for a period sufficient to insure that the individual has truly made a successful transition into the world of work and can operate effectively on his own. At the present time, this coordinated approach exists in concept, but not in practice.



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**We recommend an expanded effort on the part of the Department of Labor, organized labor, and the medical profession to seek new and more effective means to relieve especially critical manpower shortages in the housing and medical service industries.**

Under present circumstances, manpower policies can and should be more effectively related to meeting critical skill shortages. These shortages contribute to inflationary wage pressures and leave critical work undone. Two areas deserve particular emphasis at the present time, namely, medical services and housing. In both of these, inadequate training programs and discrimination have combined to create extreme shortages. Efforts to alleviate these shortages can make an important contribution toward improving the lot of the disadvantaged and raising the quality and quantity of services in these areas. They will also contribute to reducing inflationary pressures generated by shortages in these two areas.

**The committee urges the Department of Labor to develop the necessary arrangements to expand the JOBS program to a variety of public service endeavors.**

In his statement before this committee, the Secretary of Labor mentioned a variety of problem areas, together with possible alternatives for program improvement. Among these alternatives, he noted the JOBS program, through which private employers contract with the Department of Labor to hire and train the disadvantaged. He recommended that this form of activity be expanded to State and local civil service activities, hospitals, local transit systems, and so on. The committee notes that, according to the Manpower Report of the President, no comparable program has been developed to provide similar opportunities in the Federal Government. The Department and the Civil Service Commission should take immediate steps to develop such a program.

**We urge that the Department of Labor increase its capability to develop and establish meaningful training and orientation programs for line supervisors and other personnel who are in direct on-the-job contact with the disadvantaged.**

In the final analysis, no manpower program, however well conceived or operated, can be considered successful if the persons served thereby continue to be confronted with discrimination based on prejudice toward ethnic groups or on-job requirements which have little relevance to job performance. Many preemployment programs have effectively trained people in a supportive environment but have placed them in a hostile environment. As a result, performance often fails, program graduates are fired or quit, and the preemployment program is criticized as having been inadequate. Knowledge gained from ongoing and experimental programs has made it quite clear that the need for training personnel and supervisory staff is equally as great as the need for training the disadvantaged.

## INCOME MAINTENANCE

While manpower programs appropriately deal with the problem of those who could work if opportunity were offered, there are 4 million families involving 7.5 million individuals where there is no immediate possibility that the family can be supported by useful employment opportunities. For these who, because of age or other handicaps, cannot participate in our expanding employment opportunities, adequate income maintenance must be provided. At the present time, a plethora of programs—Federal, State, and local, as well as private—attempt to deal with this problem. In our judgment, these efforts, in toto, are inadequate. Old-age assistance, general assistance, aid to dependent children, and a host of State and local programs provide the bulk of welfare assistance. In part, these programs are inadequate because they lack sufficient funding. In part, they are inadequate because they are so numerous, uncoordinated, and badly managed. Hearings by the Subcommittee on Fiscal Policy on income maintenance revealed a wide range of problems and of proposed solutions. Studies by the subcommittee also revealed that this situation contributes substantially to the growing fiscal difficulties of State and local governments. Needs have risen more rapidly than the tax base from which localities raise their funds.

**The President and the Congress must look toward an improved nationwide income maintenance program which provides equal treatment to every needy citizen regardless of location, and which provides for the needy a single local office or representative to whom they can turn with assurance for assistance.**

Developing a new national system to satisfy the needs of those who cannot help themselves will take some time. The problem must be solved if we are to make the American dream a reality for the most disadvantaged of our citizens and at the same time prevent the bankruptcy of State and local governments.*

While working on solutions to the longer range problem of those who cannot help themselves, we must not overlook immediate programs that are relevant and essential to labor force participants. On the one hand, we must recognize that those who are being retrained or relocated must have a source of interim income. On the other hand, we must improve the functioning of our unemployment insurance. In 1968, the average weekly benefit paid from unemployment insurance programs amounted to about $43.25, or two-thirds of the poverty level of income for a nonfarm household of four persons. The concern of the present Secretary of Labor, as stated in his testimony before this committee, is appropriate. At a minimum, benefits should be extended so that the temporarily unemployed are guaranteed compensation which is not below the poverty line.

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*See dissenting view of Senator Talmadge, p. 80.

## URBAN AND RURAL RECONSTRUCTION

Events of recent years have produced ample evidence that a healthy national society cannot rest on a foundation pocketed with local areas and social and economic ills. Urban riots, migration from the countryside to the city, and a flood of studies of the social and economic suffering generated by discrimination emphasize the obvious fact that national policy must be concerned with the evolution of a well-balanced society, in which the doors of opportunity to a good life are open to all. In many respects, our cities and metropolises are not only unhealthy, their economic viability is decreasing and, indeed, may be nearing the point of crisis.

In rural areas, poverty afflicts some 14 million Americans. Moreover, a high proportion of the people crowded into the city slums today came from rural slums. Part of the cause of this rural poverty has been the enormous increase in the efficiency of American agriculture. Over a recent 13-year period, productivity of farmworkers went up 125 percent, while that of manufacturing workers went up 96½ percent. Increasing efficiency and excess capacity in agriculture have resulted in a decline of 300,000 farm jobs per year. Increasingly, agriculture is being split into two segments—the large-scale commercial agricultural enterprises on the one hand, and the rural poor and the subsistence homesteaders on the other.

The problems of the rural poor have been highlighted by the report of the President's National Advisory Commission on Rural Poverty entitled "The People Left Behind." The Commission's recommendations have so far been greeted more by silence than by positive action. We commend them to the attention of the President, his Cabinet, and the appropriate committees of Congress. Though we do not here endorse in detail their 12 specific recommendations, we do endorse their statement that—

> We can no longer evade the fact that far too high a proportion of our rural population is unemployed and that the national policy of full employment is not effective. We believe it to be an obligation of private enterprise and of government working together to provide employment at adequate wages for all persons able and willing to work.

In many respects, the urban picture is just as sad as the rural picture and is growing worse. Studies of the cities abound with the word "crisis." Among the alarming symptoms of urban decay are the persistent growth of slums within most central cities and many older suburbs, exceptionally high rates of unemployment in central cities, increasing incidence of rioting and violent crime, and the breakdown of local government processes.

One of the clearest indicators of trouble in our urban areas is the unhealthy disparity of living conditions between neighborhoods within the same metropolitan area. Typically, an economic polarization has occurred with the central city on the low end of the scale of economic prosperity and the surrounding suburbs on the other. Evidence pertaining to the level of public services has shown substantial disparities between inner city and suburban neighborhoods. The quality of public education, health services, housing, transportation, recreation, and employment opportunities are all significantly lower for those who live in the central city than for suburban residents. Even greater disparities are seen if one compares the slum neighborhoods in the central city with the rest of the metropolitan area.

These disparities in the quality of urban life are aggravated by the concentration of low-income families in the central city. Because of the decline in the tax base of the central city, local taxes as a percentage of personal income are higher for central city residents than for suburban residents. But, paradoxically, tax revenues in the central city produce insufficient revenues to provide needed public services. The central city problem is further aggravated by the fact that many of the low-income families are Negroes or members of other minorities, subject to discriminatory treatment. As the Advisory Commission on Intergovernmental Relations has pointed out, State practices often have served to increase the seriousness of this problem. Moreover, the Federal Government has compounded the problems by the frugality of its housing and antipoverty assistance.

**We urge that the Congress and the administration develop programs for a massive environmental reconstruction of urban and rural America—giving the highest priority to this goal.**

As a first step in this effort, we must allocate the necessary resources to accomplish this goal. The second step is to employ these resources so as to maximize their social impact. The committee believes that present and past allocations of public and private resources to the economic development of our urban and rural areas have been inadequate. The place of economic development in our agenda of priorities should supersede less-essential programs contained in the defense budget, space exploration, the supersonic transport, and certain public works projects. One way to achieve a reallocation would be to set aside a substantial portion of the future increment in Federal revenues for urban and rural economic development programs.

**The Federal Government should fulfill its 20-year-old commitment to provide a decent home and a suitable living environment for every American family. We must not forget that our promise of a war against poverty still requires fulfillment.**

The area of housing is the most outstanding example of the Federal Government's failure to fulfill its own commitment. It is now two decades since passage of the Housing Act of 1949. We have not yet constructed the number of public housing units contemplated for the first 6 years of that act. According to the report of the National Commission on Urban Problems, we have demolished more housing by public action—under such programs as highways and urban renewal—than has been built through all federally aided programs. There are approximately 11 million substandard and overcrowded housing units. Yet, new housing starts total less than 1.5 million units per year, far below the number required to effect a rapid replacement of substandard units and to provide for an expanding population.

Last year Congress reaffirmed the goal of a decent home and a suitable living environment for every American family. Congress also determined that this goal could be substantially achieved over the next 10 years by the construction or rehabilitation of 26 million housing units, including 6 million for low- and moderate-income families. These were also the housing goals set forth by President Lyndon B. Johnson in his 1968 Message on Housing and Cities. The committee is of the opinion that these are realistic goals for the Nation to attain, and that their attainment is needed in order to solve the housing problems.

Because of its failure to allocate the necessary resources to assure the viability of existing programs, the Federal Government bears a share of the responsibility for the housing shortage. Moreover, the States and the localities have not had the will to satisfy this need. Finally, the private housing industry has so far been unable to develop a technology enabling it to respond creatively to the housing needs of low-income families.

We have similar concerns with respect to the war against poverty. Announced in 1964, with the creation of the Office of Economic Opportunity, effort has not advanced beyond the stage of recognizing the problem, developing creative new responses, and raising the expectations of the poor.

**We urge that the new administration not retreat from the direct attack on poverty begun 5 years ago. Increased funding of antipoverty programs, especially on the neighborhood level, must be forthcoming.**

The committee agrees with the Council of Economic Advisers that urban reconstruction will require deeper involvement of private enterprise. The committee does not believe, however, that the direct subsidization of private business or its indirect subsidization through tax incentives are acceptable substitutes for a real public sector commitment to eradicate poverty. As the Council of Economic Advisers points out, a dollar of direct expenditure has the same effect upon the budget as a dollar of revenue lost by means of a tax credit. Further, tax credits built into the corporation income tax structure tend to benefit larger enterprises much more than small independent businesses.

We cannot avoid the fact that eliminating poverty will be a costly venture. This Nation can afford to spend the necessary sums, provided it properly orders its budgetary priorities. The progress that has been made in recent years under federally assisted housing, the OEO programs, and medicare and medicaid should be continued and increased. The model cities program is now in an early and experimental stage. After careful evaluation designed to discover the most effective approach to neighborhood improvement, this program should receive substantially increased funding.

While urging increased support, the committee is not convinced that within the present framework of government programs—Federal, State, and local—a significant increase in funds alone will alleviate urban and rural problems. This is especially true with respect to problems of poverty and discrimination, air and water pollution, traffic congestion, and inadequate public transportation. The effectiveness of governmental action has been seriously hampered by a lack of coordination, overlapping, duplication, and complexity at all levels. Before improved results can reasonably be expected from the resources invested in economic development, government programs must be rationalized and related more carefully to the needs of the people as they themselves perceive them.

# VI. International Trade and Economic Issues

## FOREIGN TRADE POLICY

During the last days of the Johnson administration, Ambassador William M. Roth, Special Representative for Trade Negotiations, submitted to the President a report entitled, "Future U.S. Foreign Trade Policy." In this document, Ambassador Roth detailed his recommendations for continued trade liberalization; he later expanded upon these views in testimony before this committee.

The Roth report outlines a constructive course for the United States to pursue. It prescribes a set of actions that would maintain the impetus for worldwide trade liberalization that this country has generated over the past 35 years. On the other hand, it also recognizes that some practices of other nations are designed to limit the export capability of the United States. In applauding this report, our general endorsement should not be interpreted to imply that we totally accept each and every recommendation without reservation. But regarding a number of particular points, we would like to underline our assent.

**We urge the continuation of the Office of the President's Special Trade Representative, and recommend that its coordination and research functions be bolstered.**

In our opinion, the Congress followed a wise procedure in initially establishing an independent office, responsible directly to the President and charged with the duty of formulating and coordinating U.S. trade policy. The funds necessary to bolster its activities should be provided. On the other hand, the responsibility for implementing trade policy should remain with the executive departments most immediately concerned. This allocation of responsibilities has worked well, and the existing arrangement should be maintained.

**We agree that, if there is to be any underlying presumption in the formulation and execution of U.S. trade policy, it must be a presumption in favor of trade liberalization and in opposition to trade barriers.**

Fundamentally, any such presumption is in favor of the consumer, since import competition discourages domestic price increases and expands the array of available products. The ultimate goal of economic activity in the United States is to maximize the real incomes of consumers. However, since the benefits from liberal trade policies are distributed in modest amounts to all Americans, consumers are at a disadvantage relative to more narrowly based interest groups in arguing their case.

Departures from free trade are necessary in some cases, and legislation passed by the Congress exemplifies its willingness to recognize legitimate exceptions. But the presumption must be in favor of unrestricted trade, and limitations on trade can be tolerated only after the need for them has been demonstrated. To make the alternative presumption would invite autarchy and injure both consumers and producers.

We applaud the announced determination of the Nixon administration to continue the pursuit of liberal trade policies. In testimony before this committee, Secretary of Commerce Maurice H. Stans cited President Nixon's recent statement on this issue:

> I believe that the interests of the United States and the interests of the whole world will best be served by moving toward freer trade rather than protection.

In reference to quantitative import restrictions, the President said:

> I take a dim view of this tendency to move toward quotas and other methods that may become permanent, whether they are applied here or by nations abroad.

We hope that the new administration consistently follows the high standards that have been enunciated. In this time of high inflationary pressures, it is particularly important that we do not artificially constrain the flow of imports. In addition to the long-range structural benefits derived from free trade in terms of higher real incomes for consumers and inducements to maintain domestic productive efficiency, imports provide an anti-inflationary safety valve whenever aggregate purchasing power begins to exceed real output. When U.S. industries begin to face greater import competition as a result of price increases, the limitation of imports is a contraproductive policy.

**We urge continued adherence to the most-favored-nation principle in bargaining for, and implementing, the multilateral reduction of tariff barriers.**

The most-favored-nation (MFN) approach has been highly successful in achieving postwar trade liberalization. Under this device, the United States extends tariff concessions multilaterally to all other nations granting the United States similar treatment. Preservation of the MFN approach will help sustain the impetus built up to achieve the progressive removal of trade barriers.

Given continued adherence to the MFN principle, this committee would find unacceptable any preferential agreement for tariff reductions between the Common Market and the European Free Trade Area that did not point toward complete free trade between these blocs. Any preferential arrangement must be an integral part of a schedule for the progressive reduction of tariff barriers that will culminate in the total removal of these impediments to trade between the two blocs and that will permit the free entry of additional nations.

**We recommend that the Congress pass a joint resolution expressing its consent that the President's Special Representative initiate negotiations to achieve the mutual reduction of nontariff barriers to trade. We also urge that the Congress promptly approve the supplemental agreement on trade in chemicals negotiated during the Kennedy Round.**

No concerted effort has been made to reduce nontariff impediments to trade. As tariffs have been lowered progressively, nontariff barriers have become relatively more important. Such barriers include quotas and market-sharing arrangements, some import restrictions labeled as health or safety measures, and border tax adjustments. An attempt now to lift nontariff barriers would, if successful, help insure the ability of the United States to export and guarantee the success of the next major tariff negotiations.

A number of problems—some originating in the United States and others abroad—have blocked attempts to achieve any significant reduction in nontariff barriers. Chief among the difficulties arising in this country is the question of the Executive's authority to negotiate the mutual reduction of nontariff barriers. Disputes have arisen between the Congress and the Executive over the Canadian-American Automobile Agreement, the International Dumping Code, and the proposal to eliminate the American selling price (ASP) method of valuation for imports of benzenoid chemicals.

Progress toward the removal of nontariff trade barriers would be greatly facilitated if the Congress were to pass a joint resolution indicating its consent that the President's Special Trade Representative initiate negotiations to remove nontariff trade barriers. Any such resolution must, of course, clearly specify that any negotiated agreement would later be submitted to the Congress for its decision.

If progress is to be achieved in reducing these impediments, the United States must be willing to lift some of the nontariff protection that has insulated American industries from foreign competition. Outstanding among U.S. nontariff barriers is the ASP method of valuation for certain benzenoid chemical imports. By levying tariffs on the basis of the American, rather than the foreign, selling price, existing practice affords American producers an extraordinary degree of protection. The effect of ASP valuation is similar to that of the variable levies that the Common Market countries apply against imports of U.S. agricultural products.

Despite the protests of the American chemical industry at the prospect of a reduction in the protection it enjoys to a more normal level, this committee feels that the supplemental agreement on chemicals constitutes a reasonable bargain. In exchange for elimination of ASP valuation and reductions in our duties on chemicals, this country would obtain reciprocal cuts in foreign tariffs on U.S. chemical exports and modification of the Common Market's road tax applied to American automobiles. We urge, therefore, that the Congress promptly approve the package that has been negotiated.*

**The United States must demand appropriate modification of the GATT regulations on border tax adjustments and insist upon improved access for American agricultural products into the Common Market.**

As the United States must demonstrate the seriousness of its intentions in achieving reduction of nontariff trade barriers, foreign countries must likewise demonstrate their own good will. Two issues in particular—border tax adjustments and foreign barriers to U.S. agricultural exports—are critically important to this country.

*Senator Ribicoff reserves support of this section until further assurance is forthcoming as to the willingness of foreign nations to make a concerted effort to remove incidents of border taxes and other nontariff barriers.

The EEC nations are in the process of harmonizing their tax codes and shifting to a value-added collection system. As a consequence of this change, these nations now grant full compensation to domestic exporters for the payment of indirect taxes. Previously only partial compensation was provided. With no change in exchange rates or the level of indirect taxation, a shift from partial to full compensation introduces a trading advantage for the countries making the change. Since most exchange rates had already adjusted to the former practice of partial compensation, the United States and other countries relying mainly on direct taxes are the losers from these modifications. We oppose the introduction of a U.S. value-added tax solely to legitimatize the use of comparable border adjustments. If this Nation is not to consider a unilateral increase in the border adjustments granted U.S. exporters and importers, GATT rules on compensation for indirect taxes must be modified. Modification could be either in the direction of reducing adjustments permitted on the basis of indirect taxes or allowing compensation for direct taxes.

As one of the most efficient producers of agricultural products, the United States stands to benefit greatly from across-the-board elimination of export subsidies, quotas, and import levies on all agricultural commodities. This country would also have to make concessions if agricultural trade is to be freed from the multiplicity of existing constraints. But our comparative advantage in agriculture means that increased trade would bring substantial net gains for the United States.

Serious problems have arisen because of the reluctance of foreigners to permit the uninhibited exercise of our comparative advantage in agriculture. The variable levies of the EEC have sharply curtailed imports of American wheat, and subsidies have attempted to force U.S.-grown poultry out of European markets. We now face the prospect of a high tax on vegetable oil products within the Common Market. This tax would have the effect of shifting consumption in these nations to animal fats and effectively excluding soybeans and soybean oil produced in the United States. If such a discriminatory tax is imposed, this Nation will be forced to consider retaliation.

The longrun objective should be a return, globally, to the practice of purchasing from the lowest cost producer. Moreover, in future negotiations, agriculture should be made an integral part of broader discussions to reduce barriers to trade in both manufactured and nonmanufactured goods.

## DOMESTIC ADJUSTMENT ASSISTANCE

As trade liberalization is achieved and as U.S. tariffs and other barriers to imports are removed, it is necessary and desirable that certain U.S. industries adversely affected by a rise in imports receive adjustment assistance. Furthermore, it makes scant difference to individual U.S. producers whether the increase in imports from which they suffer is due to a tariff concession, a change in the tastes of American consumers, or to an increase in the ability of foreigners to compete. If the United States as a whole gains from trade expansion, one sector in the U.S. economy or a separate industry should not be forced to bear the full cost of any adjustment that may be necessary. Instead, adjustment burdens—like the benefits from trade—should be distributed broadly. At the same time, however, any assistance granted must be temporary and designed to stimulate the competitive viability of U.S. industry. Assistance must not become a continuing subsidy, either explicit or implicit, from Government or consumers to individual producers.

**The grounds for adjustment assistance should be changed from an increase in imports caused by a previous tariff concession to any increase in imports that results in serious injury to domestic producers, workers, or communities.**

The qualifications for adjustment assistance adopted under the 1962 Trade Expansion Act need to be relaxed, since no firm has been able to qualify under the existing requirements. We feel the appropriate way to do this would be to alter the grounds for assistance from "serious" injury induced by tariff concessions to a "serious" injury resulting substantially from any increase in imports, regardless of the cause of that increase. This change—recommended in the Roth report on trade policy—is consistent with our commitment to full employment and maximum feasible real income for all Americans.

**The emphasis of adjustment assistance should be shifted from entire industries to individually eligible firms, communities, and/or groups of workers.**

In addition to suggesting relaxation of the qualifications for obtaining assistance, the Roth report on trade policy also suggested reorientation of adjustment assistance from entire industries to individual firms, communities, and/or groups of workers. Segments of an industry may be suffering from important competition while the industry in general is not. To date, we have been forced to choose between either granting assistance to an entire industry—and allowing efficient producers to reap excessive profits—or denying aid to an entire industry—even though some firms could qualify individually.

We approve of this reorientation and judge that adjustment assistance legislation should move in this direction. Our responsibility is to attempt to insure full employment, the acquisition of technical skills necessary for the attainment of a reasonable standard of living and—whenever possible—the useful employment of immobile physical and social capital that has been accumulated in existing communities.

To achieve these objectives, we must foster orderly change. Therefore, assistance granted as a response to an expanding inflow of imports should form a part of this Nation's comprehensive policies to deal with unemployment, inadequate education, and regional or local economic hardship. Basic education and vocational training programs, moving allowances, and loans and technical assistance to depressed firms and communities could well make up a larger proportion of our policy response to increased imports, as well as to technological change and shifts in competitive abilities within the U.S. economy. These types of assistance are vastly preferable both to market sharing—which allocates a maximum percentage of the domestic market to imports—and to escape-clause relief, under which previous tariff concessions granted by our negotiators are withdrawn.

**Recipients of adjustment assistance or escape-clause relief should be required to demonstrate annually satisfactory progress toward a capability to compete without Government aid.**

Particularly at this time, when the U.S. merchandise trade balance has dropped to the lowest level in over 30 years, it is important to keep clearly in mind the distinction between constructive and regressive reactions to import competition. Constructive responses enable domestic producers either to compete against imports without public assistance or to transfer productive resources, including labor, into different industries that are competitive. Regressive reactions consist of import restrictions or subsidies used merely to sustain inefficient producers who would collapse if exposed to competition.

To insure that public assistance is used constructively, all recipients of adjustment assistance or escape-clause relief should report annually on their efforts toward acquiring the ability to compete against imports. If the demonstrations of satisfactory progress cannot be demonstrated, then the assistance or relief should be withdrawn.

**Import quotas imposed under the National Security provisions of U.S. trade legislation should be re-evaluated periodically.**

The National Security provisions of the Reciprocal Trade Agreements Acts and, more recently, the 1962 Trade Expansion Act, allow the imposition of quotas on imports that might undermine the defensive capability of the United States. The only quota action taken under this provision has been the restriction of petroleum imports since the mid-1950's. The need for such quotas should be reviewed periodically in the light of national needs, technological advances, and recent petroleum discoveries.

## U.S. BALANCE-OF-PAYMENTS POLICIES

On the basis of information gathered during this committee's regular annual hearings and during the special hearings on U.S. balance-of-payments policies conducted in January 1969 by the Subcommittee on International Exchange and Payments, we have reached a number of conclusions regarding the methods that have been employed to curtail U.S. external deficits.

### The U.S. balance-of-payments position should be published without, as well as with, the benefit of so-called "special transactions."

The Commerce Department publishes quarterly summary data on the U.S. balance of payments. The net surplus or deficit for the most recent period is presented according to two calculations; that is, the liquidity balance and the official settlements balance. The first calculation computes the U.S. payments position on the basis of the change in U.S. gold and other types of reserves, plus the change in liquid liabilities to foreigners. By contrast, the official settlements balance is the total of the change in the U.S. reserve position and the change in liabilities—both short- and long-term—to official foreigners only. Both of these balances, however, reflect the benefit of "special transactions" between foreigners and U.S. authorities.

American officials arrange "special transactions" in order to make the published deficits look smaller and to lengthen the term structure of our official liabilities to foreigners. Examples of such "special transactions" include prepayment of loans by foreigners and the sale of "nonliquid" U.S. Government debt obligations to foreign central banks. The latter adjustment changes a rise in liquid liabilities to official foreigners, which enlarges the U.S. deficit by the same amount, into a supposed capital inflow.

The Commerce Department does publish a list of all special transactions and should be commended for doing so. But given the impact of these transactions in altering the size of reported U.S. payments deficits, the Department should also publish with equal prominence the size of both the liquidity and official settlement balances without the adjustment classified as "special transactions."

### The export promotion efforts of the Commerce Department need to be bolstered. But fostering the ability of U.S. industry to compete against imports is just as critical.

In 1968, the U.S. merchandise trade surplus practically vanished. This development is particularly serious because it suggests that the United States is not able to compete in world markets, and, without a reversal in the near future, would require radical alterations in U.S. private and Government activities abroad. Some recovery can be expected in 1969. Hopefully this year will be free of strikes and strike threats such as occurred in 1968, and the growth rate in gross national product will be at a level that is sustainable over the long run. The 23-percent increase in imports, which was primarily responsible for our trade balance deterioration, should not be repeated. In addition to restraining the expansion, the Government can do much directly to insure a more satisfactory U.S. trade balance.

The Commerce Department promotes the sale of U.S. exports through trade fairs, expositions abroad, and the distribution of information on export opportunities throughout the United States. Some of these efforts are clearly bearing fruit and should be expanded. However, no Government agency is charged with assisting U.S. industry in maintaining or strengthening its ability to compete against imports.

While the rapid rise in imports during 1968 was largely due to the extraordinary expansion of gross national product, another disturbing aspect of recent U.S. performance has been the apparent diminution of our competitive advantage in critical industries, such as steel, automobiles and other transportation equipment, aircraft, and electronics. Early identification of trends suggesting a decline in the ability of specific industries to compete and distribution of this information might be a worthwhile additional function of the Commerce Department.

**The imposition of taxes or other restraints on the activities of Americans is not the appropriate way to narrow the travel gap; instead, this gap should be diminished through the promotion of travel by foreigners in the United States.**

For over a year, the U.S. Travel Service, a subdivision of the Commerce Department, has been attempting to introduce a simple but effective system to give foreigners a package of price discounts for travel to and in the United States. We wholeheartedly approve of this approach and hope that the USTS will receive the cooperation of the American travel industry in assembling a comprehensive package of discounts. The initial organizational difficulties will—we expect—be overcome before the 1969 travel season, when the program should have a significant positive impact. This program deserves the full and unqualified support of the Congress.

By contrast, we emphatically and categorically oppose any direct tax on U.S. tourist expenditures abroad or any other artificial constraint on U.S. tourist spending. Such restraints would curtail the freedom of Americans in the expenditure of their incomes, and thus tend to reduce real income. Moreover, a tax would fall heavily upon those less affluent Americans who have been able to travel abroad only recently and who have accounted for most of the upsurge in U.S. tourist expenditures abroad. We therefore received with pleasure the recent announcement by the Secretary of Commerce that the new administration will not submit a travel tax proposal to the Congress similar to the one rejected last year.

**Starting with the Interest Equalization Tax (IET), the various restraints on exports of capital from the United States should be phased out as soon as practicable.**

The capital export restraints that have been implemented over the past 6 years are a direct contradiction of the most fundamental international economic policy objectives pursued by the United States since the end of World War II. Not 5 years after the reinstitution of nonresident convertibility throughout Western Europe and the removal of most exchange controls, the United States began the progressive imposition of similar comprehensive limitations on capital exports.

While preservation of the reserve-asset value of the dollar and international monetary stability are both goals deserving the highest priority, the freedom of private transactions should not have been sacrificed until the Government had made every conceivable effort to curtail its adverse contribution to the U.S. balance of payments. As we point out in the following discussion, this procedure was not followed. Because of the commitment of the United States to free international transfers of goods, services, and capital, the existing capital export restrictions should be abolished as soon as possible, and a phased elimination of these limitations should be initiated immediately.

Unless determination to remove these constraints is evidenced, they will not only become a bureaucratic fixture, but will also exacerbate the disease they were designed to cure. Strict limitation of any expansion in export credits to foreigners must sooner or later have an adverse impact on our trade position. No clear loss of U.S. exports for lack of credit has been reported to the Federal Reserve, and some additional lending leeway has been available almost continuously since the inception of this program. Nevertheless, we remain skeptical of any assertion that—especially in combination with other capital export controls—credit restraints have not depressed U.S. merchandise exports to some degree.

Similarly, the reduction of direct investment abroad or the financing of such investment through loans obtained abroad reduces the size of net future receipts from foreign investment. Forgone receipts will eventually exceed the size of the savings currently achieved through the continued imposition of controls. The length of the period before which forgone receipts will exceed current savings is a subject of much debate. But there is no dispute about the fact that such a reversal would eventually occur. Thus, it is imperative that first steps be taken toward elimination of all controls. These steps should include vigorous pursuit of more constructive ways to improve the U.S. balance of payments and initial relaxation of the controls themselves.

Suspension of the Interest Equalization Tax is an appropriate way to begin the elimination of capital export restrictions. In view of the recent massive inflows of foreign capital into the United States, and of the rise in U.S. interest rates relative to those in Western Europe, we believe that suspension of the IET would do little or no injury to the U.S. balance of payments. The voluntary credit restraint program administered by the Federal Reserve should be relaxed through limited exemptions for identifiable legitimate export credits. Finally, all limitations on direct investment in manufacturing enterprises in less developed, or schedule A, countries should be removed. Once the consequence of this initial action has been appraised, then similar limitations on investment in extractive industries in developing countries should also be eliminated at the earliest possible date.

**The Common Market nations should be expected to compensate the United States for the full foreign exchange cost of our troop commitments within the European Economic Community.**

Government defense policies have undermined our balance-of-payments position through both foreign involvements and the contribution of military expenditures to domestic inflation and the expansion of GNP at an unsustainable rate. For example, the direct balance-of-payments cost of our involvement in Vietnam amounts to $1.5 billion annually, but associated additional indirect costs may well be equally as large or even larger.

It is critical that Government officials recognize the foreign exchange cost of military involvements such as the Vietnam war. We take no position on the wisdom of that action, but merely point out that one of its most important costs has been curtailment, restriction, and undermining of market processes at home. In the absence of a major and—in the light of present circumstances—fortuitous structural improvement in the balance-of-payments position of the United States, any similar future venture would entail corresponding costs. U.S. policymakers are still generally unaccustomed to the idea of a permanent economic constraint on the external activities of this country. Nevertheless, such a constraint exists and must be recognized.

Since the Government itself is the major cause of our balance-of-payments deficits through military involvements abroad, reduction of both the scope and foreign exchange costs of foreign military operations is imperative. Western Europe is the most appropriate area in which to initiate this reduction.

During the last 3 years, the net foreign exchange costs to this country of our troop commitments in the Common Market nations have totaled about $700 million annually. This amount represents the difference between our gross outlays abroad for the support of these troops and our sales of military equipment to the EEC countries. A portion of these net costs has been offset through medium-term loans from Common Market nations, notably the Federal Republic of Germany, to the United States. However, in our judgment, loans to the United States are not an appropriate offset. This country is paying for the current protection of Western Europe and not purchasing an economic investment that will produce returns in the future. These expenses, therefore, should be financed currently.

More fundamentally, no reason exists why we should be making our European allies wealthy in return for the privilege of helping to defend them. Any U.S. military expenditures in Western Europe that are not offset by sales to these countries eventually expand their stocks of internationally acceptable reserve-assets. The Common Market is strong economically and able to compensate this country fully for the foreign exchange costs of our contribution to their defense. We are not even asking that they furnish the full budgetary costs of our European contingents. We request that merely the foreign exchange component—which is a relatively minor portion of the total cost of training, equipping, and then supplying these troops—be returned.

The only appropriate offsets are those which lead to no increase, either immediate or subsequent, in the reserves of already wealthy European nations benefiting from U.S. military protection. The portion of our foreign exchange costs that is not offset by U.S. sales of military equipment should be returned to the U.S. Treasury in the form of an immediate cash payment. Otherwise, we extend to industrialized nations a quantity of foreign aid that may approximate our assistance to less-developed countries.

**Official efforts to reduce U.S. balance-of-payments deficits should be geared to market adjustments that will curtail or eliminate our chronic excess of net expenditures abroad.**

Beginning with the Kennedy administration, the U.S. Government has imposed a variety of restraints and controls on public and private transactions in an effort to diminish and eventually eliminate this Nation's balance-of-payments problem. These measures range from defense purchasing guidelines and the virtually complete tying of U.S. foreign aid to controls over most types of private capital exports. The obvious danger is a growing dependence upon these crutches and failure to make the market adjustments that must come about if our payments position is to be strengthened in any valid sense.

Of course, this danger was apparent to the officials who introduced the existing controls and restrictions, one by one. All were intelligent, conscientious, and perceptive men, and to each the immediate sacrifice seemed preferable to the uncertain but awesome possibility of an international monetary collapse. Given the benefit of hindsight, however, we must question whether the United States has in fact been moving in the right direction. If not actually increasing the likelihood of the ultimate crisis, we have been gradually removing the benefits that the postwar system of free multilateral convertibility and trade was supposed to confer. In the foregoing discussion, we have attempted to outline a few ways in which the current administration might appropriately work toward the elimination of U.S. payments deficits. We feel, however, that the most significant contribution can be made by the Federal Government itself through expenditure policies and selection of adjustment techniques.

## ECONOMIC DEVELOPMENT ASSISTANCE

**Our foreign aid effort needs to be reappraised in terms of its effectiveness and appropriateness.**

The Alliance for Progress and other aid programs have hardly lived up to expectations. In view of our balance-of-payments position and the right of American taxpayers to demand results in return for Government outlays, we find that the reevaluations currently underway are entirely appropriate.

**We believe that the level of combined official and private resource transfers to less-developed countries should be maintained.**

Despite the apparent low productivity of some Government efforts to assist economic development, we believe that the total level of Government and private transfers should be maintained. If achievement of this objective requires that private industry assume a larger proportionate share of the burden, then methods should be developed to encourage greater private investment in developing countries. Government investment guarantees and Government distribution of information regarding investment opportunities might be the most effective inducements. But if the recipient nations are to welcome an expansion of private foreign investment, mutually acceptable standards of good investor behavior should be established.

A link between the creation of new reserve assets, such as SDR's, and economic assistance could also supplement the flow of capital to developing nations. The Subcommittee on International Exchange and Payments intends to examine the feasibility of such a link in the near future.

## INTERNATIONAL MONETARY REFORM

The strains imposed on the international monetary system in 1968 nearly exceeded the tolerable limits. Following devaluation of the pound sterling in November 1967, the dollar came under strong speculative pressures in the early months of last year. The United States suffered gold losses approaching crisis proportions until the March 17 Washington accord ended the intervention of the Gold Pool nations in the London market and established the two-tier gold price system. Subsequently pressures against the dollar eased, but then during May and June, political disturbances in France subjected the franc to similar strains. Financial assistance from other nations temporarily alleviated the problems of the franc. The attentions of speculators then shifted to the Deutsche mark, which was believed to be a prime candidate for upward revaluation. Speculation against the franc and in favor of the mark mounted intermittently until November when the leading financial officials of the major industrialized nations convened in Bonn to deal with the speculative attack. The outcome of this conference proved to be no change in exchange rates but an attempt to alter trade and capital flows through domestic restraints and temporary alterations in the border tax adjustments.

Apparently the system survived the year intact. However, as we have already noted, some of the most fundamental objectives of postwar international monetary planning were compromised to preserve the structure. We hope that these sacrifices will be only temporary. But if the system is to provide the benefits initially envisioned under it, the pace of reform must be less deliberate than we have witnessed to date.

The following recommendations for strengthening the international monetary system are essentially the same as those presented by the Subcommittee on International Exchange and Payments in its report of September 18, 1968, entitled "Next Steps in International Monetary Reform."

**The Special Drawing Rights amendment to the IMF Articles of Agreement should be ratified and activated as soon as possible.**

The reserves to be provided under this amendment are essential to the continued expansion of world trade and to the orderly growth of the international monetary system. Failure to promptly create and distribute SDR's would tend to intensify competition among nations for the existing stock of reserves and, thus, to exacerbate any future crises. Some European nations have insisted that the SDR amendment should not be activated until United States external deficits were substantially reduced. The 1968 improvement in the U.S. balance of payments should remove this objection. We also suggest that when the SDR agreement is activated, more than $2 billion of reserves be distributed annually, as President Johnson's Council of Economic Advisers recommended in its last report, rather than the smaller amounts previously mentioned.

**The official price of gold must remain unchanged, and the two-tier price system for gold should be maintained in its present form.**

The impossibility of any enduring solution to international monetary problems through an increase in the official price of gold is apparent. Since it eliminated the threat of a forced price change, the March 17 Washington accord was a necessary step in the maintenance of international monetary stability and in the evolution of the system. As such, it should be preserved in its current form; specifically, the market for gold should be free from all limitations on the maximum or minimum price. The behavior of the market since March 1968 has amply demonstrated that gold is not so valuable as many speculators apparently believed. The arguments of those who maintained that the official price of gold should be doubled or increased by an even greater amount are now recognized as spurious. Similarly, no floor or minimum free market price is necessary. Introduction of a floor would merely protect the speculators against potential losses. As the accord states, "The existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights." Therefore, it is no longer necessary to increase the stock of monetary gold reserves.

**To guarantee the reserve-asset value of existing gold reserves and to exclude the possibility of massive official shifts between different types of reserve assets, all reserves should be pooled under the aegis of the IMF.**

The multiplication of different types of reserve assets raises the possibility of differences in the expected future worth of these assets. If, for example, central bankers became convinced that the dollar value of the SDR's was about to change, they might try to unload one type of asset and acquire the other. The only way to resolve this problem conclusively is to pool all reserve assets and thus to guarantee their relative values. Such pooling need not mean transferring the ownership of reserves to the IMF or any other supranational authority. Individual central banks could instead earmark reserves in behalf of the IMF and then receive accounting balances on the books of the Fund for the quantity earmarked. Payments surpluses and deficits would then be settled by transfers of these accounting balances between IMF members.

Any complete pooling arrangement would in effect neutralize the claims that foreign official institutions have against the U.S. gold stock. Therefore, an arrangement of this type would probably entail the quid pro quo that the United States, as every other Fund member, relinquish any ability to finance payments deficits through the accumulation of liabilities to foreign monetary authorities.

**The International Monetary Fund should carefully examine somewhat greater variability in exchange rates as a means of facilitating adjustments to eliminate chronic payments surpluses and deficits.**

The failure to develop a smooth and effective adjustment mechanism for the elimination of payments surpluses and deficits is the outstanding weakness in the postwar international monetary system. Despite the obvious need for an appropriate innovation, price adjustments through exchange rate variations have not received the consideration they deserve. The two methods suggested most frequently for implementing greater exchange rate flexibility would either widen the range of acceptable fluctuations or permit gradual, continuous changes in the stated "par" values of national currencies.

But any decision to use exchange rate variations more frequently should be based upon a more accurate estimate than is currently available of the price sensitivity of international transactions in goods and services and of the price sensitivity of both short- and long-term capital flows. We should also understand more fully the international compatibility of adjustments in levels of aggregate economic activity. These questions are being investigated from a number of different points of view, and the threat of additional crises should provide a steady impetus toward the introduction of an effective solution.

# VII. Improved Statistics for Economic Growth

## IMPROVED STATISTICS FOR ECONOMIC GROWTH

One of the first instructions given by this committee to its staff when it organized 22 years ago was to tabulate those gaps in our economic statistics that impeded the intelligent formulation of public and private economic policies. Still later, in 1954, the committee set up a Subcommittee on Economic Statistics, which, since that time, has carried forward the committee's interest in timely, complete, and reliable economic information as a basis for policy decisions.

This interest is not at all surprising. First and foremost, in today's complex world, millions of dollars are involved in economic decisions that may rest upon fluctuations or trends in a single statistical series. In the private economy, wage rates, value of construction contracts, and other arrangements may be determined on the basis of changes in price indexes, or comparable wage or contract rates in other sectors or industries. Federal, State, and local governments all require statistics as a basis for decisions in such diverse areas as national security, taxation, agriculture, housing, schools, and highways.

But there is an additional reason for this committee's continuing concern for the quality, coverage, and timeliness of our statistical programs. A free society such as that to which Americans aspire involves decentralizing decisionmaking among literally tens of millions of private and public organizations and individuals. If these myriad decisions are to be rational, they must rest upon a secure foundation of reliable information. Only the Federal Government can assume the ultimate responsibility for assembling and publishing the enormous array of economic statistics which public and private officials require. Only the Federal Government can insure that common definitions are used throughout the Nation, and only the Federal Government can insure that the various economic statistics are comparable one to the other throughout all fields in which data must be collected. To depart from Federal responsibility is to invite duplication, inefficiency, and waste.

In accord with the recommendation of this committee, the Federal Budget has each year included a special analysis of the Federal Government's programs in the field of statistics. The adoption of additional recommendations over the years has led to numerous improvements in the statistical system. Our economic statistics have become the best and most comprehensive in the world; but they can be, and must be, further improved. This is particularly true as we attempt to manage public policy so as to more closely carry out the objectives set forth in section 2 of the Employment Act of 1946. In the midst of a great depression, as in the 1930's, or an overpowering inflation, as during World War II, it was enough that the indicators pointed vaguely in the right direction sooner or later. Neither accuracy nor speed was terribly important.

But today our objective is to maintain full employment and steady economic growth at all times without inflation. This task places burdens on both public and private policymakers that can only be met if they have very accurate information in a timely manner to tell them the speed of economic change and the precise relationships between the various components. Early and careful diagnosis of inflationary dangers, or the likelihood of recession, requires comprehensive information about price costs, profits, and productivity performance in various sectors and industries. Our international trade position is so vital as to stress the need for better information than we have heretofore possessed about both export and import prices that can reveal accurately our changing competitiveness in international markets.

The usefulness of the statistical system for policymaking was advanced substantially during 1968 by the development of a new monthly compilation of data on defense operations, entitled "Defense Indicators," published by the Bureau of the Census, Department of Commerce. This project was undertaken at the request of the then chairman of the committee, Senator Proxmire. As this publication is improved it should make unlikely a repetition of the errors of 1966, when economic policy was led astray by a gross underestimate of defense spending that persisted long after such indicators as new orders and contract awards, if promptly and completely reported, would have made it obvious that activity was going to exceed the estimates in the budget document.

The present publication's usefulness is limited somewhat by the fact that interpretation of changes in the various series is very difficult for anyone other than a specialist. We urge that the Department of Commerce, in cooperation with other agencies, soon undertake the regular publication of interpretive analyses for the guidance of the nontechnical users of these important indicators of forthcoming economic changes.

While the committee is pleased with the progress so far reached in various areas of economic statistics, we are distressed that many of the improvements are yet to be made and that progress toward providing integration in the various statistical programs leaves much to be desired. There is also evidence of renewed attacks on some of our most basic programs, particularly the decennial census. The comments of private users and of government statistical agencies on the statistics needed for our growing economy, and published by us in July 1965 and March 1966 under the title "Improved Statistics for Economic Growth," indicate that a wide range of improvements is still needed if our programs are to meet the needs of our changing economy. During 1969, our Subcommittee on Economic Statistics will review the progress that has been made in selected areas of these programs and in the carrying out of past recommendations in meeting today's needs. The subcommittee also contemplates exploring additional areas, particularly those concerned with welfare problems.

In this, our annual report, however, the committee wishes to express once more its considered judgment that providing improved statistics to aid business, labor, agriculture, and government to sustain stable economic growth will pay dividends many times the modest cost in budget outlay, and the modest amount of inconvenience to respondents required by a well-run statistical system.

## SUPPLEMENTARY VIEWS OF REPRESENTATIVE PATMAN

In an overall sense I consider this to be a fine report. I am in general agreement with the suggestions made throughout the study, and this is particularly true concerning the direction of recommendations dealing with the Federal Reserve Board. However, I feel that significantly more action than is recommended in the report must be taken in this area because the mistakes of the Board and the Open Market Committee have led the way in a movement that is bringing our economy to the brink of recession.

The Board's stumbling monetary policies—first pushing the economy toward easier credit and then hauling it back in the other direction—have played a fundamental role in creating the highest interest rates in the history of the Nation. Since the beginning of last year the Federal Reserve System discount rate to member banks has risen 10 percent, to 5½ percent. The prime interest rate—the best rate made to low-risk industrial and business borrowers—has gone up 30 percent and is now at 7½ percent. And Federal Housing Administration and Veterans' Administration insured mortgages have increased 25 percent, to present highs of 8 percent, including insurance premium, and 7½ percent, respectively.

Moreover, economists and other students of fiscal and monetary policy say that the end of this climb is not in sight. The Board's promise of a continuing high-interest, tightened-money market, for the rest of the year at least, will undoubtedly fulfill these expectations—to the sorrow of the American people, especially those who are poor or are in low-income brackets. Most of these people will find themselves priced right out of the credit market. They won't be able to purchase many of the things that spell the difference between whether they will live in relative security and health or fear and misery.

The increase in insured home mortgage loan rates presents a grim example of the strangling effect high interest has on the pocketbooks of people who can least afford it. The 1½-percent rise in the FHA rate, when applied to new loans last year, means that those borrowers collectively will have to pay an extra $1 billion, or 14 percent more for their homes over the life of the mortgages insured. Viewed on the individual level, it means that a borrower purchasing a $20,000 home over a 30-year period will pay $20 more a month, or a total of $7,000 more over the 30-year term of the mortgage. In many cases this amounts to handing the bank a year's salary.

Among other things, the effect of the Federal Reserve Board's high-interest policy will hold new housing starts down to about 1.5 million this year, less than 60 percent of the yearly quota required to meet our national housing goal of 26 million new units in 10 years.

By the same token, such policies are hardly designed to fulfill the committee's recommendation, contained elsewhere in the report, of reducing the unemployment rate this year from 3.3 percent to 3 percent—to say nothing of realizing the goal of the Employment Act of 1946. Economists who testified during hearings held to prepare this report consistently—even casually—estimated that unemployment would rise to 4 or 4½ percent under the tight-money and high-interest plan of the Fed and the administration to fight inflation. If unemployment does go up to $4\frac{1}{2}$ percent, and some have said it will go higher, there will be nothing casual about the fact that nearly a million more people will be out of work.

This report appropriately points out that monetary policy, as it presently operates, primarily affects residential construction, small businesses, and State and local governments. The damage done to the housing industry by Federal Reserve-spawned inflation is also currently reflected in the unmet financing needs of local and State governments. A report issued in 1966 by the Economic Progress Subcommittee of the Joint Economic Committee showed that local and State governments would have to finance $500 billion in critically needed public facilities during the following 10 years. During the past 6 months interest rates on State and municipal bonds have risen to their highest levels in a generation, and, as a result, $550 million in tax-exempt securities have been withheld from the market. Purchases of municipal bonds this year by commercial banks are expected to total only $4.4 billion, slightly more than half the total for last year. The index of the *Bond Buyer* stands at 5.19 percent, the highest level since 1934, and the Bank of New York asserts that no one is willing to say when a decline will occur in municipal bond prices.

Tracing the erratic monetary policies of the Federal Reserve, John M. Culbertson, professor of economics at the University of Wisconsin, testified:

> The increase in interest rates last year could not have reflected a Federal Reserve policy of monetary restraint, for the Federal Reserve was pumping bank reserves and money into the economy at an unusually rapid rate. On the contrary, the rising interest rates reflected very strong credit demands associated with inflationary expectations. Thus, they indirectly reflected the fact that Federal Reserve policy was so expansionist as to be inflationary.

In his closing remarks, Professor Culbertson stated:

> * * * it does not seem to me excessive to characterize monetary policy as formulated by the Federal Reserve as a threat to the security of the Nation. Given the long record of Federal Reserve intransigence, to wait and hope that institution will see the light does not seem a safe policy. Organizational reform is needed.

In my judgment, the most important aspect of reforming the Federal Reserve is a clear recognition by that agency that its first responsibility is to promulgate monetary policy that serves the public interest in the best way possible. Right now would be an excellent time to start. William McChesney Martin, Jr., Chairman of the Federal Reserve Board, has repeatedly admitted that Congress has authorized the Federal Reserve to purchase obligations of the Federal Home Loan Bank Board and the Federal National Mortgage Association so that an adequate supply of low-cost mortgage money is available. The Federal Reserve's refusal to act on this authority in effect means that it refuses to provide mortgage money at reasonable interest for the people of this Nation.

These details constitute pieces of the Federal Reserve's overall failure to see its responsibilities and to live up to them. That failure has cost the American public $8 billion a year—half the interest on the current national debt alone. From 1939 to 1952 interest rates on securities issued by the Government never exceeded 2½ percent. Needless to say, that was before Mr. Martin made his debut as Federal Reserve Board Chairman. That event marked the beginning of another 14 years when the interest rates on Government securities were continually raised to a point where they had soon doubled, with the result that the taxpayers of the Nation are now paying interest totaling $16 billion a year on Government securities, not the $8 billion that would be the case if previous policies of the Federal Reserve had prevailed.

*Comparison of interest rates—14-year period from 1939-52 compared with 14-year period from 1953-66*

I. Yields on long-term Government bonds, 1939 to present (percent per annum):

| Year: | *Yield* | Year—Continued | *Yield* |
|---|---|---|---|
| 1939 | 2.36 | 1954 | 2.56 |
| 1940 | 2.21 | 1955 | 2.84 |
| 1941 | 1.95 | 1956 | 3.08 |
| 1942 | 2.46 | 1957 | 3.47 |
| 1943 | 2.47 | 1958 | 3.43 |
| 1944 | 2.48 | 1959 | 4.08 |
| 1945 | 2.37 | 1960 | 4.02 |
| 1946 | 2.19 | 1961 | 3.90 |
| 1947 | 2.25 | 1962 | 3.95 |
| 1948 | 2.44 | 1963 | 4.00 |
| 1949 | 2.31 | 1964 | 4.15 |
| 1950 | 2.32 | 1965 | 4.12 |
| 1951 | 2.57 | 1966 | 4.65 |
| 1952 | 2.68 | 1967 | 4.85 |
| 1953 | 2.94 | 1968 | 5.26 |
| Average for 14-year period (1939–52) | 2.36 | Average for 14-year period (1953–66) | 3.65 |

II. Average annual yield on 91-day Treasury bills, 1939–66

| Year: | *Yield* | Year—Continued | *Yield* |
|---|---|---|---|
| 1939 | 0.023 | 1953 | 1.931 |
| 1949 | .014 | 1954 | .953 |
| 1941 | .103 | 1955 | 1.753 |
| 1942 | .326 | 1956 | 2.658 |
| 1943 | .373 | 1957 | 3.267 |
| 1944 | .375 | 1958 | 1.839 |
| 1945 | .375 | 1959 | 3.405 |
| 1946 | .375 | 1960 | 2.928 |
| 1947 | .594 | 1961 | 2.378 |
| 1948 | 1.040 | 1962 | 2.778 |
| 1949 | 1.102 | 1963 | 3.157 |
| 1950 | 1.218 | 1964 | 3.549 |
| 1951 | 1.552 | 1965 | 3.954 |
| 1952 | 1.766 | 1966 | 4.811 |
| Average yield (14-day period) | .645 | Average yield (14-year period) | 2.797 |

Because the policies of the Federal Reserve set a floor for all other aspects of the economy, that agency's misguided decisions have resulted in proportional increases in the interest rates on private debt of the Nation as well.

## Excess Interest on Private and Public Debt, 1951–66: $211.1 Billion

TABLE I.—NET PUBLIC AND PRIVATE DEBT, TOTAL INTEREST PAID, AND AVERAGE RATE OF INTEREST IN THE UNITED STATES, 1951–66

| Year (1) | Total debt (billions) (2) | Interest paid (billions) (3) | Computed average interest paid (3÷2) (4) | Interest costs figured at 1951 computed rate (5) |
|---|---|---|---|---|
| 1951 | $524.0 | $17.8 | 3.397 | $17.8 |
| 1952 | 555.2 | 19.7 | 3.548 | 18.9 |
| 1953 | 586.5 | 21.9 | 3.734 | 19.9 |
| 1954 | 612.0 | 23.7 | 3.873 | 20.8 |
| 1955 | 672.3 | 26.0 | 3.867 | 22.8 |
| 1956 | 707.5 | 29.8 | 4.212 | 24.0 |
| 1957 | 738.9 | 34.0 | 4.601 | 25.1 |
| 1958 | 782.6 | 36.0 | 4.600 | 26.6 |
| 1959 | 846.2 | 40.8 | 4.821 | 28.7 |
| 1960 | 890.2 | 45.7 | 5.134 | 30.2 |
| 1961 | 947.7 | 48.4 | 5.107 | 32.2 |
| 1962 | 1,019.3 | 53.4 | 5.238 | 34.6 |
| 1963 | 1,096.9 | 59.8 | 5.452 | 37.3 |
| 1964 | 1,174.3 | 66.5 | 5.663 | 39.9 |
| 1965 | 1,270.3 | 74.0 | 5,825 | 43.2 |
| 1966 (estimated) | 1,368.3 | 82.7 | 6,044 | 46.5 |
| Total |  | 680.2 |  | 468.5 |

Notes

These figures through 1966. Obviously excess interest is well over the $211.7 billion listed here. See the following table:

| | Billions |
|---|---|
| Total col. 3 | $680.2 |
| Less total col. 5 | −468.5 |
| Excess cost | 211.7 |

Source: Economic Report of the President, 1967.

These tables graphically illustrate that Mr. Martin is the most costly public official in the history of the world. The history of his tenure as Federal Reserve Chairman convicts him of nonfeasance, misfeasance, and malfeasance.

From the standpoint of public interest, there is nothing preventing the Federal Reserve from returning to the low-interest policies of the 1939–52 period. By the same token, there is nothing that should be preventing the Federal Reserve from promulgating a formula which will allow a complete departure from its current knee-jerk reaction to symptoms of economic change. What is needed, instead of high interest and tight money, followed by an excess in the money supply, is a program whereby the supply of money is kept within a constant range of the economy's rate of growth. When harsh inflationary trends appear, bank reserves should be restricted. If conditions deteriorate further, then taxes should be increased. In any event, action to curb inflation should be taken with caution. An abrupt change in the economic situation could find the Nation flirting with recession, if not depression. From the standpoint of employment, money supply, and availability of credit, it is better to flirt with inflation.

With this approach the economy would tend to smooth out and be maintained at a much steadier rate of growth. Interest rates would remain fair, and the people of the Nation would be protected from being locked into the fantastically high cost loans made during unnecessary periods of inflation, as is currently the case. I want to stress that all future taxation, whether it is increased or not, must be coupled with tax reform so that the burden will be distributed equitably.

The colossal failure of the Fed to move in this direction is symptomatic of its presumption that it is an independent agency, responsible only to God. It apparently thinks that commitment to any lesser authority would seriously threaten the economy of the country. Unfortunately, the Federal Reserve itself has made good the threat.

The fact of the matter is that the Federal Reserve was created by, and is answerable to, Congress. It has managed to claim independence because of the apathy of Congress and the fact that it is illegally collecting interest on Government securities that it holds—securities that now total $52.1 billion, on which $22 billion of interest is being paid. In effect, the Federal Reserve is using Government money to purchase Government bonds, on which the Government is now paying interest to one of its own agencies. The result is that the Federal Reserve Board alone, of all Government agencies, does not have to rely on Congress to appropriate funds for its budget. Instead it has a $2.2 billion slush fund, made up of taxpayers' money, that enables it to be free of congressional review.

Taxpayers, especially those out of work or who cannot buy a home because of exorbitant interest rates, will be less than happy to learn that about $100,000 of their money has been used by the Federal Reserve to pay dues to the American Bankers Association and various and sundry local bankers' associations—the very people who are collecting high interest rates. The viewpoint of the Federal Reserve is written in the receipts for payment of these dues.

This is one of the relatively few facts that have sifted through the veil of secrecy surrounding the deliberations and the operations of the Federal Reserve. It is an exception to a case that points up the necessity for auditing the agency's accounts as well as holding it to account for all of its decisions. This report supports President Johnson's recommendation for reform of the Federal Reserve, but I would go farther, through passage of legislation that would, among other things—

Retire Federal Reserve Bank stock.

Coordinate the Federal Reserve's bank policies and programs with those of the President.

Reduce the term of office of Reserve Board members so that instead of serving 14 years, as is presently the case, none would serve more than 5 years.

Provide for auditing the Federal Reserve Board, the Federal Reserve Open Market Committee, the Federal Reserve banks and branches of the Federal Reserve banks every year by the Comptroller General.

Make the Federal Reserve Board dependent on congressional appropriations for its operating budget.

Action along these lines is urgently needed because the Federal Reserve and its Open Money Market Committee, which makes monetary policy decisions, control the direction of the Nation's economy far more than any other elements.

Seen in this way, the power of the Federal Reserve Board and the Open Market Committee take on an appalling appearance because they are being run by bankers for bankers. The situation represents a built-in conflict of interest that is tragically allowed free rein.

To make matters even worse, the conditions for conflict of interest are now deeply implanted in the Treasury Department. Treasury Secretary David Kennedy left the chairmanship of the Continental Illinois National Bank of Chicago to take the Cabinet appointment. But he didn't leave 38,000 shares of common bank stock valued at $1.2 million. He told the Joint Economic Committee he has placed those shares in trust where they are beyond his reach during his term of office. But that stock will be there when Mr. Kennedy returns to private life. I find it impossible to believe he will forget this fact as he administers the Treasury of the Nation.

A strong banking link also exists for the two Under Secretaries of the Treasury, Charls Walker and Paul Volcker. Mr. Walker was formerly executive vice president of the American Bankers Association, which, as I mentioned before, is being supported by dues from the Federal Reserve Board. Mr. Volcker was vice president of the Chase Manhattan National Bank.

These men, in testimony before the Joint Economic Committee, said they didn't own any bank stock. To say the least, that is as it should be. Why then is Secretary Kennedy allowed to retain ownership of his $1.2 million in bank shares?

Moreover, it was Mr. Kennedy who headed the President's Commission on Budget Concepts, and who recommended in 1967 that the Treasury keep right on illegally paying interest on Treasury securities held by the Federal Reserve.

To complete this disturbing picture, it must be noted that Budget Director Robert Mayo spent more than 8 years as a vice president for Mr. Kennedy's Continental Illinois National Bank.

The grip of the banking interests on the Nation's monetary and fiscal system could hardly be tighter. It is small wonder that neither representatives of the Federal Reserve Board nor the Treasury presented any proposals designed to stabilize the economy by establishment of a constant, noninflationary growth pattern protecting and benefiting all the people. What was presented instead was lipservice to the needs of the people and promise that the best the Nation could expect was more of the needless, high cost cyclical chaos that now passes for fiscal and monetary policy.

In point of fact, there are two governments in Washington. One is elected by the people to represent their interests and respond to their needs. The other is a government of bankers, claiming illegal power and thwarting the will of Congress and the people.

The committee, in the chapter on National Priorities and Effective Public Policy, recommends the development and use of uniform criteria and methods for discount analysis procedures in determining the feasibility of public works and other public investment projects. I agree that work along these lines should be pursued, but not at the expense of putting the cost-benefit ratio of projects on a business-profit basis where private investments for the same projects would be used for purposes of comparison. To do so would be to vastly curtail consideration of many direct and indirect benefits, such as those that apply to water resource projects, which not only enhance feasibility, but often spell the difference between whether or not the work is undertaken.

Moreover, any tendency to rate the feasibility of proposed projects strictly on the basis of narrow, immediate benefits should be strictly avoided. Failure to do this is to call for evaluation of such things as highways or barge canals solely on the level of lower transportation costs, entirely ignoring the far-reaching effect of these facilities on overall local and regional economies during the life of the installation. The benefits of new transportation, water resource, utility, health and cultural projects multiply year after year and create an intricate web of interrelated improvements for the people of any given area.

Evaluation of proposed public investments should also include awareness that there are factors in our economy that tend to maintain interest rates at artificially high levels. I refer here to the unfortunate decisions of the Federal Reserve Board and the Open Market Committee which not only price consumers out of the credit and homeownership market, but often place public works beyond the range of feasibility. If public projects cannot be undertaken because of inflated costs, the public suffers. If they are undertaken during such inflationary periods, the taxpaying public is unnecessarily burdened for the same reason.

In my view, the label "public works projects" is a dull way of describing investments in humanity. It would be disgraceful to approach this kind of work from the point of view of evaluating it on a direct dollar-and-cents profit basis.

## SUPPLEMENTARY VIEWS OF REPRESENTATIVE BOLLING

I agree in general with much of the committee's report, so far as it goes. But it is inadequate, coming as it does from the chief economic policy committee of a nation in crisis. As in the past, I remain impressed with the massive and urgent requirements for rebuilding our domestic society and the enormous demands upon our resources for establishing peace, with justice, abroad. Yet the committee report speaks of tax reform, expenditure reduction in lower priority programs, and the surtax as alternative possibilities, and even speaks enthusiastically of controlling inflation via "jawbone" influence over wages and prices.

I yield to no one in my enthusiasm for reducing nonessential expenditures wherever they may be found in the Government's programs. I endorse unequivocably, as I have for years, improved budget procedures, longer run planning of the budget, and improved efficiency in administration. But I cannot help asking myself and my colleagues how much the budget has gone up via inflation while we have debated fine points of expenditure control and improvements in defense procurement. The Joint Economic Committee has played an outstanding role in trying to improve defense procurement. I suppose these efforts over the last 20 years are now holding down the defense budget by as much as $2 or $3 billion per year through improved efficiency in contracting, central purchasing, and better inventory control. But there can be little doubt that in the last 3 fiscal years inflation has been adding to the defense budget at least $3 or $4 billion a year—very probably more.

Therefore, we shall hold down expenditures much more by stopping inflation than by "cheese paring" the budget, item by item. But even more important, as I stated a year ago, if the Congress rises to its responsibilities it will increase—not reduce—total expenditures for the coming fiscal year. We cannot continue to postpone action—as we have for almost three decades—to deal with pressing economic and social problems. Budget stringency and international crises are good excuses for 1 year, or even 2, but not forever. It is obvious that curing the ills and injustices in American society will cost tens of billions per year. A year ago the then freshly issued Kerner report lent emphasis to the widespread concern brought on by urban riots and other symptoms of social ills. Recently, a joint study, 1 year later, by two private groups—Urban America, Inc., and The Urban Coalition—reports that although some progress has been made, no "serious start" had been made toward the changes in the national priorities that the Kerner Report had recommended.

Any serious attempt to deal with our pressing problems will add to the budget far more than can be saved by improved budget procedures and expenditure control. The richest nation in the world cannot plead poverty convincingly in the face of overwhelming problems. We risk failure not only at home but abroad by procrastination in the face of pressing demands for now long-delayed action.

I join my colleagues, therefore, in suggesting a larger budget surplus for fiscal 1970 than the $3.4 billion estimated in the January budget. In addition, I suggest that to get it not only shall we have to have tax reform, with any revenue it can produce, and expenditure reductions in low-priority programs, but we shall also have to extend the surtax for another year, perhaps at an even higher rate than the 10 percent that has been effective for this fiscal year.

Also, I cannot agree with my colleagues that hortatory recommendations directed at private wage and price makers are an acceptable anti-inflationary policy—we need sound fiscal and monetary policies. It must be remembered that the Federal Government from 1965 to 1968 ran budget deficits in the order of $18 to $25 billion per year at high employment levels. We shall not cure the inflation that this induced by pointing an admonitory finger at the leaders of industry and labor. What is needed is urgent action to temper inflationary fires via sharply increased Government revenues combined with a reordering of Government expenditures to take the burdens of readjustment off the backs of the poor and the victims of discrimination who otherwise will be hurt either through inflation or by increased unemployment, or both.

## DISSENTING VIEWS OF SENATOR TALMADGE

[Relative to committee position on tax incentives:]

I am opposed to the committee's position on tax incentives to induce businessmen to undertake various socially desirable programs. In my opinion, tax incentives offer the most practical and workable method of attacking some of our gravest social ills. We must continue to seek ways to secure a greater involvement of private industry in the tremendous task of providing training for the hard-core unemployed and providing job opportunities for those individuals who live in depressed areas. The record of the Federal Government in providing job training is not a commendable one.

Although Government programs have been successful in providing good job training to some individuals, the Government has been responsible in all too many cases for providing poor training for nonexistent jobs. The involvement of private industry in the job training process has the advantage of providing efficient, practical training for jobs which already exist. Because industry itself does the training, there is a much greater assurance that the skills learned by those retrained will be economically useful skills and that the trainee will find permanent employment. In addition, on-the-job training is more flexible. Unlike institutional classes which require minimum numbers, on-the-job training can be adapted to the training of a single worker or a corps of workers. I am aware that tax incentives might open loopholes in the law and that enforcement might present some problems. However, I do not feel that these are insurmountable problems, and I believe that we can draw up tight tax safeguards which would minimize abuses.

It is true that the tax-incentive approach to solving social ills would result in some tax revenue losses. However, I believe that the efficient training of job workers would result in higher tax revenues in the long run. The working, productive individual is a taxpayer, not a tax liability. In my view, tax incentives to raise the level of employment provide a much more desirable approach to the welfare problem than does an increase in the dole.

In addition, I believe that tax incentives will be necessary to provide increased construction of low-income housing units. This report gives considerable emphasis to the need to provide a decent home and suitable living environment for every American family. It is completely unrealistic to assume that this goal can be achieved without the maximum cooperation of private industry. In my opinion, the use of tax incentives is the most practical way of obtaining this cooperation.

[Relative to committee position on income maintenance:]

As much as I am concerned about the inadequacies of our myriad welfare programs, I cannot concur in the recommendation of the committee report that we must look toward a nationwide income maintenance program that provides equal treatment to every needy citizen regardless of location.

For some time I have been concerned about the skyrocketing cost of welfare and the oppressive burden of welfare costs on local and State governments. However, I feel that there is nothing to be gained by transferring this burden to the Federal Government. I have viewed with alarm the increasing tendency toward centralization of all governmental functions in the hands of the Federal Government. I, for one, do not subscribe to the theory that whenever State and local governments have difficulties in meeting their responsibilities we should turn to the Federal Government for a solution.

In my opinion, it is easier to control welfare costs when the State and local governments must bear some responsibility for these costs. Already the Federal Government is footing a large part of the welfare bill. Unfortunately, many groups look upon the Federal Government as a Santa Claus with unlimited handouts to bestow upon anyone it chooses. There is no better illustration of the folly of this assumption than the 4.7 percent rate of inflation which our economy experienced in 1968. When we experience this kind of inflation, the whole Nation—the low-income worker and the welfare recipient included—suffers.

A nationwide income maintenance program would destroy local autonomy in dealing with welfare problems. A destruction of this local autonomy would eliminate the ability of local governments to adapt to community differences in conditions and standards of living. One of the most valuable attributes of our American system has been the insistence on autonomy for the individual State and community to handle problems of their respective locale.

One of the most cherished principles of the American ideal is that a person's income should be commensurate with his contribution to society. An income maintenance program offers strong disincentives to work. The cure for low incomes for most Americans is training and an opportunity for decent jobs which promote individual dignity and self-respect, not a relief program. There is grave danger that the proposed national income maintenance program will, in fact, weaken individual dignity and reduce the capacity for individual growth and self-sufficiency. Therefore, it is my feeling that any additional efforts on the part of the Federal Government should be directed at more comprehensive and more effective job training programs rather than greater emphasis on the dole.

## SUPPLEMENTARY VIEWS OF SENATOR SYMINGTON

Although there are a number of matters raised in this rather extensive report with which I concur, and some with which I do not, there are also several items I believe should be studied in more detail by the committee and individual members before a firm position is taken; therefore, I cannot endorse the report in its entirety.

I endorse the recommendation for the establishment of high-priority national needs for the allocation of our limited resources, and also the need for a systematic review of expenditure programs on the basis of their relative costs and benefits.

As this report emphasizes, expenditure cuts cannot be discussed without consideration of the largest single item in the Federal Budget: Defense. The continued allocation of these vast amounts to "maintain national security" should be questioned far more extensively than in the past. As noted in the report, time, money, and effort now expended on defense programs drain away resources which otherwise could go to the growing problems of our urban, suburban, and rural areas. This must be recognized if we are to maintain the type and character of America that military expenditures are supposed to protect.

I support the recommendation for an immediate review of our tax structure, particularly the effort to plug loopholes which now enable many individuals and corporations to escape their responsibility for bearing their share of the ever-increasing tax burden now bearing down on our citizens.

Extension of the surcharge tax will be a matter for congressional consideration in the next few months; and I would hope that possible reductions in expenditures receive high priority. That is the most effective way both to prevent a budget deficit and to reduce the current inflationary spiral.

In this connection, testimony by well-known economists before the Joint Economic Committee present that a tax increase is only 75 percent as effective as an expenditure cut in reducing inflation.

Monetary policies must also work in concert with fiscal policies in the effort to curb the current inflationary trend. Again I emphasize, however, that monetary policy cannot do the job singlehandedly. Fiscal restraint should likewise be exercised.

Although I believe it important for the Federal Reserve and the Treasury to work in harmony in formulating economic policy, I also believe it important for the Federal Reserve to continue to maintain its semi-independent status. With that premise, I question the suggestion contained in this report "that the term of Chairman of the Federal Reserve Board be appropriately geared to that of the President to provide further assurance of harmonious policy coordination."

As to that section dealing with balance of payments, greater emphasis should be placed on the drastic decline in our trade surplus. This situation is indeed serious, because for many years this portion of the payments picture has been a major factor partially offsetting the heavy Government spending which caused this continuing deficit.

In this connection, we support efforts to increase U.S. exports; and trust that measures designed to reduce inflation in this country will thereby decrease the current heavy volume of imports. Moreover, consideration should be given to a reevaluation of those 'temporary" restrictions which limit the outflow of U.S. capital investment funds, because I believe it has been amply demonstrated that, in the long run, receipts from these overseas investments have a net positive effect on our payments.

For some time I have been convinced that the United States should no longer be expected to bear such a large share of the defense of Europe. Therefore, I applaud the recommendation that "The Common Market nations should be expected to compensate the United States for the full foreign exchange cost of our troop commitments within the European Economic Community." This would seem a minimum measure at best. As the report wisely points out, "No reason exists why we should be making our European allies wealthy in return for the privilege of helping to defend them."

In a global context, I would also support the following statement contained in the report: "Since the Government itself is the major cause of our balance-of-payments deficits through military involvements abroad, reduction of both the scope and foreign exchange costs of foreign military operations is imperative," as well as the recommendation that "Our foreign aid effort needs to be appraised in terms of its effectiveness and appropriateness."

## SUPPLEMENTARY VIEWS OF REPRESENTATIVE MOORHEAD

While I join with my colleagues in the Joint Economic Committee report, I take this opportunity to submit for discussion a proposal for improving economic stabilization policy.

For some time now I have been interested in and concerned about the institutional problems surrounding discretionary fiscal policy actions—both on the part of the Congress and the President. By discretionary fiscal policies I mean the Federal Government's economic stabilization policies—as distinct from monetary policy—designed to foster our economic goals such as high employment, stable growth, and prices, and balance-of-payments equilibrium, through changes in taxes and levels of Government spending.

*The congressional role in the budget process.*—The most important criteria for judging *overall* Federal spending and tax policy is their combined impact on employment, prices, and economic growth. By varying its own spending levels, the Government can affect total spending, and it can further influence the spending of consumers and business by means of tax policy.

However, the Congress fragments its decisions on the budget and rarely, if ever, looks at the budget as a whole or considers its impact on the economy, on credit markets, or on our balance-of-payments position.

In reality, the Congress makes fiscal policy by legislating expenditure authorizations and revenue measures through two separate and unrelated processes. Revenue measures are considered by the House Ways and Means and Senate Finance Committees, and in the case of appropriations they are considered by the respective Appropriations Committee in a dozen or more individual legislative actions.

Therefore, the overall impact on the economy of the total fiscal package of the Federal Government is not weighed by the Congress at the time of individual actions. For example, during the first session of the 90th Congress, there were 14 regular appropriation bills enacted. The dates on which these bills were signed into law range from June 24, 1967, to January 2, 1968. All of these bills were authorizing expenditures, thus it would have been futile to try to establish any realistic total expenditure estimates before Congress completed action on these measures. In addition to the 14 regular appropriation bills referred to above, the Congress enacted three supplemental appropriation measures during that session which granted appropriations in excess of $16 billion. All of these legislative acts were considered and authorized without explicitly relating them to the impact they would have on the overall economy.

*Tax changes for economic stabilization.*—In general, both tax and expenditure changes are slow and clumsy instruments of policy, largely because of the need to obtain legislation from Congress for all significant policy changes. In fact, Wilfred Lewis of The Brookings Institution in his book, *Federal Fiscal Policy in the Postwar Recessions* (1962), indicated that discretionary fiscal action has been of very limited importance in reducing the severity or duration of postwar recessions in the late 1940's and 1950's because of its modest use and problems of timing—both the recognition lag and the administrative lag.

However, since the early 1960's fiscal policy has not played a passive role. It was just 8 years ago last month that the third Eisenhower recession hit bottom. For 98 months since then, the American economy has experienced the longest and strongest uninterrupted advance in history. It has been a stunning performance.

This expansion didn't just happen, but it was enhanced by an active fiscal policy. This policy was characterized chiefly by substantial reductions in individual, corporate, and excise taxes in 1962, 1964, and 1965.

However, beginning in 1966 the major economic problem facing the Nation was not one of lagging economic growth, but the opposite—an overheating of the economy. The fiscal policy between 1966 and 1968—or lack thereof—exemplified just how slow and clumsy this instrument is in turning an economy around.

We all know too well that the anti-inflation brakes should have been applied in 1966–67 instead of last year, and we are suffering the consequences now.

Presidents Kennedy and Johnson sought to improve the countercyclical power of the Government by asking Congress to give the President standby power to raise or lower tax rates, temporarily, to stimulate or depress demand. Similar standby tax powers were proposed by the Commission on Money and Credit, and last month by the Committee for Economic Development in its latest publication, *Fiscal and Monetary Policies for Steady Economic Growth*.

Everyone recognizes that giving the President discretionary authority to raise or lower tax rates, within limits and subject to congressional veto, would be soundly denounced in the Congress as an abdication of our prerogatives. It is interesting to note that the President, 30 years ago, was granted the discretion to reduce tariffs within limits, yet Congress still controls basic tariff policies.

Joseph Pechman of The Brookings Institution recently speculated in an article in the *New Republic* that President Johnson would have raised taxes in 1966 if he had had the authority and would not have had to run the gauntlet of the Congress in an election year.

Most economists would agree that had we raised taxes at that point our present rate of inflation would have been avoided. In fact, I introduced a bill in July of 1966 to authorize the President to increase but not to decrease the income tax rate, temporarily, while the Congress was adjourned.

In tracing the history of this idea there was, of course, much talk of giving the President the discretionary power to raise and lower tax rates in the early 1960's and it has been mentioned in most of the Budget and Economic Messages since 1962; however, there has never been a bill introduced in the Congress other than my 1966 attempt.

I have recently considered the idea of introducing a bill giving the President discretionary authority to *only raise* tax rates on a surcharge basis, within a 5- to 10-percent range on a temporary basis and subject to a congressional veto. This idea has been well received by both the outgoing and incoming "Troika" group of the Government, despite the fact that it gives the President only the raw end of the stick.

One reason I think it is so important to build in more fiscal flexibility is the necessity to relieve our reliance on monetary policy for economic stabilization. Monetary policy is far too inequitable in its impact—especially in the housing sector.

My basic conclusion is that some tax flexibilty is critically needed, and the time to mend the roof of economic stabilization is when the sun is still shining.

My two-pronged proposal is aimed at—

(1) the rationalization of the congressional budget process by having the Congress establish a legislative budget and legislating within these budget totals. For the substance of this proposal I borrowed liberally from a paper written by my former colleague in the Congress and the former Secretary of the Treasury, Joseph W. Barr.

(2) providing a greater degree of tax flexibility by determining, through the normal process of developing the new legislative budget, the level of the 1-year surcharge on the basic rates of the individual and corporate income tax. Herbert Stein, a member of the current Council of Economic Advisers, mentioned this idea in his article in the *Agenda for the Nation*, when he was at Brookings.

This is the way I see the proposal working:

1. The President would send up his Budget and Annual Economic Report as usual in January, but he would include a recommended rate of a tax surcharge, which might be positive, zero, or even negative, based on his budget and his view of the economy.

2. The Joint Economic Committee, after independent analysis and hearings starting in early January, would develop economic assumptions and projections and propose a joint resolution establishing congressional opinion on the economic prospects for the current year which would then be debated and passed by March 1.

3. The Revenue and Appropriations Committees of both Houses would also begin hearings and studies early in January designed to produce a legislative budget resolution for debate and approval by April 1. This legislative budget would be debated against the background of the economic assumptions and projections approved on March 1. It would include the following:

(*a*) The congressional target for total spending;

(*b*) The congressional target for total lending;

(*c*) The foreign exchange costs of the spending-lending programs;

(*d*) A program for financing the spending-lending budgets including passing, amending, or rejecting the President's surcharge proposal;

(*e*) A program for financing the foreign exchange cost Federal programs; and

(*f*) An explanation and justification of the program priorities involved.

4. After approving a resolution embodying an economic opinion, a surcharge, and a legislative budget, the Congress can proceed, as usual with its fragmented approach to the budget. We will, however, be able to do so against our own budget targets.

This is not an impossible recommendation. The Congress essentially followed this very procedure in the Revenue and Expenditure Control Act of 1968.

It is responsive to the constitutional intent of vesting control over money in the Congress.

In the surcharge, both the Congress and the President would have a vehicle for making an overall fiscal decision in a fairly routine way, without declaring or acknowledging any emergency, and with assurance that the decision is temporary.

It offers a more rational approach for setting priorities among the various claims on scarce Federal resources.

And finally it would put the Congress on a more equal footing vis-a-vis the President in fiscal matters.

# MINORITY VIEWS

## on the

## 1969 ECONOMIC REPORT OF THE PRESIDENT

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## SUMMARY OF RECOMMENDATIONS AND CONCLUSIONS

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**II. The Challenge for Economic Policy in 1969.**—Inflation can and must be reduced in a manner consistent with high employment.

**III. Meeting the Challenge in the Year Ahead.**—Outlook is for continued and perhaps increased inflationary activity this year.

*A. Fiscal policy restraint, firm but gradual, is essential.*—(1) The 10-percent income tax surcharge should be extended, along with certain excises, as soon as possible; (2) the President should be given authority to reduce the surtax with congressional approval [1]; (3) The 7-percent investment tax credit should not be manipulated for economic stabilization purposes and should not be suspended in 1969 [2]; (4) Federal spending must be restrained: (*a*) a congressionally enacted Federal expenditure ceiling may again be necessary; (*b*) program priorities should be reflected in the Federal budget; (*c*) limitations on Federal hiring should be allowed to lapse.

*B. Monetary policy restraint is essential.*—(1) The Federal Reserve erred in loosening monetary policy last year; (2) Monetary restraint should be applied gradually until there are visible signs that inflation is slowing, and must avoid another "credit crunch"; (3) Money supply should grow at lower end of the 2- to 6-percent band consistent with economic stability.

*C. The wage-price guideposts are inappropriate to the stabilization task this year and should not be revived.*

**IV. Improving Federal Economic Policies.**—Long-term policy recommendations.

*A. Fiscal policy.*—(1) A major overhaul of our Federal tax system is essential, including consideration of a minimum income tax and study of a value added tax; (2) Improve Federal spending control: (*a*) establish a Commission on Federal Budget Priorities and Expenditure Policy; (*b*) continue implementation of the Planning-Programing-Budgeting System; (3) Planning for post-Vietnam period is essential: (*a*) support administration's post-Vietnam planning efforts and encourage their expansion; (*b*) consider measures to facilitate adjustment of discharged servicemen to civilian employment; (4) Debt management: (*a*) Government should avoid large shifts in borrowing; (*b*) 4¼-percent interest ceiling on Government bonds should be eliminated; (*c*) modification of coverage of the Federal debt limit should be studied further.

*B. Monetary policy.*—(1) Coordination of fiscal and monetary policies is imperative, with special emphasis on the appropriate mone-

[1] See Senator Miller's footnote on p. 102, fn. 1.
[2] See Senator Miller's footnote and Senator Jordan's footnote on p. 102, fn. 2 and 3.



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tary policy; (2) Federal Reserve should maintain money growth within the 2- to 6-percent limits, on a quarterly basis, as recommended by the committee last year; (3) The uneven impact of monetary restraint on different sectors of the economy should be reduced by improving the allocation of credit among the sectors: (*a*) find ways to improve State and local government access to lendable funds; (*b*) improve flow of funds into residential mortgage markets; (*c*) Joint Economic Committee should conduct major review of Nation's financial institutions, with special attention to those responsible for housing finance.

*C. A Federal Commission should be established to review U.S. antitrust policy.*[3]

**V. Meeting the Challenge of Urban America:**

*A. Employment, manpower, and training programs benefit the individividual and the economy and should be expanded and improved.*—(1) Consolidate various approaches into single comprehensive program; (2) Refine existing programs; (*a*) insure that MDTA programs train people for skills in demand; (*b*) remove obstacles to employer participation in JOBS program; (*c*) stimulate job training through Federal tax credits; (*d*) improve job information and worker mobility; (*e*) recognize that overly rapid increases in the Federal minimum wage may reduce employment opportunities; (*f*) Government, business, and labor must intensify efforts to reduce discrimination in employment.

*B. Welfare and poverty.*—(1) Recommend guaranteeing employment opportunity rather than guaranteeing income as best approach to alleviating poverty; (2) Improve present welfare system: (*a*) study national minimum level of assistance with increased Federal support; (*b*) expand efforts to stimulate welfare recipients to become more self-sufficient, such as larger earned income exclusions, expanded WIN, and day care facilities.

*C. Improving the urban community.*—(1) Expand resources available to State and local governments: (*a*) revenue sharing should be seriously considered; (*b*) reform State and local taxes such as the real estate property tax; (2) Enlist the help of the private sector in community development through approaches such as the Community Self-Determination Act; (3) Improve the quality of housing through activation of the National Corporation of Housing Partnerships and fair housing, zoning, and tax reforms; (4) Improve inner-city resident's access to outside job market through increased Federal commitment to improved urban mass transportation.

**VI. Foreign Economic Policy Issues.**—Establish Commission on Foreign Economic Policy to review U.S. foreign economic policy in its totality and make recommendations.

*A. Major trade policy issues.*—(1) Enact major trade legislation after determining effects of Kennedy Round; (2) Meanwhile, we recommend: (*a*) trade strategy based on firm commitment to liberalization; (*b*) United States take decisive action against countries competing unfairly; (*c*) Congress continue to give President trade negotiating authority under right of veto; (*d*) Congress give President

[3] See Congressman Widnall's footnote on p. 118.

"housekeeping" authority to negotiate on tariffs; (*e*) liberalizing adjustment assistance criteria under Trade Expansion Act of 1962; (*f*) establishing permanent foreign trade policy agency in the White House;[4] (*g*) Congress authorize President to negotiate with other countries on nontariff barriers, subject to congressional approval; (*h*) negotiations dealing with nontariff issues center on a code of fair practices; (*i*) President review East-West trade policy before Export Control Act expires this year; (*j*) Congress approve supplementary agreement on chemicals; (*k*) United States maintain firmer position on agricultural items than during Kennedy Round, in future negotiations.

*B. Balance-of-payments policies.*—(1) Controls on U.S. foreign investment be eased or terminated as soon as possible; (*a*) consider liberalizing U.S. bank foreign lending controls; (*b*) United States should increase efforts to obtain compensation for costs of U.S. troops in Europe; (*c*) foreign tourism in United States should be promoted.

*C. International monetary system.*—(1) Recommend multinational approach to reform of international monetary system; (2) Special drawing rights should be activated early this year; (3) Endorse two-tier gold price system and study of future international role of gold; (4) Group of Ten should study modification of fixed exchange rate system; (5) Balance-of-payments adjustments should be through fiscal and monetary policies rather than controls; (6) United States should explore possibility of a Bretton Woods-type conference.

*D. Aid to developing nations.*—(1) Support corporation to more effectively organize private enterprise to aid developing nations; (2) Urge the United States take leading role in formulating meaningful aid strategy for industrial nations.

**VII. Revitalizing American Agriculture:**

(1) American agriculture has declined during the 8 years of previous Democratic administrations; (2) Former administrations' supply management policies have failed; (3) Our agricultural foreign trade balance has drastically declined; (4) Bargaining power for farmers must be complemented with improved Federal economic and agricultural policies; (5) Tax loss farming should be stopped; (6) Agricultural research should be stepped up; (7) Recommendations: (*a*) new administration review crop control programs; (*b*) Federal monetary and fiscal policies be used to reduce rising costs of agricultural production; (*c*) fairer portion of war on poverty funds be allotted to rural areas; (*d*) continue our Food for Peace program, with emphasis on self-help of recipient nations; (*e*) negotiations be aimed at eliminating foreign tariff and nontariff barriers to agricultural trade; (*f*) improved bargaining power for farmers be accompanied by improved Government policies; (*g*) income tax laws be amended to prohibit tax loss farming; (*h*) research activities of USDA be reoriented toward development of new products and new uses for present ones; (*i*) broad program be established to provide more employment opportunities in rural areas and small towns, including placing Government contracts and establishments in rural areas wherever possible, stepping up conservation activities, and providing employment and counseling services equal to those in cities.

[4] See Senator Percy and Representative Rumsfeld footnote, p. 134.

## THE LEGACY OF THE PREVIOUS ADMINISTRATION

There are grave economic problems confronting this Nation at this time, problems that have grown ever more threatening under the stewardship of the last administration.

### *Inflation*

The most serious economic problem we face today is inflation. The requirements of fighting a war in Southeast Asia superimposed on a growing peacetime economy have produced an overheated expansion. Let there be no mistake: This was not inevitable. The war could have been financed by taxation rather than inflation had the previous administration chosen to do so, but instead, it continued to maintain that the country could have both "guns and butter."

The Johnson administration preferred the easy road of expedient tax measures, with short-term advantages but little long-term impact, and wage-price guidelines selectively applied to the private sector, while allowing Government spending to rise unchecked. As far back as 1966, the minority of this committee warned that real measures of revenue restraint would be essential to maintain stable growth without inflation if the increase of Federal spending could not be curtailed and priorities rearranged accordingly.

The budget deficits that were incurred during the Johnson administration were nothing less than a parody of promises made by administration economists in the name of the "New Economics." The New Economists maintained that what was important to economic growth and stability was not Federal budget surpluses every year, but a budget balanced over the long-term business cycle, with deficits in periods of slack in the economy, and surpluses in periods of maximum utilization of the economy's potential. We discovered, however, that while the previous administration found it easy enough to run deficits in a slack economy, it could not, or would not, take the steps necessary to produce surpluses at high employment.

In view of such fiscal irresponsibility, it is not surprising that inflation has grown to disrupting proportions. The Consumer Price Index has increased 12.3 percent since mid-1965 and 4.7 percent over the 12 months of 1968 alone. Although virtually stable from 1958 through 1964, the Wholesale Price Index has risen 6.8 percent since mid-1965, and increased 2.8 percent last year. Early figures for 1969 indicate that this rapid rate of inflation is continuing.

The cost of this inflation to the American people over the last 5 years totals almost $115 billion in higher living costs and $106 billion in erosion of the real value of bank deposits, saving accounts, life insurance and pension fund reserves, and Government bonds.

### *Wage Gains Offset*

Wages have been rising over the last 3 years, but not enough to offset higher prices. Despite a 15-percent gain in hourly earnings over the last 3 years, the after-tax paychecks of workers in manufacturing have not increased in terms of purchasing power. Specifically, from 1965 to 1968, gross weekly earnings after taxes rose 10.3 percent for the manufacturing worker with three dependents. However, the Consumer Price Index rose 10 percent during this same period, wiping out paycheck increases and leaving only 26 cents per week of additional purchasing power.

The experience of labor in 1968 graphically illustrates how futile it can be to try to catch up with increased prices by demanding increased wages. The annual rate of increase of wages under major collective bargaining settlements over the life of contracts in 1968 was 5.1 percent, and first-year increases averaged 7.5 percent. Consequently, unit labor costs rose about 4 percent, stimulating price increases. As a result, average real take-home pay rose less than 1 percent for the manufacturing worker with three dependents. This was a smaller increase in real earnings than in 1965, when wage increases were about half as great but inflation was virtually absent. Yet, who can blame the man who demands wage increases to maintain his standard of living in the face of rapidly rising prices?

### *High Interest Rates*

Inflation capriciously redistributes purchasing power throughout the economy. Those who are able to increase their incomes faster than price levels are rising enhance their purchasing power. Those who cannot maintain their levels of real income in the face of inflation lose out. The fact that those in the latter category tend to be the poor, the aged, and others who cannot survive substantial losses of purchasing power is a potent argument against ever allowing inflation to begin.

Our inflationary economy has also helped push interest rates to record levels. Commercial banks recently lifted their prime lending rate to 7½ percent, the highest level since 1929, and there is no assurance that further increases will not be forthcoming. Average interest rates for conventional first mortgages on new and existing homes averaged 7.30 to 7.35 percent in December 1968, the highest level since the Federal Housing Administration began keeping track in 1954. And, last January, when the Treasury issued a refinancing note with the highest Federal Government coupon rate in over 100 years, it met with a lukewarm reception.

It is important to realize why interest rates are rising to such abnormally high levels, in order to avoid the fallacy of treating the symptom of the sickness rather than the cause. The demand to borrow funds has greatly increased recently as a result of anticipations of continuing inflation. The tendency is to borrow money to purchase now, rather than wait until later when prices will be higher. This is the "inflationary psychology," and it enables the borrower to justify to himself paying high interest rates on loans, particularly if he expects to increase his income by borrowing.

Similarly, the inflationary psychology works on the lender. If he will not give up the use of his money for a real return of less than 2 percent a year, and expects prices to rise 5 percent in that time, he must receive an interest rate of 7 percent before he will make a loan. The case can well be made that interest rates will not decline from their present, abnormally high levels until inflation and the expectation of inflation is reduced.

*Declining Trade Balance*

Inflation has also contributed heavily to a drastic decline in our trade surplus, long a source of strength in our international accounts. On the balance-of-payments basis, the 1968 trade surplus was only $90 million, the lowest trade surplus this country has experienced since 1937, compared with $3.5 billion for 1967. The Commerce Department has estimated that four-fifths of this trade deterioration could be attributed to increased import demand in response to inflationary expansion of the economy.

*Unemployment*

To some extent, certainly, the expansion of our economy has been the result of the war in Vietnam. Presently, the war is costing us 3.3 percent of our gross national product, and approximately 2.5 million more people are now employed in the Armed Forces or in defense-related activities than were before the mid-1965 escalation of American military involvement in the war. These war-induced activities have provided about 85 percent of the increase in male employment over the intervening 3½ years. In fact, more than 450,000 civilians have been added to the Federal payrolls alone. Accordingly, the way in which we have achieved this current high employment economy should give us little satisfaction.

While there have been some who for years have argued that an overheated economy will solve our unemployment problem, recent experience has shown this to be false. It is true that our current overall unemployment rate is below 3.5 percent, but not all are participating in expanded employment opportunities. Workers living in slum areas have an unemployment rate two and one-half times that of the national average. Nonwhite workers continue to face jobless rates twice that of whites. Teenage unemployment, in recent years at a much higher rate than overall, is particularly prevalent among nonwhites. Last year, the unemployment rate among nonwhite teenagers was 24.2 percent, and among nonwhite teenage girls it averaged almost 30 percent.

*Poverty*

Finally, an overheated economy and specific efforts by the last administration did not solve the problem of poverty in this Nation. Indeed, grandiose promises that the poor would disappear by the mid-1970's served only to make the real extent of poverty all the more glaring. For example, as the previous administration prepared to leave office, evidence of widespread hunger in rural areas began to be uncovered.

Where the Johnson administration could say that the number of persons in poverty as determined by its arbitrary standards has declined by over 12 million in the last 5 years, we must face the fact that there are still 22 million persons living in households with incomes below the so-called poverty line. Meanwhile, the difficulties the poor have in getting along have increased as inflation has eaten away at the purchasing power of the few dollars they manage to accumulate.

There are two important facts left us by the last 5 years of economic expansion. One is that an inflationary economy will not reduce unemployment among all groups to insignificant levels, nor will it eliminate poverty. In fact, those without jobs face not only the prospect of little or no income but also rapidly rising prices, and are thus doubly damned.

The other is that, the claims of the last administration aside, there is still a great job to be done on the poverty and unemployment front. While the irresponsible economic policies of the Johnson administration make a controlled rise in unemployment necessary to build price stability back into the economy, we must not lose sight of our profound responsibilities to those not yet caught up in the mainstream of our economic prosperity. The reduction of poverty and unemployment to insignificant levels will require redoubled efforts and will on the part of business and labor, as well as government, to provide training and employment opportunities, and to reduce discriminatory barriers to employment.

## THE CHALLENGE FOR ECONOMIC POLICY IN 1969

The primary task for economic policy this year is to reduce inflation, while maintaining high levels of employment. This is a herculean challenge, for the statistical record of industrial countries shows an inverse correlation between the rate of price inflation and the level of unemployment. In other words, there tends to be a trade-off between the two objectives of price stability and low unemployment, where a country has to settle for a little less of one in order to obtain a little more of the other.

The record of the 1960's in this country is clear on this point. As we have managed to reduce the level of unemployment, we have experienced increasing degrees of inflation. This record predicts we would have to accept a less-than-1-percent reduction in the rate of inflation to prevent unemployment from rising above 4 percent.

### *The Trade-off Is Not Rigid*

However, there is no reason to believe that the terms of the trade-off indicated by past experience are rigid. For example, the previous Council of Economic Advisers has indicated that our current rate of inflation may well be due to the rapidity at which unemployment was reduced. The increased military and civilian demands on the economy that effected a 20-percent decline in the level of unemployment over the 12 months of 1965, for example, resulted in rising production costs as less skilled labor was employed, and less efficient productive equipment was utilized than would have been the case if unemployment had declined at a slower rate. Further, prices in certain "bottleneck" industries rose substantially as these firms could not rapidly adjust production to the increased demand.

There is thus good reason to believe that had unemployment been reduced gradually, the inflation we have experienced since mid-1965 would have been substantially less. Consequently, the rate at which we reduce inflation this year may well determine the terms of the trade-off cost in a rise in unemployment.

Another reason why we might expect the trade-off to be less severe than previously is the rapid reorientation of the employment of the labor force in recent years. Employment in service-producing industries, such as trade, transportation, finance, and government, has increased more rapidly in the last two decades than that for manufacturing, construction, and mining. The Department of Labor has recently estimated that the proportion of all jobs outside agriculture that are accounted for by service industries has increased from 59 percent in 1950 to a present level of 65 percent. This increase is expected to continue with more than 85 percent of the new jobs provided by a growing economy being in the service sector.

This shift has important implications for employment stability. Experience has shown that employment in the service sector is far more stable than in manufacturing, mining, or construction industries. For example, employment in service industries actually rose through three of the four postwar recessions while other sector employment declined. During the only exception, the 1957–58 recession, service employment declined only slightly as goods employment fell 7 percent.

Consequently, we can anticipate a greater degree of employment stability than in the past as inflationary demand is reduced.

*Manpower Training*

A third reason for expecting an improved trade-off is a vastly increased Government commitment to manpower training. By focusing on the disadvantaged, these programs have improved the employment stability of the very groups with the poorest records of continuous employment. To the extent that these programs can provide the unskilled with increased productivity through training and work experience, there should be an improvement in the stability of employment.

Finally, there are indications that business firms are becoming increasingly sensitive to their responsibilities in contributing to the employment stability of the recently hired hard-core unemployed who tend to be most susceptible to production slowdowns. The very fact that many firms have taken on these unemployed persons recently demonstrates their recognition of the problem. There are other signs that business can avoid allowing the maxim "last hired, first fired" to again become a reality.

Firms have become more imaginative in designing strategies to retain the hard-core unemployed during slack production periods. One method used by several large corporations is to put employees to work on jobs that are ignored during peak production periods. Another, used particularly by large automobile manufacturers, is to shorten workweeks in slow periods, rather than laying off workers not presently needed for a full production schedule. Some companies have even opted for temporary plant closings to avoid furloughing employees.

Government-financed training programs are providing another cushion that has not existed before. Manpower Development and Training contract awards provide payments for certain numbers of training days, which can be "banked" for use by the employer to shelter workers who otherwise might be let go in slow periods.

Of course, the effectiveness of these methods in a time of general economic slowdown is questionable. However, if the economy is cooled slowly, and unemployment rises only gradually, business should find it easier to retain employees whom they have spent money to train.

None of these developments will insure that there will be no increase in unemployment as inflation is reduced. We have inherited a rapidly growing inflation from the previous administration, and our attempts to bring it under control will exact a cost in terms of increased unemployment. However, this is not to say that the unemployment-inflation trade-off indicated by previous experience is immutable. Wise use of economic policy restraint can be expected to produce less employment disruption than was true in previous periods.

One thing is clear. If we do not take the steps necessary to reduce inflation, the health of our economic expansion will be jeopardized, and we will be threatened with the ugly prospect of returning to the old cycle of boom and bust. But if economic restraint is pursued carefully, we can minimize the cost in terms of reduced employment opportunities and increased poverty. This should be our commitment to the American people.

## MEETING THE CHALLENGE IN THE YEAR AHEAD

**The previous administration forecast a significant slowing of the economy's expansion in the first half of 1969 and increased growth in the second half as being consistent with the need to reduce inflation. We believe this position to be dangerously misleading for two reasons.**

First, there are few indications that the economy is indeed slowing down at this point. Production and employment have continued their rapid advance. And price levels have continued to rise at a high rate. But the most discouraging indication that our overheated economy may not be cooling down is found in recent surveys of anticipated business capital spending for 1969.

A private survey by a reputable economic consulting firm released in February projected a 13.8-percent increase in business spending for plant and equipment this year compared with a 4-percent increase in 1968. It further estimates this may push GNP growth to over 8.5 percent, rather than the 7-percent increase forecast by the previous Council of Economic Advisers.

A survey conducted by the Department of Commerce and the Securities and Exchange Commission in January and February confirmed this projection. This Government survey indicated that businessmen have scheduled a 14-percent increase in capital expenditures in 1969. While such surveys have proven to be less than completely accurate indications of what will actually happen, they do suggest an underlying business desire to markedly increase investment demand this year which cannot be shrugged off as unlikely to be actually realized.

The argument is frequently made that the manufacturing sector will not increase capital spending substantially in 1969 because it is presently operating at only 84 percent of productive capacity, a rate much lower than 1966's high of 90.5 percent. However, this wishful thinking ignores several factors which make business' current capital spending intentions seem quite rational. For one, productive equipment purchased now will be cheaper than that purchased at a later time in many a businessman's eyes. This inflationary psychology also explains how business expects to market its increased product, as consumers increase their demand on the basis of similar inflationary expectations.

Furthermore, the overall figures for capacity utilization ignore the quality of the excess. Much of unused capacity may be obsolete or operable only at high costs. A survey by the *American Machinist* magazine last year indicated that 23 percent of the machine tools in the United States are over 20 years old, an all-time high, and 64 percent are over 10 years old. In this industry, machine tools older than 10 years are considered old and due for replacement.

Finally, labor shortages and increasing labor costs induce some firms to purchase more productive equipment. Although there are no current Government figures on the size of a labor shortage, the index of the unemployment rate for married men, the backbone of the skilled labor force, is generally considered a good indication. This index stood at 1.6 percent for all of 1968, and 1.4 percent in January, a tight level indeed in terms of skilled manpower available for hire.

Consequently, there is ample reason to believe in the prospect of a large expansion of business investment demand that will be a major inflationary force in the 1969 economy. The income and price increases generated by this demand will spread out over the full economy, engendering increased demand in other sectors, and perhaps pushing inflation above last year's high rate, if responsible Government action is not taken. We cannot afford to accept the optimistic economic forecast of the last administration as a guide for economic policy action this year.

**Even if the last administration were correct in its economic forecast, we doubt that one 6-month period of slower economic growth, followed by a resumption of increased expansion would be enough to significantly reduce inflation and inflationary expectations.**

The present inflation has built up its momentum over several years, and will continue even after overall demand begins to moderate. Three years of generally accelerating price levels have conditioned consumers, labor, and business to expect further inflation. Wage and price decisions based upon these expectations will continue to push up the general price level even after demand slows, as those who have not caught up with reduced purchasing power and those who expect further reductions act accordingly. The reduction of inflation to an insignificant level will be a long process, requiring more than the 6-month restraint recommended by the last administration.

**We believe that increasingly firm but gradual restraint should be applied by Government economic policies throughout this year, and most likely will need to be continued into the next. Monetary and fiscal restraint properly applied in this manner will insure that significant inroads are made in reducing inflation in 1969. Further, it is the policy most consistent with a continued high degree of employment throughout the economy.**

We have the knowledge and power to drastically reduce inflation within a short period; however, such a course of action would be disastrous for our economic expansion and the tranquility of the Nation as well.

## Fiscal Policy

**An indispensable ingredient of appropriate fiscal policy this year is extension of the 10-percent income tax surcharge beyond its expiration date of June 30, 1969. Failure to take this fiscal action would make the Federal budget substantially stimulative this calendar year and the next through a substantial deficit for fiscal 1970. Inflation would accelerate, interest rates would be pushed even higher than current record levels, and our trade surplus would further deteriorate.**

Along with the surcharge extension, the present excise taxes on automobiles and telephone service should also be extended. These combined actions could be expected to provide about $10 billion in revenues in fiscal 1970, and would clearly demonstrate the administration's dedication to reducing inflation.

It would be most appropriate if the Congress took immediate, favorable action on the administration's recent request for these extensions. First, this would have a salutary effect on inflationary expectations by indicating that this Government is indeed serious in its intent to stabilize the economy.

Second, delay already has cost the Government substantial revenues for fiscal 1969. Quarterly payments of corporation income taxes due on April 15 will not reflect the extension. Further, if the extension is not enacted before June 15, a total of $500 million will be shifted from fiscal 1969 to fiscal year 1970. The effect of this shift will be to distort the Government's demands on the credit markets, unnecessarily disrupt corporate tax planning, and possibly lead to further inflationary demand.

**While calling for an early extension of the surtax, we realize that this may inhibit fiscal flexibility should the economy cool unexpectedly in the second half of this year. To increase the ability of fiscal policy to deal with an unforeseen economic downturn, we recommend that along with the extension of the 10-percent surtax, the President be given the authority to reduce its size or eliminate it completely.[1] The Congress could grant the Executive the power to implement its decision after 60 days, unless either House of Congress passes a contrary resolution during that period.**

We wish to make it clear, however, that we consider extension of the surtax and certain excise taxes to be a purely short-term measure necessary for economic stabilization. As soon as the economy will allow it, we must eliminate both the surcharge and the excise levies.

In the Excise Tax Act of 1965, the Federal Government expressed its dedication to removing regressive Federal excises, both for reasons of individual equity and long-run economic growth. The Revenue and Expenditure Control Act of 1968 indicated that the 10-percent surcharge was indeed a temporary tax increase by limiting its life to only 1 year. These are solemn pledges Government has made to the American people, and they should be kept. Never in the initial discussions of these two measures was it ever intended that the increased taxes become a permanent part of our revenue system.

*The Investment Tax Credit*

In view of the inflationary increase in business capital investment projected for this year, some have advocated suspending the 7-percent investment tax credit for machinery and equipment.

**We believe, however, that the very nature of the 7-percent investment tax credit makes it an inappropriate tool for short-run economic stabilization, and oppose its suspension in 1969.[2, 3]**

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[1] Senator Miller strongly disagrees, believing that the Congress should retain its constitutional power over the subject of taxes and tax rates.

[2] Senator Miller remains unconvinced that the investment tax credit is the fairest approach to plant modernization, and, therefore, cannot agree that considerations of deeply serious inflation might not warrant suspension.

[3] Senator Jordan believes that the circumstances which existed at the time the investment tax credit provision was enacted do not now obtain and, therefore, abstains from the position expressed by the minority on this point.

The investment tax credit was originally designed to stimulate business modernization and expansion of capital equipment. The Kennedy administration's objective in proposing it in 1962 was to improve American business competitiveness in international markets, and increase the growth of the economy's productive potential.

The business community originally opposed the tax credit on the grounds that it would be used as an anticyclical device, to be turned off or on depending on the destabilizing pressures in the economy. They felt such manipulations of the tax treatment of investment would play havoc with investment planning, which by nature is based on long-run considerations and involves a great deal of uncertainty.

Business objections, however, were quieted by the Democratic administration's promise that, once enacted, the 7-percent investment tax credit would never be tampered with. This pledge was, of course, broken in September 1966 when the Johnson administration recommended suspension of the credit to fight a "capital goods boom."

Removal of the investment tax credit would operate to reduce investment demand only after a substantial period of time. The immediate impact is small because of the substantial lag between an original capital authorization or appropriation by business and the completion of the productive facilities, when the credit can actually be applied against the business income tax liability. A business firm will not, and indeed in many cases cannot, reduce its capital spending immediately because it has already committed funds to long-term investment projects. This means that inflationary investment demand will not be reduced immediately, as is required for stabilization this year. Further, the restrictive effect of suspending the credit may not be felt until a later period when the economy may actually require stimulus, rather than restraint.

### *Aggravate Inflationary Psychology*

Furthermore, if businessmen feel that a suspension or removal of the credit is inevitable, this could well aggravate the inflationary growth of capital spending already projected. One reason for such ambitious investment intentions in 1969 is the expectation of further price increases. This "inflationary psychology" moves business to contract to purchase capital goods now since they will be more costly at a later date. The prospect of removing the 7-percent investment tax credit would indicate that machinery and productive equipment will cost 7 percent more in the future than they do now and firms could be expected to step up their capital spending commitments before the credit is removed. Certainly, we cannot afford any such further fueling of inflationary pressures at this time.

Perhaps it is true that the costs of the investment tax credit in terms of long-run growth and stability are greater than its benefits, but this will be apparent only after the real effects of the credit are determined and their implications for the long term are intensively studied. The investment tax credit was enacted after a year of debate and discussion, and the decision to terminate or continue it should only be made after a comparable review by the administration and the Congress.

Perhaps such an intensive study should begin now in the Treasury and the relevant congressional committees. In any event, manipulation of the 7-percent investment tax credit should not be considered relevant to the need for a return to greater economic stability in 1969.

**It must be kept in mind that the investment tax credit is not a substitute for continual modernization of depreciation techniques allowed businesses in computing taxes. We urge the Treasury to review and update its depreciation and amortization tables. This will encourage increased business productivity and improve our international competitiveness in the markets of the world.**

*Restrain Federal Spending*

In addition to the continuation of tax policy restraint, every effort must be made to reduce nonessential Federal spending and restrain the growth of the Federal budget this year. We expect this will be a challenging task. The Budget Bureau has already indicated that the $183.7 billion total for fiscal 1969 outlays estimated by the previous administration is a tight level which may not be attainable. Outlays for interest on the public debt have risen more than was anticipated, and it is probable that highway construction expenditures will be more than originally supposed. However, even if total outlays rise to $185 billion in fiscal 1969, this will be a less than 3.5-percent increase over the previous year's budget, compared with a 13-percent rise in fiscal 1968.

If the surtax is extended, it must be complemented with similar restraint on the spending side of the budget. A substantial increase in Federal spending would neutralize or overpower the restraining effects of the income tax surcharge on the economy. We believe it is most important for the stability of an overheated economy that a budget surplus be realized on fiscal 1969 and an even larger one aimed for in the fiscal 1970 budget.

Last year, Congress found it necessary to place a ceiling on Federal expenditures, along with enactment of the income tax surcharge. To a large extent, this action was responsible for reduced Federal spending in fiscal 1969. Programs covered by the ceiling were reduced $8.3 billion from the original budget estimate, and total budget outlays, including increases in programs excepted by the ceiling, were last estimated to be $2.4 billion below the original estimates in January 1968.

In view of the critical urgency of restraining Federal outlays in the coming year, it may be necessary for Congress to once again enact an expenditure ceiling. We recommend consideration of an expenditure ceiling quite reluctantly. We believe it is in the best interests of the Nation for Congress to retain its constitutional control over Federal spending and program priorities and not place the burden for restraint on the Executive alone.

However, this will be a critical year for economic stability and we cannot afford any stimulation from the spending side of the Federal budget. Such stimulation would place all the more burden on monetary policy for restraining a runaway economy, and would demonstrate to the Nation and the world a lack of commitment to reducing the inflationary growth of demand.

**If a congressionally enacted Federal expenditure ceiling is the best way to insure a restrained Federal expenditure policy, then we support its quick adoption.**

While limitation of total Federal spending is essential for economic stability, it is not enough to insure that the country's needs are being effectively met. The budget should also reflect the Nation's goals and priorities. While the previous administration professed a dedication to realizing a rational set of priorities in its budget, this was not reflected in its allocation of Federal resources among specific programs.

**We believe the need is clear to reduce nonessential Federal spending and reallocate the resources represented by this reduction to more urgent demands. For example, spending for public works and defense could be sharply cut back in many areas to more effectively aid our cities and impoverished rural areas. We believe that the new administration will give more serious attention than the previous one to designing and striving for agreed-upon priorities in the Federal budget and thereby produce a Federal budget that clearly expresses the Nation's goals.**

If total Federal spending is kept within appropriate bounds, we believe there is no need to continue the restriction on Federal employment provided for by the Revenue and Expenditure Control Act of 1968. We believe this administration to be firmly committed to restricting total Federal employment to a responsible level. Statutory limitations on Federal hiring may actually prevent the Government from attaining the most rational and efficient allocation of resources in providing for the Nation's needs. Consequently, we recommend that section 201 of the Revenue and Expenditure Control Act be allowed to expire on June 30, 1969.

## Monetary Policy

It is now widely agreed, including the Federal Reserve, that monetary policy was prematurely eased after the passage of the Revenue and Expenditure Control Act of 1968. Records of the proceedings of the Federal Open Market Committee in July indicate that the Federal Reserve expected an immediate impact from fiscal restraint. Consequently, it moved to an "accommodative stance," allowing bank reserves and the money supply to expand more rapidly during the second half of 1968 than the first, and lowering the discount rate from 5.5 to 5.25 percent. However, it soon became evident that fiscal restraint was not slowing the economy as had been anticipated, and monetary policy moved back to a restrictive attitude towards the end of the year.

In retrospect, it is clear that the Federal Reserve was not alone in expecting a substantial reduction in the rate of economic expansion in reaction to the fiscal restraint package. Forecasts both within the Government and without generally raised the specter of "fiscal overkill," that the tax increase and expenditure restraint package would break the back of our economic expansion. This was a case of generally poor economic forecasting, rather than a lack of coordination between the administration and the Federal Reserve. However, the Federal

Reserve's error was costly, and we cannot afford to have it repeated again.

**This year, monetary policy should remain restrictive until there are visible signs that inflation is slowing. Again, the watchword must be gradual but firm restraint. A slow but deliberate move to monetary restraint will complement fiscal policy and at the same time insure that there is no repetition of the "credit crunch" of 1966. Further, it will convince all that the Government is prepared to take the necessary measures to end the accelerating growth of prices.**

Already, there are some who fear the Federal Reserve will "lose its nerve" again this year and loosen monetary policy before inflation is actually slowed. There are others who feel that the Federal Reserve will not, and instead precipitate another credit crunch. Those in the former group may or may not prove correct; this is purely conjecture at this time. We hope that the Federal Reserve will continue policies appropriate to reducing inflation until it is demonstrated that price growth is declining or there is an undesirable increase in the unemployment level.

However, it seems that some in the latter group are afraid that the Federal Reserve is already going too far and would have the Federal Reserve reduce its restraint before its fight against inflation has proven effective. It is true that there are evidences of a restrictive Federal Reserve monetary policy in the monetary indicators. These include a reduction in bank reserves, increased runoff of negotiable certificates of deposit, increased costs in the Federal Funds and Eurodollar markets, and a reduction in the rate of growth of the money supply. However, there are as yet no clear signs that these monetary conditions are reducing the inflationary level of economic activity.

This committee has long believed that the money supply has a substantial influence on the economy. Large increases in the money stock seem to produce an acceleration in economic activity, while smaller rates of growth, or a decline, lead to reductions in expansion or a recession. Furthermore, drastic changes in the growth rate of the money supply are to be particularly avoided since they tend to be especially destabilizing.

**We believe the outlook for the economy this year, and the need to restrain the inflationary trend of economic activity, requires a growth of the money supply at the lower end of the 2- to 6-percent annual rate on a quarterly basis that this committee has recommended in the past as most consistent with economic stability over the long run. Of course, if the economy begins to slow alarmingly, money supply growth can be appropriately accelerated.**

Under the monetary policy outlined above, it can be expected that interest rates will stay at their current high levels for a while, or even rise slightly. However, this will only be a short-term response. If economic policy is successful in restraining the economy, interest rates will fall as inflationary demands for credit decline.

Interest rates are an inappropriate target for monetary policy, and particularly so in times of inflation. Efforts to reduce interest rates by increasing the supply of money and credit will simply tend to stimulate economic activity, inflation, and even higher interest rates.

## Wage-Price Guideposts

**In the context of the pressing need to reduce inflation in 1969, we reiterate our opposition to the revival of the wage-price guideposts. Originally designed to induce firms and unions with significant discretionary power to set prices and wages to act in a manner similar to competitive industries, the guideposts may have been successful in reducing price and wage pressures in the early 1960's, when there was significant slack in the economy, and demand was not generally excessive. However, in today's world of excessive inflationary growth, they are inconsistent with the need to reduce aggregate demand.**

We have always believed that the guideposts could serve as a useful educational device to indicate to firms, unions, and the public what behavior is consistent with price stability and a noninflationary economy. However, the manner in which they were misused by the previous administration has stripped the concept of any useful role at this time.

The previous administration imposed the guideposts arbitrarily, often in areas where they were clearly not designed to apply and during periods when they were inadequate and irrelevant. Further, they gave the public the false sense that the administration was indeed fighting inflation, while Government fiscal and monetary policies were actually expansive in nature and engendering the inflationary pressures the guideposts were called upon to reduce.

This is somewhat analogous to tying down the safety valve on a steam boiler while turning up the heat, and may have led to a similar inevitable explosion. Secretary of Labor George P. Shultz has stated he believes the guideposts did not actually reduce inflationary price and wage pressures in the early 1960's but merely postponed and aggravated them until they erupted to help fuel the runaway inflation we face today.

President Johnson's Cabinet Committee on Price Stability recommended that the administration adopt a modified version of the original guideposts that would build an inflationary bias into the concept. The Cabinet Committee's idea was to arbitrarily raise the wage guidepost to 5 percent this year, adding some of the increase in price levels to the trend growth of labor productivity, and induce business to absorb 1 percent of the increase in unit labor costs in reduced profits.

We believe it was wise for the previous administration to refrain from endorsing this modification. The wage-price guideposts were originally designed as general guides for noninflationary behavior, and the changes recommended rob the concept of any validity in this direction. We hope the present administration will continue to refuse to revive the wage-price guideposts in any form at this time.

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This does not mean that business firms can raise prices with impunity or labor unions can exact further large wage increases heedless of their implications for economic stability. Business and labor must exercise voluntary restraint in their pricing and wage decisions in lieu of Government restrictions. The ultimate alternative to responsible behavior is controls on the decisions of the productive sectors, controls that will prove to be much more harmful to the interests of business and labor than voluntary restraint. We believe that the Federal Government's dedication to returning the economy to noninflationary stability should be matched by comparable dedication on the part of business and labor.

## IMPROVING FEDERAL ECONOMIC POLICIES

Whereas the first priority for economic policy this year is to reduce the current inflation without an untoward increase in unemployment, there are other measures which should be discussed with an eye to improving the efficiency of economic policy and the way it affects the economy in the long run.

### Fiscal Policy

**In the area of tax policy, the prime objective this year should be significant steps toward improving the equity of our revenue system. Federal tax reform has been too long neglected, particularly by the previous Democratic administration, which ignored Congress' request that specific proposals be submitted by the end of 1968. Our present income, estate, and gift tax laws have been built up piecemeal over many years, without much attention paid to the overall effects of the tax structure. It is obvious now that there are serious inequities in our tax system, which are increasingly resented by the general taxpaying public.**

Some aspects of the tax laws contribute to horizontal inequity. This means that income units, be they individuals, corporations, or estates, with similar abilities to pay taxes are taxed at widely varying tax rates. Vertical inequity in our revenue system indicates that income units with greater abilities to pay escape the effects of our progressive tax rate structure. In many cases, those with very large incomes pay lower effective rates of tax than units with relatively small incomes. The major thrust of tax reform should be to move toward both horizontal and vertical equity.

We support an overall review of our entire tax system, including the consideration of reform proposals such as a minimum income tax to insure that all pay their fair share of taxes, and the study of new revenue devices, such as the value-added tax.

#### *Federal Expenditure Policy*

In all times, it is essential that Government continually review its spending policies and programs to insure that the maximum in efficiency and effectiveness is obtained from every Federal dollar. In periods of inflation, this is especially important, since Government spending added to an excessive private demand aggravates the rate of price increase. Every effort should be made to insure that Federal spending is no larger than necessary to meet the Nation's needs and allocated among programs to reflect agreed-upon priorities.

**We propose that a Commission on Federal Budget Priorities and Expenditure Policy be established. This Commission, composed of private citizens and Members of Congress, would periodically conduct studies and make recommendations concerning Federal spending. Particular areas of concern would include establishing Federal**

**spending priorities, appraising Federal activities as to their effectiveness and the necessity for their operation by the Federal Government, and improving Government organization and procedures.**

We further believe that continued efforts should be made to implement and improve the so-called Planning-Programing-Budgeting System (PPBS). This system attempts to provide a more rational and comprehensive approach to Federal program and spending decisions by improving the organization and the quality of the information the Government employs to make its decisions. Program objectives are clearly identified and alternative methods of achieving objectives are rigorously analyzed, comparing the costs and benefits of each. Further, the PPBS focuses attention on the total time-stream of program costs and benefits, assessing as fully as possible the future cost and benefit implications of programs and objectives. We are pleased to hear that the present administration intends to continue and improve the PPBS work begun by the previous administration.

*The Post-Vietnam Economy*

The Johnson administration budget estimated that the war in Vietnam will cost $29 billion in fiscal 1969, and involve military personnel totaling 634,000. Should real progress be made toward a settlement of the war in Southeast Asia, we will be faced with two challenges vital to the Nation's health and prosperity. First, how to demobilize the military resources, both manpower and machinery, currently devoted to the war without seriously disrupting the economy's expansion or causing serious dislocations and distortions within the economy. Second, how to intelligently utilize the Federal financial resources released by an end to hostilities.

These two problems are, of course, interrelated. The way in which we choose to allocate the Vietnam peace dividend will affect the impact of the transition from war to peace on the economy. And the methods employed to cushion the effect of demobilization will to some extent determine how the dividend is employed. However, this is not to say that the allocation of released resources will be automatically predetermined by the need to insure continued expansion. These resources are too valuable to be wasted on poorly conceived programs of spending for spending's sake.

Consequently, we believe it is imperative that the Federal Government begin now to draw up an agenda of program priorities for distributing the dividend. There is a broad range of urgent domestic needs which have too long been ignored by the requirements of financing the war. Now is the time to formulate these needs into specific programs to be rapidly implemented as resources are released when a settlement is reached.

**We are encouraged to hear that the administration has formed a special study group composed of highest Government officials to formulate a program to ease post-Vietnam adjustment problems. This group, chaired by an expert in the area of postwar economic adjustment, is ex-**

**pected to provide valuable leadership in efforts to insure that the transition is as smooth as possible. We believe this effort should be expanded as we progress further toward bringing the war in Vietnam to an end.**

Of course, we must also be ready to use our fiscal and monetary policies to prevent any substantial slowing of our economic expansion resulting from conversion to peace. The swift removal of the income tax surcharge will help insure that our economic growth and low levels of unemployment continue unbroken. Monetary policy ease will most likely also be a necessary part of our postwar economic policies.

*Facilitate Civilian Employment*

Attention should also be given to particular measures to smooth the re-entry of released servicemen into the civilian labor force. One problem that servicemen often face upon being discharged is not being immediately eligible for unemployment compensation while seeking civilian employment. By law, ex-servicemen are disqualified from receiving unemployment compensation if they have received payment for unused accrued leave, because these payments are considered to be Federal wages. This is particularly inequitable in view of the fact that civilian employees of the Federal Government may receive payment for accrued leave and be eligible for unemployment compensation at the same time. Senator Javits has introduced S. 1260 to determine the eligibility of ex-servicemen for unemployment compensation, and we believe it worthy of consideration as a means to remove this inequity.

The release of Vietnam veterans at the termination of the war provides us with a unique opportunity to match job skills with their demand. The Veterans Employment and Relocation Assistance Act of 1969 (S. 1088) introduced by Senator Javits would stimulate job mobility by assisting veterans returning to high-unemployment areas to move to other sections of the country where the skills and training they received while in military service are in short supply. This bill would require the U.S. Employment Service to aid and counsel returning veterans to find jobs suited to their skills, and would provide the veteran with financial assistance for relocation. We believe this measure deserves early consideration and that it could have social and economic benefits far out of proportion to the costs incurred by the Government.

*Debt Management*

The problems of debt management have been greatly aggravated in recent years. For one, the Federal Government has moved from being a large net borrower in fiscal 1968, reflecting the $25.2 billion deficit in that year, to being a net supplier of funds in fiscal 1969 and 1970, reflecting projected budget surpluses. Despite the fact that the Federal Reserve can accommodate these shifts, such large reversals in Government demands for credit are bound to have destabilizing effects on the money markets. In addition, they tend to reduce the flexibility of the Federal Reserve in pursuing other objectives, such as an orderly reduction of inflationary demand.

**In the future, we hope the present administration will be able to gage its revenue and expenditure needs more accurately than the previous one to avoid such large shifts in borrowing requirements.**

*Interest Rate Ceiling*

An element that forces the Treasury to be a frequent participant in the money markets despite the position of the Federal budget is the $4\frac{1}{4}$ percent ceiling on interest rates payable on Government bonds. This is particularly true in periods of high-interest rates, as at present. This ceiling has meant that the Government has not been able to sell a long-term debt instrument since January 1965 because market interest rates for this term are much higher than the ceiling.

Consequently, the average maturity of Government debt privately held has shortened drastically in recent years. In mid-1965, just before the current rise in interest rates began, the maturity of privately held public debt stood at 5 years and 9 months. By the end of January 1969 it had fallen to a postwar low of 4 years.

A rising public debt of shorter maturity contributes to increased liquidity in the economy, since short-term assets are more readily convertible into purchasing power than long-term. This high degree of substitutability between money and short-term debt, means that recently the public debt structure has been adding to the inflationary pressures in the economy. Ideally for stabilization objectives, the Treasury should be borrowing long in inflationary periods, to "soak up" excess purchasing power.

It also requires the Treasury to regularly refinance debt in huge amounts. In 1965, for example, the average amount of privately held marketable Treasury debt maturing each quarter was $3 billion. The average quarterly amount maturing this year will be about $5.5 billion. Such large refinancing requirements can virtually immobilize monetary policy and thus reduce its effectiveness as a tool of economic stabilization.

Finally, it should be noted that Government savings bonds, a traditional depository of individual savings, are also subject to the $4\frac{1}{4}$ percent ceiling. In the past, the investor who purchased savings bonds gave up the difference between $4\frac{1}{4}$ percent and the return he could have earned on other debt instruments, such as savings deposits. However, with consumer prices advancing at annual rates substantially greater than the return on saving bonds, the small investor now loses part of his principal as well. He is absorbing a net cost for lending to the Government through savings bonds.

Under these conditions, it might be expected that the Treasury would find it increasingly difficult to sell savings bonds, and this is indeed what has happened. In 1968, net sales totaled only $67 million, the smallest amount in almost a decade. The net outflow in January this year alone totaled $61 million, the largest for any month since 1963. Further, the share of total savings going into savings bonds in 1968 was 12 percent, down from 26 percent for as recently as 1960.

**We believe the $4\frac{1}{4}$ percent interest ceiling on Government bonds is contrary to responsible fiscal management and strongly urge that the administration propose its elimination.**

### *Statutory Debt Limit*

Finally, we believe the administration's proposal to revise the method of determining the statutory ceiling on the public debt deserves further study. The primary effect of this proposal is to modify the categories of Federal securities subject to the debt limit so as to include only that debt which is *held* by the public and thus constitutes the total of Federal borrowing in the financial markets. This represents a departure from the traditional manner of expressing the public debt subject to the limit in terms of that *owed* by the public.

As the limit now stands, special nonmarketable Treasury securities issued as investments for Federal trust fund surpluses as required by law are included. One effect of this is that although the Federal budget may be operating at a surplus, debt subject to the limit would continue to rise as trust funds accumulate surpluses. The Government trust funds are now estimated to accumulate surpluses totaling \$9.4 billion in fiscal 1969, and \$10.3 billion in fiscal 1970, all contributing to an increase in the debt subject to the limit yet not directly affecting the money markets.

While these securities would be excluded by the administration proposal, certain other debt issues which are not now subject to the limit would be included under it. These include securities of agencies in which the Government has an ownership interest, such as the Tennessee Valley Authority, the Export-Import Bank, defense family housing, and certain participation certificates issued by FNMA. These issues could be expected to total almost \$12 billion and their inclusion would further be consistent with the overall measure of Federal credit demands on the financial markets.

## Monetary Policy

There is a growing consensus among Government economic policy-makers and private economists that the level of overall economic activity is directly related to the rate of growth of the Nation's money supply, that is, currency and demand deposits at commercial banks. This view contends that a rapid increase in the money supply will stimulate increased and sometimes excessive levels of economic activity, while slow growth or a decline in the money stock will be followed by reduced expansion or even an economic contraction. Furthermore, this group feels that the conduct of the money supply may possibly be a more effective economic stabilization device than changes in the posture of the Federal budget.

**We have long felt that coordination of fiscal and monetary policies is essential for economic stabilization. When fiscal policy is in a restrictive stance for economic stabilization purposes, monetary policy should not be expansive. Similarly, when monetary policy is working toward economic stability, the Federal budget should not be in a contrary position. Furthermore, there is evidence that suggests the behavior of the money supply may have more important consequences for achieving a stabilization objective than the posture of the Federal budget.**

For example, from first quarter 1966, through first quarter 1967, the high employment budget, which attempts to show the impact of the Federal budget on the economy as it moves toward a low level of unemployment, shifted substantially toward stimulus as the deficit increased from $0.9 to $10.8 billion. However, between April 1966 and January 1967, the money supply did not grow at all, in vivid contrast to the 6.2 percent increase for the previous 12 months. The net result of these two opposing policies was an actual decline in real gross national product during the first quarter of 1967, and only a 2.1-percent annual rate rise in the second.

The behavior of the money supply similarly dominated economic activity in the most recent period. During the final half of 1968, fiscal policy moved drastically toward restraint as the tax surcharge and the expenditure ceiling moved the high employment budget from a $16.1 billion deficit to an estimated $0.6 billion surplus. Taken by itself, this would indicate a marked restrictive effect on economic activity. However, real gross national product rose at an annual rate of 4.3 percent for the second half of 1968, less than the first half's growth, but still a substantial rise and much higher than the magnitude of fiscal restraint would suggest. Preliminary figures for the first quarter of 1969 indicate that economic activity may have accelerated from its fourth quarter 1968 rate.

The reason for fiscal policy's failure to substantially reduce economic activity here seems to be the offsetting behavior of the money supply. Money growth increased from a 4.7-percent annual rate in the first quarter of 1968 to a 9-percent rate in the second. Then, after falling to a 4.6-percent annual rate in the third quarter, it rebounded to grow at a 7.8-percent annual rate in the fourth.

Although the causal links between the rate of growth of the money supply and economic activity are not yet clear, empirical evidence suggests that they do exist. Further, recent experience seems to indicate that the level of economic activity may be more sensitive to the behavior of the money supply than the stance of the Federal budget. Consequently, it behooves the monetary authorities to recognize that changes in the growth of the money supply will have important consequences for the level of economic activity quite apart from the posture of fiscal policy.

**We are not prepared to recommend that the growth of the money supply be the sole instrument of economic policy or that the money supply should grow at some constant rate. However, we do believe the evidence indicates that more gradual changes in the quarter-to-quarter totals than we have seen heretofore would avoid aggravating economic instability. Drastic changes in the growth rate have been destabilizing, as have abnormally high or low rates of growth. We strongly urge that the Federal Reserve maintain money growth within the 2 to 6 percent limits recommended by this committee in its report last year entitled, *Standards for Guiding Monetary Action*.**

### *Differential Impact of Monetary Restraint*

An unfortunate effect of general monetary policy restraint is that it bears more heavily on certain sectors of the economy that it does on others. In recent years, it has become especially apparent that State and local governments and the housing sector have been particularly hard hit by credit stringency.

During the severe monetary restraint of 1966, State and local governments were forced to cut back or postpone more than $2.9 billion, or nearly 25 percent, of their planned bond issues that year, according to Council of Economic Advisers estimates. In recent months, bond issues of a number of States to finance educational facilities have failed due to the high-interest costs.

Similarly, the 1966 experience showed how sensitive the supply of mortgage funds are to interest rate relationships. Mutual savings banks and savings and loan associations provided less than half of their usual share of mortgage funds in response to the credit tightness. The result was that housing starts fell by nearly half between December 1965 and October 1966. And recently, private groups such as the Advance Mortgage Corp., have indicated that there may not be enough mortgage money at any rate available later this year.

**In times when monetary restraint is necessary to help stabilize economic activity, it would be most inappropriate for the monetary authorities to aid particular beleaguered sectors in a manner leading to an increase in the overall level of money and credit. The various money markets are not completely segregated, and any commitment to ease credit stringency in one will lead to reduced monetary restraint throughout the economy.**

**The optimum strategy would be to improve the allocation of credit among the various markets, including increasing the access of State and local governments and residential mortgage borrowers to the lendable funds available. In this way, sectors that are particularly heavily burdened during periods of restrictive monetary policy would find their difficulties eased, while overall monetary restraint would not be comprised.**

### *State and Local Government Borrowing*

The major vehicle for borrowing funds in the market available to State and municipal governments is, of course, the tax-exempt bond. The major constraints on issuing these bonds are the refusal of constituents to support increased taxes to amortize repayment of the bonds, and statutory and constitutional limits on the amount of bonded indebtedness and the interest payable. In many cases, the need to offer a return of 5 percent or more in the market to attract investors precludes the financing of required public facilities, such as schools, libraries, sewage systems, and health facilities.

Federal legislation affecting State and local government borrowing is difficult because of serious constitutional questions involved. However, there are some proposals that can be made. One is to continue the federally imposed lid on the issuance of industrial development bonds. Some of these bonds, enjoying the traditional Federal tax immunity, are being increasingly used by large corporations with ready access to capital markets for the purpose of shaving interest costs through the tax exemption privilege. According to *The Bond Buyer*, in 1965, industrial aid bonds accounted for less than 2 percent of the total tax-exempt issue, while in 1968, the proportion had grown to over 10 percent. The effect of this growing issuance is to impinge on the market for State and local bonds issued to finance essential public facilities.

A proposal for easing the access of State and local governments to credit is the so-called Urban Development Bank recommended by the last administration. This Bank is designed to borrow economically in the open market and then lend funds to individual local governments at subsidized interest rates, with the Federal Government recovering the cost of the subsidy through taxation of interest income earned by holders of the Bank's securities.

There are serious questions about this approach that must be thoroughly explored. For example, how would this plan affect the traditional exemption of interest on State and local securities from Federal income taxes? What guarantee is there that the interest subsidy will be fully financed by Government taxation of interest income? How would the funds be allocated among a potentially large body of competing governments, an allocation that is currently done by the market? Finally, what Federal limitations would be placed on the programs and expenditures of local governments financed by such lending?

*The Residential Mortgage Market*

Steps should also be taken to insure a greater availability of funds to the residential mortgage market, particularly during periods of monetary restraint, than is presently the case. Again, the objective should be to improve the allocation of funds available rather than increase the net supply through monetary action. One way to achieve this is to increase the ability of thrift institutions, such as savings and loan associations and mutual savings banks, to compete for lendable funds. Thrift institutions should be encouraged to issue a greater variety of savings instruments, with rates, amounts, rights to liquidity, and convenience that would more nearly conform with the different demands among lenders.

The possibility of increasing the statutory and financial capacity of the Federal Home Loan Bank System to assist its members should also be investigated. This would include greater flexibility to change rates on advances and achieve a better-balanced debt structure of the home loan banks to avoid the need for frequent refinancing of outstanding indebtedness, particularly during time of credit stringency.

Another way to increase the availability of funds to the residential mortgage market is to promote direct access of individual mortgage borrowers to the financial markets. The Housing and Urban Development Act of 1968 granted the Government National Mortgage Association the authority to insure or guarantee bonds backed by FHA and VA mortgages. This would provide mortgage borrowers with a greater ability to compete with the other long-term borrowers for funds. Further, this would help reduce the difficulty experienced by mortgage borrowers so often in the past when flows to financial institutions declined or these institutions shifted their lending away from the mortgage market.

These alternatives should be carefully considered by the administration and the Congress as measures to improve the flow of lendable funds into the residential mortgage market. However, it must be recognized that these are only short-term, palliative measures. They do not redress the long-term imbalance of a growing, high level of demand for housing, and a persistently deficient level of funds available for housing finance.

It is reasonably apparent that in order to reach the national housing goals set forth in the Housing and Urban Development Act of 1968, substantially increased sums of long-term, fixed income capital must be available for housing. Though it is impossible to accurately predict the future costs of materials, labor, and other components of residential construction, we can reasonably assume that the cost of 2.6 million housing units per year (26 million units over 10 years) will approximate $40 billion annually, a sum which is almost double what the Nation currently spends for housing. To be realistic, we should question whether the foreseeable total level of savings and the allocation of these savings will be adequate to finance the necessary level of activity.

**Precedence gives no indication that the national housing goals can be accomplished. We believe that the Congress, through the Joint Economic Committee, should conduct a major review of the Nation's financial institutions, with special attention to the institutions responsible for housing finance. This study should include the purposes they serve, their interrelationships, the level of their efficiency, and the possibility of restructuring these institutions to induce capital to flow more freely throughout the economy to meet the Nation's needs.**

## Antitrust Policy

In the 79 years since the first Federal antitrust statute was enacted, vast changes have taken place in the economic structure of America. These changes have naturally given rise to a whole host of issues that were not anticipated in the original act, and have not even been adequately dealt with in the antitrust legislation in the intervening years. Consequently, the role of antitrust legislation has been the subject of endless debate, particularly in recent years. For our part, we wish to insure that our present antitrust laws, and the manner in which they are applied, do not have significant adverse effects on our domestic productivity, our long-range economic growth, or our foreign trade balance.

**To insure that our present antitrust policies are achieving rational and well-defined objectives and not distorting the productive structure or potential of our economy, we recommend that the Congress establish a Commission to review U.S. antitrust laws.**

An approach along the lines of a bill (S. 1478) introduced by Senator Javits seems quite effective. This bill would establish a 24-member bipartisan Commission, comprised of representatives of the Congress, the executive branch, and the private sector and charged with the duties of examining our overall antitrust policy as embodied in the relevant laws and recommending appropriate revisions. This Commission would specifically be asked to investigate the laws' effects on business competition, price levels, employment, profits, production, consumption, foreign trade, and economic growth.

The time has come for reassessment and revision of our antitrust laws, a job which must be ultimately done by Congress. This will enable us to meet newly arising problems, such as the recent rapid increase in conglomerate mergers and particularly financial conglomerates.*

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*Congressman Windall would like to call particular attention to the problem of one-bank holding companies as financial conglomerates. He urges serious consideration and passage of legislation that would prevent the establishment and growth of financial conglomerates which could potentially dominate the American economy.

## MEETING THE CHALLENGE OF URBAN AMERICA

Last year was an explosive period for the Nation's cities. The rioting that broke out in response to the assassination of Dr. Martin Luther King, Jr., in April was more widespread and intense than in Watts, Detroit, or Newark in previous years. Demands for community control of urban affairs grew loud and sometimes violent. Strikes of municipal employees disrupted city life and threatened health and welfare. The urban financial squeeze of sharply rising municipal costs, slowly rising revenues, and high interest rates brought forth demands for increased and improved Federal and State aid, as well as reducing and even suspending the provision of essential services in several cities. Meanwhile, the immigration of the poor from rural poverty areas to the central cities, and emigration of prosperous individuals and businesses to the suburban fringes continued, reducing the cities' ability to effectively deal with their problems still farther.

However, last year was encouraging in demonstrating an increasing awareness of the urban challenge and dedication to solving the vast problems of our cities. Studies and reports by many groups increasingly identified the problems and suggested thoughtful solutions. The President's National Advisory Commission on Civil Disorders focused on the frustration felt by the residents of inner cities, which unrelieved has erupted into violence, crime, and disorder, and threatens to continue to do so.

The Governors' Conference Committee on Urban Problems provided a detailed and specific report on a broad range of urban issues, with a list of specific action proposals for consideration by State governments. The National Commission on Urban Problems tackled a number of the major urban problems, including zoning and land use, minority group conditions, building and housing codes, and local government structure and finance. Other concerned groups, such as the Urban Coalition, also continued their analyses and reports on the dimensions of the urban crisis.

### *Optimum Approach*

The recommendations and experience of these groups and others have underscored the essential importance of the pluralistic, multilevel, flexible approach to solving the problems of the cities. There are three main lines of attack that should be actively pursued by coordinated Federal, State, and local governments. First is to increase the income and employment opportunities of the individuals residing in city areas, particularly the ghettoes. Where increased opportunity to earn an income and participate in our general prosperity will not be enough, improved welfare services are essential.

Second is on the deficiencies of physical and governmental environment of the city, emphasizing community development and improvement of governmental response and provision of essential services. Finally, is the need to reduce the migration of the poor to the central city areas at its source, the rural poverty areas. This last prong of the concerted attack on the urban crisis will be discussed in a separate section entitled "Revitalizing American Agriculture."

## Employment, Manpower, and Training

Manpower and training programs fulfill a two-fold purpose in an inflationary economy. First, they identify the chronically unemployed or underemployed and provide them with marketable skills and other abilities to meet job requirements and maintain continuous employment. In this respect, Federal manpower and training efforts redound to the advantage of the disadvantaged.

These programs also, however, increase the supply of trained workers to fill the growing demand of a booming economy for skilled labor. To the extent that the hard-core unemployed are trained and find jobs, and their productivity is increased, inflationary pressures are reduced, and the entire economy benefits from increased real output.

In a time that demands a concerted effort to reduce the level of economic activity, manpower and training programs will be called upon to achieve the third objective of increased employment stability. It is the unskilled worker who is "the last hired and the first fired" when an inflationary expansion is restrained. The skilled worker, with a proven high level of productivity, is less vulnerable to unemployment as his employer is loathe to risk losing a valuable employee.

**Consequently, part of the responsibility for insuring that the increase in unemployment is minimal as the economy is slowed in the coming months must fall on Government manpower and training efforts. These programs should be expanded where they have proven effective, and improved where increased efficiency is possible. In this manner, the Government can effectively contribute to both short-run employment stability, and increased economic growth and welfare in the long run.**

There are presently more than a dozen major manpower training programs operated by a half dozen Federal agencies and departments, with widely varying target groups, resources, and accountability.

**We believe it is essential for the efficiency and effectiveness of Federal manpower efforts that these separate programs be fused into a single comprehensive Federal manpower and training program, providing a variety of services in varying mixes tailored to meet local needs and individual requirements.**

We are pleased to hear that Secretary of Labor Shultz has recommended such a consolidation. Rather than packaging and funding several specific programs, he has suggested including all human resource development efforts in one program, with one funding appropriation. Specific programs could then be designed to meet specific local needs for services, rather than nationally conceived program goals. We encourage Secretary Shultz in these efforts and believe the concept of a comprehensive program will greatly strengthen Federal manpower efforts.

### *Improve Present Programs*

Extensive improvements can be made to refine our existing job training programs. For example, the report of the previous Council of Economic Advisers notes that of those enrolled in Manpower Development and Training Act (MDTA) programs over the last 5 years, only 18 percent were trained in skills they deemed critical for our economy. It further stated that vocational education programs have been training only 5 percent of enrollees for health and technical occupations, while enrollment in vocational agriculture has remained constant over the last several years despite the sharp and persistent drop in agricultural work opportunities.

These programs and others must be reoriented toward training skilled workers in occupations which our growing economy will increasingly demand. This is particularly essential if we are to avoid the manpower shortages in certain skilled categories recently projected for the 1970's by the Labor Department and respected private organizations.

One of the most promising efforts to train and employ the hard-core unemployed seems to be the National Alliance of Businessmen's program, Job Opportunities in the Business Sector (JOBS). Under this program, the Federal Government provides funds to pay unusual training costs while businessmen provide the job opportunities. At the end of last year, the JOBS program had placed 125,000 hard-core unemployed and 85,000 of these remained on the job, an encouraging record.

However, there are some improvements that can be suggested. Many of the employers who have made job pledges to the alliance do not collect Government subsidies because they resent rigid Government contract guidelines or want to avoid the time-consuming paperwork. These obstacles to participating in the program and receiving Government aid must be eliminated to attract further business training and job commitments. However, this is not to deny the need for effective accountability in the spending of Federal funds on JOBS contracts.

One way in which this could be done is to stimulate job training in the private sector through Federal tax credits. This approach would allow employers to deduct a percentage from their taxable income of certain expenses of literacy and job training. Business and labor, working together, have consistently been able to develop sound training programs superior in quality to, and minus the inefficiency often inherent in, Government operated programs.

This approach has gained widespread support both within and without the Congress. In fact, the National Advisory Commission on Civil Disorders endorsed the concept in its report published in March of last year. We believe it would be most beneficial if the administration instituted a pilot program on a small scale to test the effectiveness of such an approach in the near future.

### *Job Information and Mobility*

**Improved job information and mobility can also contribute to reduced unemployment. We have recommended for years that a series on job vacancy statistics, pinpointing unfilled jobs by occupation and geographic area, be developed by the Government. We are encouraged to hear that the present administration has promised to give attention to developing this series and the concept of regional and national computer-based job placement systems as well.**

Linking the Nation's job markets by computer would give a job-seeker access to the full range of opportunities for which he is qualified. While we recognize there are still serious technical difficulties to be overcome before a regional or national job data bank can become operational, we hope the administration will actively pursue this objective.

As a complement to increased job information, hindrances to individual worker mobility must be removed. It is frequently the case that a worker can vastly improve his employment and income opportunities by moving to another geographical location, yet is restrained by certain obstacles. For example, individual pension rights should be made portable, so that a worker need not feel he must stay with his current job, union, or industry in order to retain retirement benefits.

Another obstacle to increased mobility is the cost of moving from a job in one area to another. For low-income workers, relocation assistance under MDTA amendments in 1965 seem to be an efficient and successful way to promote increased response to job opportunities. For those workers not in this income category, liberalization of income tax treatment of moving expenses incurred in changing employment location along the lines suggested by the Treasury seem to be worthy of careful consideration.

**We are sympathetic to constant improvement in standards of living and employment by such means as the Federal minimum wage. However, we must realize that overly rapid increases in the level of the minimum wage can reduce employment opportunities, particularly for the low-wage, unskilled worker. If we are particularly sensitive to the prospective employment effects of a given increase in the minimum, we can avoid the contradictory situation where we train the hard-core unemployed to hold meaningful jobs on the one hand, and reduce their employment opportunities on the other.**

Methods must also be found to reduce any unemployment effects of the present level of the minimum wage. One we believe merits further study is the Employment Incentive Act, introduced during the last Congress by Senators Percy and Jordan. This approach would alleviate unemployment effects by providing a Federal refund to an employer roughly equivalent to the difference between an employee's productivity and the minimum wage. The refund would be contingent on the employer's offering a program of formal or on-the-job training and agreeing to allow participating employees full job opportunities at or above the minimum wage at the expiration of the refund period. This concept could significantly increase the attractiveness of hiring low-skilled workers, such as teenagers, to employers.

### *Employment Discrimination*

Government, with the help of business and labor, must increase its efforts to reduce discriminatory barriers to employment. Race all too often prevents an unemployed worker from taking advantage of a job opportunity. An unemployment rate for nonwhites, continually twice that for whites, is ample evidence that discrimination in employment still exists.

Sometimes, this discrimination can take quite subtle forms. Union membership qualifications and business hiring requirements, although based on education and cultural standards rather than race, can effectively bar the nonwhite worker from employment. For example, a survey of building trades joint apprenticeship committees in a major city, introduced at our committee hearings on the manpower implications of the Kerner Commission report, indicated that most of them required a high school graduation for even applying to enter the contruction industry. Half of them required police clearance and half, minimum point scores, a ready method for exclusion. The survey went on to show that such requirements had indeed excluded Negroes and Puerto Ricans from participation in the industry.

Business and labor must cooperate to provide new and relevant standards of entry into jobs, rationalization and restructuring of jobs, and new programs of on-the-job training to screen in the nonwhite and the disadvantaged rather than screening them out.

## WELFARE AND POVERTY

For some time, many have expressed an interest in providing a Federal Government system of guaranteed income for the poor to replace our presently inadequate and inequitable welfare system. The two major types of proposals put forth in this area have been termed the negative income tax and the family or child allowance. The object of both of these approaches is to alleviate poverty by providing the poor with direct money income.

Continued study and public discussion of these proposals have indicated that they contain serious deficiencies. Both the negative income tax and the family allowance must reconcile three competing elements: cost, adequacy, and disincentives to work. Any choice of a guaranteed income program must compromise these three factors, with the result that, for example, we can provide an adequate level of support only at enormous costs or increased disincentives to earn an income.

Recent surveys and statements have indicated that there is widespread opposition to guaranteeing the poor income alone. For example, such diverse groups as the U.S. Chamber of Commerce and the Executive Council of the AFL–CIO have opposed the guaranteed annual income as an unworkable solution to the problem of poverty in America. Further, a Gallup Poll published in January indicated that a substantial majority oppose a guaranteed minimum income plan, such as the one endorsed by 1,200 economists last year. On a national basis, 62 percent opposed the idea while 32 percent favored it.

**We believe a much more efficient and equitable, and less potentially divisive approach to alleviating poverty than guaranteeing money income is to guarantee everyone the opportunity to earn an adequate income.**

This approach has been gaining increased favor, as indicated by the Gallup Poll which showed that 79 percent favored this plan while 16 percent opposed it. Interestingly, one of the largest margins of favor showed up in families earning less than $3,000 annually. One reason for this concept's popularity seems to be that it not only offers the poor worker income and the opportunity to productively participate in the economy, but provides him with pride and self-respect as well.

This approach involves identifying the unemployed and underemployed poor, enrolling them in training programs, providing them with marketable skills and related abilities essential to earning an income, and offering them promising job opportunities. Moreover, this involves improving and expanding the Government's present manpower efforts, and maintaining an economic expansion that will insure adequate employment opportunities.

There will, of course, always be a segment of the population which cannot be expected to earn an adequate income of their own. This would include the aged, the physically and mentally handicapped, and mothers who must remain in the home with their children. There is no question that these groups must be provided an adequate and equitable level of assistance.

### *Welfare Reform*

One area of major concern in the present welfare system is the wide disparity in welfare payment levels among States. For example, monthly aid to families with dependent children benefits per family range from a low of $40 in one State to a high of $290 in another, a much larger differential than can be explained by the difference in costs of living. In general, it is the highly urbanized States that provide the higher assistance levels, stimulating a flow of poor from rural poverty areas to urban centers.

**Federally established levels of minimum welfare assistance would be one way of reducing this disparity among States, including Federal assistance to help States which need it to maintain these levels. We believe this approach and others warrant serious study as ways to reduce incentives for welfare recipients to move to already congested and financially overburdened major urban areas.**

Efforts to induce present welfare recipients to become more self-sufficient should be expanded. Possible methods of achieving this would include allowing them to keep more of their work earnings by reducing the amount by which their welfare payments are cut for each dollar of earned income. The Welfare Work Incentive Program, WIN, should be enlarged to train more welfare recipients to qualify for productive jobs. Expanded provision of day care for children of welfare mothers and more family planning and other services would also encourage self-sufficiency.

## Improving the Urban Community Environment

There are no tried and true solutions for improving the quality of the urban environment. Each city, and even different communities within a city, have different needs requiring individual solutions. However, there are certain general principles which we feel can work toward the betterment of the urban community.

It is essential that we find ways to increase the fiscal resources available to State and local governments. For a number of years it has been painfully evident that our Federal fiscal system is dangerously unbalanced. At the top level, the Federal Government, depending heavily on the progressive individual income tax, finds its revenues increasing substantially faster than the growth of economic activity. Yet, spending by the Federal Government, barring extraordinary increases in military needs, tends to rise less than Federal revenues. This combination raises the prospect of a "Federal fiscal dividend," growing Federal budget surpluses which must be distributed so as not to unduly restrain economic expansion.

The situation is drastically different at the State and local levels. Here, revenue structures heavily dependent on property and sales taxes grow only as fast as the economy while the demands for government services increase at a much more rapid rate. States and localities can meet their rising spending needs only by raising rates of existing taxes, implementing new ones, or depending more on the bond market. Experience has shown that this strategy runs into increasing resistance from constituents as taxes and bond service costs are pushed to higher and higher levels.

**An approach that immediately suggests itself is to direct a portion of Federal Government fiscal resources to other levels of government. There is a general feeling that increased use of the traditional categorical Federal grant in aid is an undesirable way to convey funds to State and local governments. This approach involves too much cost in terms of Federal control, bureaucracy, and rigidity. A more appealing proposal is the concept of revenue sharing, where a given percentage of Federal resources would be passed on to lower levels of government for their use as they choose.**

Two bills have been introduced to implement this approach which seem to us to be worthy of careful consideration by the Congress and the administration. The Federal Revenue Sharing Act, introduced by Senator Javits during the 90th Congress, and the Tax Sharing Act of 1969, introduced by Senator Howard H. Baker and cosponsored by Senators Javits, Jordan, and Percy would both direct the Federal Government to distribute a portion of the Federal individual income tax base to States with virtually no strings attached. The allocation of funds among States would be made on bases taking into account population, per capita income, and revenue effort.

Along with any proposals to reallocate revenues among levels of government, reform of the State and local tax structure must have high priority. It is essential that State and local governments realize their responsibility to raise necessary revenues as efficiently as possible. We believe that the following recommendations are important steps in this direction.

1. The real estate property tax, the major source of municipal revenue, should be modernized. The property tax is dependent upon sound and equitable assessment policies which, in turn, depend upon sound zoning laws and up-to-date building codes equitably enforced. It requires an understanding that idle land should be taxed at a somewhat higher rate than improvements, to encourage that land will be

put to its most productive use. This principle could be extended further by rewarding those who improve their property and penalizing those who do not.

2. Not only should urban land be taxed at a somewhat higher value than improvements, but urban land should also be assessed and taxed with major consideration given to the location of the land—its site value. These tax procedures can readily and effectively be coordinated with zoning law, local policy, and the work of the city planner.

3. Federal payments should be made to local governments of sums in lieu of real property taxes on Federal property and foreign property in the form of embassies, consulates, and missions. This is only basic equity since Federal agencies and foreign governments with such land derive the same benefits as local citizen and business taxpayers from hospitals, streets, sewers, fire and police protection, and so on. Further, it would provide additional revenue to hard pressed local governments. This change would also serve to impose a greater degree of discipline on the Federal Government in its acquisition and retention of land for Federal purposes.

4. Among the most promising fiscal techniques in terms of revenue potential and tax equalization are the local payroll tax and the local income tax, both of which are deductible from the Federal tax bill. City governments which do not currently employ these measures should give them serious consideration. At this time, there are only about 200 cities employing this tax and one-half are in one State.

*Community Development*

**Intensive efforts must also be directed at improving the quality of life and opportunity in core city and ghetto areas. This involves improving living and working conditions through community development with the participation of business and individuals as well as government. It also requires that the individual's access to the job market be enhanced through training and placement programs already discussed, and an effective system of transportation. We feel that the followinig proposals could vastly improve our urban centers, making them attractive areas in which to live and work.**

A proposal that embodies the principle that private initiative and control with governmental financial assistance, is the Community Self-Determination Act, sponsored during the last Congress by Senators Javits, Jordan, and Percy, Representatives Widnall, Rumsfeld, Brock, and others.

This act would stimulate individuals in low-income communities to form community development corporations (CDC's), which would operate profitmaking businesses within the community and provide neighborhood services and community improvement. Private corporations would be encouraged by Federal tax incentives to build productive facilities within the communities, train residents as workers and management to operate the business, and then sell the completed operating facility to the local community development corporation as a going concern. Finally, community development banks, owned by the CDC's, would provide capital for this effort, and would be backed by a U.S. community development bank with resources provided by the Federal Government and individual subscriptions. This bank would act as a secondary financial institution, such as a Federal home loan bank for the local community development banks.

We feel the general principles embodied in this proposal hold a great deal of promise and should be carefully studied by the administration and the Congress as an effective means to improve the quality of the ghetto community by relying on the effort and perseverance of those who live there.

*Housing*

We believe that the National Corporation of Housing Partnerships authorized by the Housing and Urban Development Act of 1968 offers a potentially effective way to mobilize private enterprise to invest in and produce low-income housing on a grand scale. The Corporation would solicit investments from the private business and financial world by offering a significant return on low-income housing and benefits from fast tax depreciation writeoffs. However, this approach will not succeed unless the administration and the Congress substantially fund rent subsidies and mortgage interest rate subsidies, to create an effective money demand for low-cost housing on the part of the disadvantaged. We call upon the administration to consider early support for this proposal.

Other ways to improve the quality of housing available to inner city residents include the following:

1. Appropriate action should be actively pursued by all levels of government to insure that "fair housing" is a reality as well as a principle. All citizens have an equal right to the opportunity for safe and decent housing in a healthy environment.

2. Too often local planning and zoning requirements deny low-income citizens equal opportunities with regard to housing. We believe that greater State and local action is required to encourage zoning policies which overcome social, economic, or racial segregation.

3. More effort is required to apply advanced technology and scientific methods to the field of housing in order to develop new methods and building techniques, improved materials, and to promote a more rapid growth of productivity in the construction industry. Not only would such efforts pay off in lower costs, but in better and more modern housing of high quality design as well.

4. Amendment of the Internal Revenue Code should be studied to require that property owners who apply for depreciation deductions on their Federal income tax must certify that the property is being maintained within local code enforcement standards. We further believe that State financial assistance should be stepped up for development and enforcement of adequate housing and building codes.

*Transportation*

The inner-city resident's access to the outside job market could be markedly improved through development of rapid and efficient mass transit systems. Despite an estimated 1.5 million new manufacturing jobs set up on the rim of the inner cities since 1961, there is still little commutation by ghetto residents, particularly males. The disadvantaged, without the benefit of private vehicles, have not been able to follow the jobs to the suburbs.

There is an urgent need for a more balanced transportation program at the Federal level of government. Whereas, this fiscal year more than $4 billion is budgeted to be spent by the Federal Government from the highway trust funds on roads and highways, less than $160 million will be spent on urban mass transportation. A reordering of priorities here is desperately needed, to lessen the emphasis on increased building of highways which seems to stimulate even further transportation congestion, and to increase emphasis on urban transit systems.

In addition to providing greater mobility to inner city residents, urban transportation can effectively influence land use, business location, and the size of employment opportunities. We believe that a Federal commitment to improved urban mass transporation on a large scale would greatly enhance the viability of our Nation's cities.

## FOREIGN ECONOMIC POLICY ISSUES

As the United States enters the 1970's, it is becoming increasingly clear that our foreign economic policy strategy requires reassessment and review. This is not because the foreign economic policy that has been guiding us for the past 30 years has failed; on the contrary, it has been successful beyond any reasonable expectations.

On the trade policy front, we have seen the successful conclusion of the most comprehensive round of trade negotiations, the Kennedy Round of the General Agreement on Tariffs and Trade (GATT) which has substantially reduced the significance of tariffs in international trade between industrial nations. Trade policy now must deal with such issues as nontariff barriers impeding the trade of developed and underdeveloped countries, the new trend of conflict between regional trading arrangements and GATT principles, the relative decline in the trade of developing countries, the adverse terms of trade of underdeveloped countries, and unstable commodity prices. We have reached a point where it is valid to ask if traditional approaches can provide solutions to these problems.

In the area of our balance of payments, we have achieved apparent success, with the result that our international accounts were balanced. While other Western currencies weakened in 1968, notably the English pound and the French franc, there is substantial confidence in the U.S. dollar once again. It is generally agreed, even by the Johnson administration, that the continuation of controls on U.S. capital outflows, such as the interest equalization tax, the Federal Reserve Board's "voluntary" restrictions on bank lending, and the Department of Commerce's mandatory controls on direct investment abroad, for any substantial period of time, would be damaging to the long-range economic interests of the United States. While there is substantial agreement that these controls should be eliminated as soon as possible, neither the administration nor the Congress has presented specific proposals to do so.

One of the strongest reasons for questioning the validity of these balance-of-payments controls is that they were imposed because it was clear that without them, European countries, which were in positions of substantial surplus, would not agree to any fundamental changes in the international monetary system. Our expectations for significant changes in the system have not borne fruit; the Special Drawing Rights Agreement has still not been ratified; European countries are unwilling to make new arrangements involving the possible relending of their balance-of-payments surpluses to countries in deficit positions, or seriously consider the possibility of greater flexibility in exchange rates. There is much being said about the need for a more flexible adjustment process among industrialized nations but thus far this has only been the subject for informal discussions.

Foreign aid, which has been a major instrument in the development of developing nations, is again being seriously questioned, not only in the United States, but in all industrialized nations. This is largely because approaches now being pursued by the United States and the other industrialized countries have not borne clearly visible fruit.

There is wide agreement, however, that there is continued need for public and private capital, technical skills, and training for developing countries.

It is obvious, therefore, that the Nixon administration is facing a great challenge as well as a great opportunity to lay the foundations for effective new foreign economic policies for the 1970's.

This is neither the time nor the place to provide a detailed examination of all the current major issues of foreign economic policy. In these few pages we can only emphasize that a fundamental reassessment of all major elements of U.S. foreign economic policy is urgently needed. The assumptions which have governed our foreign economic policy since the end of World War II should now be carefully reexamined in light of new developments—new and sometimes unfavorable developments jointly by the executive branch and the Congress.

Those assumptions which survive a careful reexamination should be incorporated into a new foreign economic policy strategy for the United States, relevant to problems of today and tomorrow.

One element of U.S. foreign economic policy—foreign trade policy—has already received serious attention both in the executive branch and in the Congress during the past years. The report submitted by the former President's Special Representative for Trade Negotiations, "Future U.S. Foreign Trade Policy," is a comprehensive and far-reaching analysis of U.S. trade policy. Both the Ways and Means Committee of the House as well as the Senate Finance Committee began analysis of our trade policy last year. It is important, however, that other elements of our foreign economic policy, namely, those dealing with our balance of payments, our approach to international monetary reform, foreign aid, East-West trade, be considered together with trade policy. Unfortunately, in the past many of these policies tended to conflict, because they were considered separately.

**Therefore, we recommend that the President establish at the earliest opportunity a Commission on Foreign Economic Policy, to be composed of representatives of the executive as well as representatives of Congress and of the private sector, including business, labor, and non-profit organizations.**

Such a Commission would be extremely valuable not only because it would consider the various elements of U.S. foreign economic policy as a totality, but also because it would look at these problems from an overall national interest point of view.

Such a Commission could also perform the extremely valuable function of calling attention to the importance of our overall international commercial relations with other nations. This is often forgotten as invariably we deal with pressures emanating from one industry or interest group for changes in individual U.S. policies. The significance of our commercial relations with nations abroad is made evident by the following examples: U.S. investments abroad now exceed $80 billion, important not only in terms of the return on that investment but also because these investments have raised a serious issue of their own; namely, the dominant role these investments play in the national economies of foreign nations. We receive over $7 billion a year in interest and dividends from these investments. It has been estimated that our business subsidiaries and branches abroad produce $125 billion of goods annually, mostly for sale in markets where direct U.S. exports would have difficulty in sustaining market competition. Direct U.S. exports last year exceeded $33 billion with great benefits to the American economy in terms of production, employment and profits.

In 1968, for the first time, our trade surplus almost vanished as a result of imports exceeding $33 billion, sucked into the American economy by the high level of inflation and excess demand. The outflow of long-term private investment from the United States totaled over $4 billion in 1967 while U.S. Government grants and capital exports exceeded $4 billion. It is true that these capital exports contribute to our balance-of-payments deficit but they also stimulate additional exports and contain the seeds of future returns on our foreign investments. They also represent vitally important external capital resources for developing countries.

In other words, our international commercial relationships are important beyond their significance to the enormous American economy. We must be aware that what we do or do not do with respect to these international commercial flows will have major and long-term repercussions for us and for the rest of the world.

## Major Trade Policy Issues

It is evident that we have reached the end of an era in trade policy and that the answers of the past will not necessarily suffice for the future. Not only are the problems today different but the international climate within which trade policy will operate in coming years is substantially changed from that which prevailed when the Trade Expansion Act of 1962 was hammered out in Congress. In coming years such problems as nontariff barriers and other artificial impediments to fair international competition, the need for fair access to markets of industrialized countries for the products of developing countries, regionalism in free trade areas and common markets, new applications of science and technology in many fields, and the role of government in domestic and international agricultural trade will be some of the major issues.

In sharp contrast to the issues that dominated the late 1950's and early 1960's, such as the cold war, decolonization and European economic recovery, we are today seeking answers to such questions as how to respond to Western Europe's demand for a greater voice in the conduct of world political, economic and monetary affairs, the Soviet-Chinese rift, the demands of developing nations for better access to the markets of developed nations, and the growing independence of Eastern Europe from Soviet influence. No one yet knows what the results will be of these complex and interrelated forces. It seems, however, that under these circumstances, trade policy will have to be extremely flexible and aim for maximum economic gains and a minimum number of political objectives.

**Enactment of major trade legislation should be preceded by an assessment of the effects of the Kennedy**

**Round on the American economy, and its implications for future U.S. trade policy. This assessment should begin in the immediate future, to retain the momentum gained from the last round of trade negotiations.**

However, enough is known from the results of the Kennedy Round and other recent experience to discuss intelligently some of the fundamental principles that should guide future action with respect to trade policy:

**(1) Future U.S. trade strategy should be based on a firm commitment to trade liberalization.** Evidence is overwhelming that this commitment, which has been reaffirmed by President Nixon, has brought the United States major economic and political advantages and has helped expand world commerce in the last 20 years from $60 billion to $200 billion.

As was pointed out by the full committee in its 1967 report on "The Future of U.S. Foreign Trade Policy," the interest of the United States in increasing world trade is strong. If the regional trade blocs and other major trading countries show a willingness to move in the same direction on a genuinely reciprocal basis, it is right that we should hold this course since the potentials for multilateral trade are far from being exhausted.

**(2) Henceforth the United States should take decisive action against countries which compete unfairly against U.S. exports or in selling to the United States.** Under this heading we include such devices as export subsidies, quotas, discriminatory import licenses, and border taxes. Not infrequently, these nontariff barriers deny to the individual countries and the world the gains and efficiencies of free trade more effectively and more insidiously than the visible tariff obstructions themselves. We urge the administration to take new initiatives in the review and mitigation of these nontariff barriers.

Unfortunately, the exercise of the considerable powers available to the Federal Government under existing law, by officials of the previous administration, to assist domestic industry facing unfair competition from these barriers, has not been as prompt or as effective as it should have been. They have taken such halting steps as to subsidize U.S. poultry exports to Switzerland to compensate for subsidized poultry exports to the same market from EEC countries and Denmark and to threaten to take before GATT the Japanese policy of placing import quotas against foreign automobile components.

One result has been a demand by a number of aggrieved businesses for quota legislation designed to retaliate against the unfair trade practices of some of our foreign trading partners in our export markets and in our domestic markets. Additionally, demands are regularly being made by others who seek favored treatment for themselves. We are assured by the new administration that its officials will make full and prompt use of existing powers with a view to protecting our industries from unfair trade practices and we hope this will provide the climate needed to move ahead in expanding genuine reciprocal international trade.

**(3) Congress should continue to delegate effective trade negotiating authority to the President while retaining the right to**

**disapprove, under the right of veto, the results of trade negotiations in their entirety.** Unless we give temporary and well-defined powers to the President to negotiate in the trade field, we must either return to congressional tariff making or have the President conclude trade treaties subject to the approval of two-thirds of the Senate. We have attempted both in the past without satisfactory results.

In order to deal with the complex issues of nontariff barriers, trade policy toward developing countries and problems involved in agricultural trade, the President should have powers to reduce tariffs to zero and to negotiate the elimination of nontariff barriers in any future major trade negotiations. The negotiations of nontariff barriers will be particularly difficult because many of them involve obtaining international agreement with respect to politically sensitive domestic programs, such as agricultural subsidies and quotas, and will necessitate the safeguarding of the interests of consumers as well as producers.

Under such an arrangement, Congress could preserve the power to veto a trade agreement package within a specified period after its submission to the House and the Senate. We believe that if the President had had such authority during the Kennedy Round, we would have achieved results more easily or done even better as our negotiators would have been able to offer concessions over a wider area in exchange for concessions of interest to us.

Also, the President would need such wide powers to secure agreement on one possible approach to future U.S. trade policy—a free trade area composed of industrialized nations including the United States. Even though such an approach may not seem immediately relevant under present conditions, it promises to be relevant for the United States in any longer term. If the next attempt at trade negotiations by the traditional multilateral approach fails, or seems insufficiently promising, we would be wise to shift to the only other practical approach sanctioned by GATT, the formation of a free trade area of interested nations. If the next round of trade negotiations is successful, then we will find ourselves so close to free trade that the GATT countries may want to commit themselves to full free trade at a fixed date, to establish rules of competition and undertake other commitments as if they were in a formal free-trade area.

**(4) The Congress should give the President authority in 1969 to reduce U.S. tariffs for the purpose of negotiating compensation when the United States has to raise its tariffs pursuant to escape clause action. This authority could be strictly of the housekeeping type at a limited rate and for a limited time period.**

Such authority is needed since the President's tariff negotiating authority expired on June 30, 1967, and he now has no authority to reduce tariffs for any purpose. Such authority would not be for the purpose of a new general round of trade negotiations.

**(5) The adjustment assistance criteria embodied in title III of the Trade Expansion Act of 1962 should be modified to make it possible to determine injury caused by increased imports to individual firms, workers, and local communities.**

Under the present adjustment assistance provisions of the Trade Expansion Act, the Tariff Commission has been unable to find injury in almost every case due to the strict criteria of the existing law. Inasmuch as the Congress, after extended debate in 1962, accepted the principle that the Federal Government has a responsibility to assist firms, workers, and communities which suffer from import competition, Congress should now make sure that they can obtain the necessary Federal assistance.

We believe that Congress should give immediate and careful consideration to the recommendations made by the Roth report: namely, that the adjustment assistance criteria of the Trade Expansion Act should be changed to eliminate the requirement that increased imports be causally linked to past tariff concessions, and to require only that increased imports are a substantial cause of unemployment or underemployment of workers, and the primary cause of serious injury to an industry or a community. Should the adjustment assistance criteria be modified along these lines, the basic principle established by Congress in 1962 would be served and at the same time, it would lessen pressure for protectionism from industries which have suffered legitimate injury from intense import competition.

**(6) The direction and administration of foreign trade policy should be strengthened by establishing a permanent agency for that purpose in the White House.*** The Office of the Special Representative for Trade Negotiations under Christian Herter and William Roth has done a remarkable job. That Office should be expanded to have its own capacity to analyze the complex commercial and economic issues involved in foreign trade policy and to be in the proper position to coordinate activities of the various Government departments in the field of foreign trade policy. Chapter 11 of the Roth report, which deals with administration of trade policy, makes a number of valuable recommendations which should receive close congressional scrutiny.

**(7) In order to empower the President, in the absence of major trade negotiating authority, to deal with the problem of nontariff barriers, Congress should approve a concurrent resolution to authorize him to negotiate with other countries in this area, subject to congressional approval.** The nature of nontariff barriers today is extremely complex and it is almost impossible to lay down clear-cut congressional directives to guide our negotiators. Therefore, while we share the concern of those in Congress who fear that the executive branch is usurping its authority in this field, we see no practical alternative to expressing congressional policy through a resolution and then subjecting any subsequent agreement on nontariff barriers to careful congressional scrutiny.

**(8) In attempting to achieve a genuinely fair and competitive international trading system, we recommend that U.S. negotiations dealing with nontariff issues be centered on the concept of**

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* Senator Charles H. Percy and Congressman Donald Rumsfeld express the following dissent to this recommendation:

"It is essential that the number of offices reporting directly to the President be reduced. We question the necessity, therefore, of maintaining an independent trade negotiating office reporting directly to the President. With a Secretary of Commerce fully devoted to trade expansion, it would appear that foreign economic trade policy could have an effective voice at the Cabinet level if the trade office were placed within the Department of Commerce."

**a code of fair practices in international trade.** We have already achieved a major step toward this objective in the International Antidumping Code which was negotiated and entered into by the world's major trade nations as a result of the successful negotiations in the Kennedy Round. We are pleased to point out the strong support given by Republicans on this committee to this major achievement in formulating uniform international business practices. Similar initiatives should be pursued whenever possible. Certainly the area of Government buying practices is a key one. Another would be uniform procedures for the treatment of subsidies to exports.

**(9) The President should undertake a comprehensive review of the adequacy of our policies with respect to East-West trade and to recommend before the Export Control Act expires on June 30, 1969, what, if any, changes should be made in these laws to make possible a flexible administration of U.S. policy in this respect.** We recognize that East-West trade has in the United States traditionally been judged by political considerations. The trade of Western Europe with the countries of Eastern Europe is based principally on commercial considerations. We feel that the United States has been disadvantaged in the past—politically as well as economically—because of its strict and inflexible approach to this problem. We believe that U.S. trade with Communist nations should continue to be governed by our national interest and not purely by commercial considerations. However, we believe that export controls, the "most-favored nation" treatment of imports, and existing export credit facilities to finance East-West trade should be made a flexible instrument of national policy. Only on this basis can U.S. policies be once again brought into harmony with those of other industrialized nations of the West.

**(10) We believe that the Supplementary Agreement on Chemicals negotiated by the United States during the Kennedy Round should be approved by Congress.** We recognize that a controversy has been caused by this agreement. However, we also would like to point out if this package involving chemicals were implemented the United States would obtain significant tariff and market advantages in the EEC, in the United Kingdom, and in Switzerland in exchange for agreeing to abolish the American selling price system of customs valuation.

This system may have had validity in the context of its time. Today, decades later, the system is far less important to the U.S. chemical industry and there is evidence that benzenoid production in this country has been impeded from modernization and capital investment by the high level of protection it has enjoyed under the 1922 Tariff Act.

**(11) In any future trade negotiations, representatives of the United States should maintain a much firmer position regarding agricultural items than that which characterized the Kennedy Round.** In any such negotiations, we should more vigorously deal with nontariff trade barriers involving agriculture. Agricultural trade is of great importance in the United States and to U.S. farmers in particular. In 1967, U.S. agricultural exports totaled almost $7 billion,

$5.2 billion of which were commercial exports. U.S. agricultural exports have experienced increasing difficulty, principally due to such practices by the European Economic Community as minimum import price schemes, variable levies, quotas, and other nontariff barriers. We should negotiate vigorously for the reduction and eventual elimination of these impediments to our agricultural trade.

In conclusion, we commend Ambassador William M. Roth, former Special Representative for Trade Negotiations, for his report on Future United States Foreign Trade Policy. This is an extremely important and valuable document because it contains an analysis of most of the major issues facing U.S. foreign trade and makes many recommendations that will be of great value to Congress. We also wish to commend the members of the President's Public Advisory Committee on Foreign Trade Policy, who have worked closely with Ambassador Roth and who have made so many valuable comments on Ambassador Roth's report.

## U.S. Balance-of-Payments Policies

In an effort to deal with persistent deficits in the U.S. balance of payments, the Johnson administration instituted a series of restrictions on capital exports and on U.S. Government procurement abroad. It is clear to us that a continuation of these controls for much longer would be contrary to our commercial and political interests. These controls were imposed because the United States was under severe pressure to limit the outflow of dollars to Europe. We feared that unless these restrictions were imposed world confidence in the dollar would be undermined and we would be unable to obtain any significant concessions with respect to reform of the international monetary system from our European friends.

Regrettably, we are still awaiting ratification and implementation of the Special Drawing Rights Agreement; European countries in persistent surplus are still unwilling to agree to mechanisms to aid countries in deficit positions by lending some of these surpluses to them, and European nations refuse even to discuss change in the present fixed-exchange rate system which has been under heavy attack in recent years.

Superficially, it could be said that the reduction of the balance of payments deficit from $3.6 billion in 1967 to a $200 million surplus in 1968 is a clear justification for continuing these controls. However, when we look at the factors involved, a different picture emerges. The U.S. trade surplus has virtually disappeared in 1968 even though under the balance-of-payments program announced by President Johnson in January 1968 it was estimated the trade surplus would be $4 billion.

The decline in U.S. capital exports and lending abroad in 1968 was due partly to restrictions but also to high interest rates prevailing in the United States which also caused a large inflow of foreign investment. Another major element in this improvement over 1967 is the result of the establishment of the two-tier gold price system on March 17, 1968, which reduced the loss of our remaining gold stock and special financial transactions negotiated by the United States with foreign governments and central banks. During 1968 these transactions totaled $2.3 billion, $1.4 billion more than in 1967. It is significant to note that if these special government-to-government transactions were excluded from our balance of payments, our 1968 balance-of-payments deficit would have totaled $2 billion. We cannot assume that either these special transactions or other nonrecurring developments, such as the large repayments to U.S. banks of their term loans in Western Europe or foreign private capital investment in the United States will be repeated in 1969.

President Nixon, during last year's presidential campaign, took the position that controls on U.S. capital outflows, if maintained for an extended period of time, would be self-defeating and he pledged to do away with them at the earliest opportunity. We fully concur with these sentiments and applaud the position taken by Secretary of Commerce Stans and Under Secretary of the Treasury Volcker before the Joint Economic Committee on February 27, that they are reviewing controls on U.S. capital outflows and that they favor the elimination of these controls as soon as possible.

**We strongly urge that controls on direct investment, on U.S. portfolio investment subject to the interest equalization tax, and on foreign lending by U.S. commercial banks and financial institutions should be eased or terminated as soon as practicable. We believe, and there is mounting evidence to support this, that at least some of these controls can be terminated or substantially reduced by the end of this year.**

Should capital imports continue in 1969 at the same rate as in 1968—net foreign purchases of U.S. stocks totaled $1.9 billion last year, twice as much as in 1967 and 4 times the 1966 level—this could be interpreted as a significant new development reflecting recognition abroad that the United States is a safe and productive place to invest money.

There are strong and valid reasons for reconsidering the continuation of the interest equalization tax when present legislation expires on July 31. **Whether this law should be simply terminated or just put on a standby basis, should be determined at the time the legislation is before Congress.** Strong arguments have already been advanced by the U.S. Council of the International Chamber of Commerce to the effect that the danger of greatly increased borrowings by foreigners in the United States or large-scale domestic refinancing of indebtedness incurred by U.S. corporations abroad has been reduced by (*a*) the emergence of substantial foreign capital markets in Europe, (*b*) the changes in relative interest rate levels and (*c*) the present "loaned-up" position of U.S. commercial banks and the capital markets.

As far as the Federal Reserve Board's controls on foreign lending and investments by financial institutions are concerned, **consideration should be given to further liberalizing these loans extended by commercial banks which are directly related to U.S. exports.** It is quite possible that a combination of controls administered by the Federal Reserve Board and the U.S. Commerce Department have contributed significantly to the relatively poor performance of U.S. exports in 1968.

**We also recommend strongly that the administration make renewed efforts to obtain full compensation from European coun-**

**tries for the foreign exchange cost of maintaining substantial U.S. troops in Europe.**

We do not believe that purchases of U.S. military equipment by Western European countries and the extension of medium-term loans to the United States, especially by West Germany, is an adequate way of financing these troop commitments at a time when many European countries continue to experience persistent balance-of-payments surpluses.

**Foreign tourism to the United States should be promoted by greater emphasis on improving facilities, on better travel resources statistics, on increased cooperation between Federal, State, and private travel efforts, and on more effective coordination of tourism-related activities of the Federal Government.** In this connection, we urge the administration to give serious consideration to legislation introduced by Senator Javits and cosponsored by Senator Percy and others which is designed to strengthen the U.S. Travel Service in these areas. The legislation would expand the functions of the U.S. Travel Service by enabling it to undertake a more aggressive promotional program overseas. It would also provide the U.S. Travel Service with additional functions to coordinate the travel promotion activities of State, local, and private travel organizations, and set aside funds for the purpose of making a full inventory of the travel resources and travel needs of this country for the next 10 years.

## Problems Facing the International Monetary System

In 1968, it became once again evident that the present international monetary system based on gold and key reserve currencies needed major improvement. Basic elements sustaining the system came under attack during the three major crises last year. Early in the year lack of confidence in the dollar and gold speculation resulted in major gold outflows from the United States which led to the suspension of the London gold market and to the two-tier gold price system on March 17. In May and June, the French franc was threatened as a result of the violence and disorder which hit France. Then again in November speculation against the franc led to sizable flows of capital into West Germany. These events, following repeated crises over the pound sterling in 1967 and 1968 while demonstrating its current strength and stability, have raised serious questions about the future of the system. One of the major reasons for the system's short-term strength is the recognition by all parties concerned of the continued essentiality of international monetary cooperation.

**We believe that the recent international monetary crises have reaffirmed the need for the multinational approach to any future changes in the international monetary system.**

**We reiterate our position that the new special drawing rights agreement should be activated early this year.** Activation of this agreement is essential as an additional source of world liquidity at a time when official monetary reserves in the form of gold are declining and confidence in the key reserve currencies is under repeated attack. This liquidity will be needed to accommodate the expansion of world economic growth, and, equally important, to head off an international protectionist and restrictionist movement that could result if countries find themselves short of official reserves.

**We also endorse the two-tier gold price system and urge that all appropriate measures be taken to preserve it.**

**The Secretary of the Treasury should instruct the U.S. Director of the International Monetary Fund to propose to the IMF executive directors a thorough review of the future international role of gold and steps that should be taken to ensure that gold contributes to the proper functioning of the international monetary system.** Every avenue should be fully explored to reach a multilateral agreement on gold's future international role. But no action should be taken which would tend to prolong the role of gold as the international reserve asset, such as increasing the official price of gold.

**We also believe that serious study should be undertaken by the Group of Ten countries jointly with the International Monetary Fund about possible modifications in the present fixed-exchange rate system.** We do not favor any particular form of increased flexibility between exchange rates and we do not advocate establishment of freely fluctuating exchange rates at this time. However, **we believe that the relationship between currencies should not be so fixed that any modifications between them would in itself create a major international crisis.** We believe that changes in the relationship between exchange rates should be eased by some appropriate matter acceptable, particularly to the key reserve countries.

We must emphasize at the same time that any increased fluctuation in exchange rates should be accompanied by a commitment by members of the International Monetary Fund to abstain from interfering with international movements of capital and goods through the imposition of quantitative controls. Without such commitments, the favorable effects of increased foreign exchange flexibility would be meaningless. For example, if the United States continued to experience balance-of-payments deficits and the dollar's value declined in terms of other currencies, the success of the "wider fluctuation limits" scheme would depend on the willingness of other nations to take our relatively cheaper exports and to allow our investments abroad without resorting to foreign exchange or import controls.

In other words, the success of any such scheme depends on the willingness of countries to let their economies adjust to each other. **Every reasonable effort should be made to bring about such adjustment by domestic monetary and fiscal policies rather than through balance of payments or import controls.**

Whether or not the problems facing the international monetary system should be negotiated and discussed at a new Bretton Woods-type conference has been the subject of some debate. There are some who believe that such a conference would only emphasize areas of disagreement and be contrary to maintaining confidence in international currencies. Some believe it would be ineffectual without prior general agreement on principles. On the other hand, there are those who argue that only within such a format prepared well in advance could the necessary fundamental changes in a system established over 20 years ago be brought about. **In any case, we believe that a possibility of such a Bretton Woods-type conference should be explored by the United States with interested governments.**

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## Aid to Developing Nations

In recent years congressional and public support for foreign aid to developing countries has declined with the result that the U.S. bilateral aid program has been severely cut. There are a number of reasons for declining support for foreign aid, among them the war in Vietnam, the growing needs of our cities and disadvantaged citizens, and widespread confusion over the objectives of our aid program.

As a result of an amendment to the Foreign Assistance Act of 1968, proposed by Senator Javits and enacted by Congress last year, the President will undertake a comprehensive view of foreign aid and will submit his recommendations to the Congress with respect to the future course of U.S. foreign aid by March 1970 with an interim report by June 1969. The Javits amendment also calls on the President to send Congress recommendations with respect to the feasibility of a federally chartered corporation whose principal function would be to encourage the growth of the private sector in developing countries by stimulating private U.S. investment.

**We note with great interest the favorable report on the establishment of such a corporation issued earlier this year by the International Private Investment Advisory Council (IPIAC), an official advisory body to AID established by statute. The establishment of such a corporation would provide greater effectiveness in tapping U.S. private enterprise—business and nonprofit organizations—than AID does at present to aid the economic development of these countries.**

In the final analysis, the success of economic development depends on the actions of the developing countries themselves, their willingness to change their institutions and to abolish inequities and to increase production. External assistance, bilateral, or multilateral, can only provide a vital supplement to the efforts of these countries themselves.

**We recognize the vital importance of external trade in the development of less developed countries and urge that the United States take a leading role in the formulation of a meaningful aid strategy by industrialized nations.**

In this connection, we are pleased to note that one major international effort is now underway by a commission under former Prime Minister of Canada, Lester Pearson, to review the role of the World Bank and the aid programs of the industrialized nations in assisting developing countries. We hope that the recommendations of the Pearson Commission will significantly clear up the present confusion as to the role industrialized nations can play in providing capital and know-how for developing countries.

There is no generally accepted strategy to attain rapid economic growth but some of the basic requirements are becoming apparent—internal institutional reform such as a wider application and effective administration of birth control in order to relate population more closely to resources; changes in the content and direction of public education; changes in the use of agricultural labor, in agricultural production and the distribution of food, and new incentives to increase the stake of the farmer in increased production of food and fiber; clear cut and reasonable policies towards private domestic and foreign investment; regional markets; and greater price stability for primary commodities.

The United States can assist the efforts of developing countries in the field of trade by continuing to participate with other industrialized nations in the formulation of a system of temporary, generalized tariff preferences for the benefit of less developed countries, by supporting carefully considered international action to assist the diversification of primary production of exports and to provide greater stability for the prices of primary commodities, by encouraging the formation of regional common markets, such as the Latin American Common Market, by seeking agreement on a code to govern the conduct of private foreign investment in developing countries, and the responsibilities of these countries toward private foreign investment, and by encouraging, through such means as a federally chartered U.S. corporation, private U.S. investment to participate in their development efforts.

U.S. participation and support in a generalized preference system is needed to prevent discrimination against one developing region by another in the markets with industrialized nations. While there is some question about the economic value of a generalized tariff preference system, the United States should support such a system if a great majority of developing countries desire it and a similar majority among industrialized nations are willing to support it.

We believe that one of the important areas of consideration of the Pearson Commission should be the better coordination of the trade, aid and economic development policies of the industrialized nations with the development policies of less developed countries. We believe that this would fulfill the recommendation of the Roth report that the United States propose an international arrangement through which the examination of development plans of individual less developed countries can be conducted jointly with them, the principal donor, trading countries, and with international organizations concerned, including GATT, the World Bank, and the IMF. The Roth report recommends that the purpose of this examination should be to bring about a better coordination of (*a*) the development plans and policies of less developed countries, including their policies concerning private investment, (*b*) the trade measures of the importing countries, and (*c*) the aid program in the less developed countries.

# REVITALIZING AMERICAN AGRICULTURE

In his last Economic Report to the Congress, President Johnson said that net income per farm in the past 5 years advanced 36 percent. But he neglected to point out the other side of the balance sheet—that net debt per farm in that period was up 85 percent. For 1968, net farm income just about equaled a 6-percent return on net farm equity, leaving farmers with nothing for their labor and managerial skill.

## EIGHT YEARS OF AGRICULTURE'S DECLINE

While officials of the past administration may claim that the cumulative increase in realized net agricultural income during the past 8 years over 1960 amounted to $16.6 billion, they neglect to point out that during the same period net agricultural debt increased by $29.2 billion. During this 8-year period, realized net income per farm increased by $1,986, or 65 percent (from $3,049 to $5,035); but net debt per farm increased $11,481, or 173 percent (from $6,625 to $18,106). Furthermore, between 1960 and 1968 the number of farms declined by 905,200 and our farm population decreased by more than 5 million—to 10,500,000.

The social and economic hardships inherent in this record underscore the failure of the previous administration to halt the worsening cost-price squeeze on the Nation's farmers and their families. Farm prices have consistently lagged behind other wholesale prices since 1963, except for a brief period in 1966 when farm prices were boosted by an unwarranted concern over world food production. Using 1958 as a base year, with an index of 100, prices paid by farmers in 1968 had risen to a weighted index of 121; whereas prices received by farmers had risen to a weighted index of only 107. From the 1958 index of 100, interest was up to 273, taxes to 193, labor costs to 146, and farm machinery to 136. The parity ratio, which averaged 85 during the 8 years of the Eisenhower administration, averaged only 74 for 1968 and was down to 73 by the end of the year.

Meanwhile, complaints have been increasing that the previous administration's crop control programs have unduly favored large landowners. A recent analysis indicates that payments in excess of $20,000 to individual producers in 1967 totaled over $200 million; that 72 percent of some 2.4 million producers received less than $1,000 each and only 21 percent of the total payments; and that 5 percent of the producers received 36 percent of the payments.

Efforts to provide a limitation on the amount of payment per producer were rejected by the previous administration on the theory that this would cause large producers to drop out of the crop reduction program with resultant aggravation of the surplus problem. However, it seems incredible that a program cannot be devised which will be effective and, at the same time, more equitable in its impact on the farming population. The suggestion has been made that large producers be encouraged to remain in the program, notwithstanding a payment ceiling, by relaxing their minimum acreage diversion requirement. It has also been contended that even if the very large producers dropped out of the program, the surplus problem would not be unduly aggravated.

We are encouraged that the new administration has taken a firm policy objective of zero inflation—to be achieved gradually in order to not unduly aggravate the unemployment situation. This will help farmers on the cost side of the cost-price squeeze. Additionally, the new administration has made it clear that present farm programs will be analyzed with a view to recommending changes needed to rid them of their deficiencies, so that genuinely improved follow-on programs will lead to fairer prices for farm products.

We believe that consideration should be given to proposals to retire farm land on a long-term, bid basis, with a limitation on the amount of land (production-wise) that could be retired in any community area. There should also be a limitation on the amount of payments going to any one farming enterprise where incentive payments are made to reduce production. Granted that the purpose of land retirement is, primarily, to reduce production and that production on large acreages by those not participating in a program would tend to frustrate the purpose of the program, we believe that adequate incentives for a sufficient number of large operators could, nevertheless, be devised to replace the present across-the-boards system which finds 36 percent of the payments going to only 5 percent of the producers.

## Supply-Management Failures

Last year in our minority views we repeated our oft-stated recommendation that the entire network of Government price-support programs be reoriented toward a strong market economy for agriculture; that the former administration's doctrine of supply management be abolished, since, as administered, it has promoted an *apparent* "cheap food" policy to the detriment of the agricultural section of our economy. The former administration sought to offset its practice of farm commodity price depressing actions by increased Federal Government payments to farmers. In 1968 these payments amounted to a record $3.5 billion—an increase of $400 million over 1967 and $200 million over the previous record of nearly $3.3 billion in 1966. Clearly the cheap food policy has been moving farmers toward more dependence on the Federal Government, while the increasing payments to farmers financed by the taxpaying consumer demonstrate that the consumer's food bill is higher than it really seems.

The soybean story is a good example of the failure of "supply-management." During the early 1960's the market price and support price level of soybeans remained around $2.25. Then in 1966, an election year, the support price was raised to $2.50, even though soybeans were then trading on free markets well above that level. Since then the higher support price has caused the United States to lose 12 percent of its export business in the six EEC countries. At the same time, soybean production for the 1968–69 marketing year is placed at a record 1¼ billion bushels—17 percent more than last year. It is estimated that the soybean carryover stocks on September 1, 1969, will exceed 300 million bushels compared with 167 million on September 1, 1968, with most of the carryover ending up in Government stocks at a cost of well over half a billion dollars. Faced with such an outlook the new Secretary of Agriculture has sought to prevent the situation from deteriorating further by repealing the politically motivated action of 1966 and setting the price support for 1969 crop soybeans back at $2.25 per bushel. We hope this will help bring about a better balance between supply and demand and enable us to recapture some of our export market.

The new Secretary is to be commended for his decision not to sell Government-owned soybeans at less than the higher of the market price or 110 percent of the 1969 crop support price plus carrying charges. This will forestall "dumping" of Government-owned soybeans with its obvious price-depressant effect, such as occurred all too often during the last 8 years in the case of other farm commodities. While "dumping" practices enabled the previous administration to boast of savings in storage costs, these came out of the farmers' hide.

We believe it would be a terrible admission of defeat for the capitalistic economic system if the farmers of the Nation could not look forward to a market economy rather than a Government payment and regulated economy. However, in moving toward a reasonable balance between production and consumption, which is required for fair market prices, there must be prudent use of governmental tools to make the transition as free as possible from the social hardships which have characterized the mass migration from the farms over the last several years. Encouragement by the Federal Government of location of industries in rural areas is a major step that must be taken, along with job-training and job-retraining programs.

At the same time, the Federal Government has an obligation to prevent inflation in costs of production from undercutting the competitive position of our agricultural products in overseas markets; and reciprocal trade and tariff agreements must be negotiated on a basis that is fair to agriculture—a policy which, unfortunately, did not prevail in the Kennedy Round.

## Our Declining Agricultural Trade Balance

In our minority views last year we pointed out that the one bright spot in agriculture in 1966—exports—dimmed in 1967. We regret that we must point out that in 1968 the picture darkened even more. Agricultural exports of $6.228 billion in 1968 were the lowest since 1963 ($5.584 billion), and *$150 million lower* than in 1967. On the other hand, agricultural imports ballooned to a record high of $5.028 billion in 1968—an *increase of $576 million* over 1967 and an increase of more than $1 billion over 1963 ($4.01 billion). As a result, our favorable balance of agricultural exports over imports fell $726 million in 1968 to $1.2 billion, the lowest since 1962. If noncommercial exports of $1.4 billion of agricultural commodities (Food for Peace) are taken into account, this favorable balance actually becomes a deficit!

The following tables illustrate the rise in agricultural imports and decline in exports over the last several years and the effects of a reduced international market for our agricultural produce.

TABLE I.—AGRICULTURAL IMPORTS

[In millions of dollars]

| | Calendar year | | | | |
|---|---|---|---|---|---|
| | 1964 | 1965 | 1966 | 1967 | 1968 |
| Supplementary: | | | | | |
| Animals, live | 56 | 117 | 118 | 80 | 113 |
| Dairy products | 62 | 73 | 118 | 115 | 101 |
| Meat and meat products | 483 | 525 | 619 | 664 | 764 |
| Sugar, cane | 458 | 441 | 502 | 587 | 641 |
| Tobacco, unmanufactured | 89 | 130 | 127 | 129 | 142 |
| Wool, apparel | 115 | 157 | 157 | 102 | 110 |
| Other | 675 | 627 | 986 | 1,019 | 1,171 |
| Total | 1,938 | 2,070 | 2,627 | 2,696 | 3,042 |
| Complementary: | | | | | |
| Coffee (green, roasted) | 1,027 | 1,064 | 1,069 | 964 | 1,143 |
| Cocoa beans | 131 | 139 | 122 | 147 | 136 |
| Rubber, crude natural | 201 | 182 | 177 | 170 | 188 |
| Wool, carpet | 90 | 71 | 72 | 38 | 48 |
| Other | 357 | 384 | 424 | 437 | 471 |
| Total | 1,806 | 1,840 | 1,864 | 1,756 | 1,986 |
| Grand total | 3,744 | 3,910 | 4,491 | 4,452 | 5,028 |

TABLE II.—AGRICULTURAL EXPORTS

[In millions of dollars]

| | Calendar year | | | | |
|---|---|---|---|---|---|
| | 1964 | 1965 | 1966 | 1967 | 1968 |
| Cotton, excluding linters | 682 | 486 | 432 | 454 | 9 454 |
| Dairy products | 224 | 196 | 126 | 121 | 14 |
| Feed grains, excluding products | 855 | 1,135 | 1,334 | 1,054 | 926 |
| Fruits and preparations | 279 | 313 | 315 | 310 | 277 |
| Soybeans | 567 | 650 | 767 | 772 | [1] 810 |
| Tobacco, unmanufactured | 413 | 383 | 482 | 493 | 524 |
| Vegetables and preparations | 158 | 155 | 176 | 164 | 173 |
| Wheat and flour | 1,532 | 1,183 | 1,534 | 1,206 | 1,100 |
| Other | 1,638 | 1,728 | 1,715 | 1,791 | 1,815 |
| Total | 6,348 | 6,229 | 6,881 | 6,365 | 6,228 |

[1] From census unpublished data. Source: Calendar year supplement, 1967 and 1968.

TABLE III.—SHARE OF U.S. AGRICULTURAL PRODUCTION EXPORTED, FISCAL YEARS ENDING JUNE 30

| Commodity | Percent | | | | |
|---|---|---|---|---|---|
| | 1964 | 1965 | 1966 | 1967 | 1968 |
| Wheat, including flour equivalent | 75 | 55 | 65 | 56 | 50 |
| Rice (milled basis) | 64 | 56 | 60 | 67 | 64 |
| Nonfat dry milk | 62 | 44 | 37 | 23 | 19 |
| Dried edible beans | 49 | 17 | 17 | 18 | 19 |
| Tallow | 44 | 40 | 37 | 40 | 39 |
| Soybeans [1] | 41 | 48 | 41 | 37 | 41 |
| Hops | 41 | 43 | 42 | 40 | 36 |
| Rye grain | 34 | 6 | 11 | 16 | 12 |
| Cotton | 32 | 30 | 21 | 48 | 54 |
| Dried prunes | 30 | 27 | 37 | 35 | 30 |
| Lard | 28 | 18 | 9 | 9 | 9 |
| Dried whole milk | 28 | 17 | 22 | 17 | 14 |
| Tobacco (farm sales weight) | 26 | 25 | 29 | 38 | 32 |
| Cottonseed | 23 | 32 | 19 | 5 | 0.1 |
| Raisins | 21 | 25 | 23 | 24 | 38 |
| Dried edible peas | 20 | 60 | 66 | 81 | 71 |
| Grain sorghums | 17 | 24 | 36 | 39 | 23 |
| Barley, grain | 17 | 14 | 19 | 11 | 8 |
| Flaxseed | 11 | 27 | 15 | 31 | 25 |
| Corn, grain | 11 | 15 | 16 | 12 | 12 |
| Cattle hides | 45 | 56 | 58 | 59 | 46 |
| Lemons and limes | 9 | 17 | 21 | 19 | 21 |
| Variety meats | 9 | 10 | 10 | 10 | 9 |

[1] Includes bean equivalent of soybean oil for export.

TABLE IV.—U.S. IMPORTS, CALENDAR YEARS 1964, 1965, 1966, 1967, AND 1968

[In millions of dollars]

| Year and area | Total imports | Agricultural imports |
|---|---|---|
| 1964 | 18,600 | 4,082 |
| 1965 | 21,283 | 4,088 |
| 1966 | 25,360 | 4,492 |
| 1967 | 26,733 | 4,452 |
| 1968 | 32,992 | 5,028 |
| 1961–63 average | | |
| 1964–68 average | | |
| From EEC: | | |
| 1964 | 2,831 | 258 |
| 1965 | 3,316 | 270 |
| 1966 | 4,098 | 306 |
| 1967 | 4,441 | 331 |
| 1968 | 5,849 | 362 |
| 1961–63 average | | |
| 1964–68 average | | |
| From United Kingdom: | | |
| 1964 | 1,132 | 23 |
| 1965 | 1,403 | 24 |
| 1966 | 1,761 | 30 |
| 1967 | 1,710 | 28 |
| 1968 | 2,016 | 32 |
| 1961–63 average | | |
| 1964–68 average | | |
| From Japan: | | |
| 1964 | 1,763 | 40 |
| 1965 | 2,401 | 37 |
| 1966 | 2,948 | 37 |
| 1967 | 2,994 | 32 |
| 1968 | 4,044 | 37 |
| 1961–63 average | | |
| 1964–68 average | | |
| From Canada: | | |
| 1964 | 4,227 | 176 |
| 1965 | 4,813 | 234 |
| 1966 | 6,106 | 240 |
| 1967 | 7,099 | 201 |
| 1968 | 8,918 | 226 |
| 1961–63 average | | |
| 1964–68 average | | |

TABLE V.—U.S. EXPORTS, CALENDAR YEARS 1964, 1965, 1966, 1967, AND 1968

[In millions of dollars]

| | Total exports | Agricultural exports |
|---|---|---|
| 1964 | 26,156 | 6,347 |
| 1965 | 27,135 | 6,229 |
| 1966 | 29,334 | 6,885 |
| 1967 [1] | 31,142 | 6,380 |
| 1968 [2] | 33,982 | 6,228 |
| 1961–63 average | | |
| 1964–68 average | | |
| To EEC: | | |
| 1964 | 4,481 | 1,416 |
| 1965 | 4,904 | 1,476 |
| 1966 | 5,264 | 1,564 |
| 1967 | 5,582 | 1,460 |
| 1968 | 5,994 | 1,367 |
| 1961–63 average | | |
| 1964–68 average | | |
| To United Kingdom: | | |
| 1964 | 1,445 | 448 |
| 1965 | 1,537 | 390 |
| 1966 | 1,645 | 471 |
| 1967 | 1,929 | 424 |
| 1968 | 2,132 | 374 |
| 1961–63 average | | |
| 1964–68 average | | |
| To Japan: | | |
| 1964 | 1,894 | 720 |
| 1965 | 2,042 | 876 |
| 1966 | 2,312 | 942 |
| 1967 | 2,665 | 866 |
| 1968 | 2,924 | 933 |
| 1961–63 average | | |
| 1964–68 average | | |
| To Canada: | | |
| 1964 | 4,653 | [3] 615 |
| 1965 | 5,486 | [4] 620 |
| 1966 | 6,487 | [5] 626 |
| 1967 | 7,053 | [6] 556 |
| 1968 | 7,936 | [7] 595 |
| 1961–63 average | | |
| 1964–68 average | | |

[1] Including Department of Defense shipments.
[2] Preliminary.
[3] Includes $160,000,000 in transit shipments.
[4] Includes $176,000,000 in transit shipments.
[5] Includes $140,000,000 in transit shipments.
[6] Includes $70,732,000 in transit shipments.
[7] Includes $111,166,000 in transit shipments.

One reason for this decline is the increasingly adverse effects foreign nations' trade policies are having on our agricultural trade balance. Each year in our minority views it seems as though we have a new problem to comment upon regarding trade barriers which limit the access of our agricultural commodities to foreign markets. We have continually stressed that foreign trade should not be a one-way street. However, it seems that some foreign countries view the matter that way. While imports of meat and meat products continued to increase in 1968 (from nearly 1.4 billion pounds in 1967 to 1.5 billion pounds in 1968) our agricultural exports have encountered increasing resistance. Proposals for import quota legislation are becoming more numerous.

The latest trade barrier, which has been proposed by the European Economic Community, is an internal tax on oilseeds and oilseed products amounting to $60 a ton on soybean oil and $30 a ton on soybean meal. If this proposal is carried out, it will severely affect our exports of these commodities. It would constitute an effective trade barrier of over 50 percent in the case of soybean oil and would be equivalent to a 35- to 40-percent tariff on soybean meal exports. The proposal is indicative of a shortsighted EEC policy of shifting most of the burden of supply adjustment to third countries through intensification of import restrictions and export aids.

We cannot tolerate such a policy. Exports of soybeans and soybean products from the United States amount to more than $1 billion annually. In 1968, soybean exports to the EEC alone amounted to $457 million and represented one-third of all our agricultural exports to the EEC.

We are pleased that the new administration has taken a strong position in opposition to this proposed tax—one that was made clear during President Nixon's recent trip to Europe. And we would agree that if the EEC should go through with this proposal, the United States would have no choice but to retaliate promptly to restore the balance of concessions.

We have pointed out that nontariff trade barriers can be just as harmful, and in some cases more so, as visible tariff obstructions themselves. We are hopeful that in any future trade negotiations the new administration will vigorously cope with both nontariff and tariff trade barriers affecting not only agricultural but nonagricultural commodities as well.

## Bargaining Power for Farmers

Proposals to achieve bargaining power for farmers to attain fair prices for agricultural commodities will, undoubtedly, receive considerable attention again in the coming year. We again must point out that, no matter what is done to improve farmer bargaining power, it will be futile unless the Federal Government puts a stop to inflation and high interest rates, thereby holding down the costs of production, and preventing depression of prices of certain major commodities by reasonable import quotas. It does little good to negotiate a commodity price, if a flood of imports at lower prices is allowed to come in and undercut the negotiated price. Therefore, we believe that the fiscal, monetary, and foreign trade policies of our Federal Government must be made harmonious with the goal of fair prices for the producers of food and fiber. Further, amendment of the antitrust laws to make certain that farmer organizations are exempt in their legitimate efforts to obtain better prices would seem to be indicated.

## Tax Loss Farming

In last year's minority views, we called for updating the income tax laws to protect the commercial farmer against unfair competition which results when those whose principal occupation is not farming engage in farming operations and write off losses from such operations against high tax bracket income from nonfarm sources. We believe the need for this phase of tax reform is even greater now. Not only does tax loss farming result in unfair competition to the family farmer but it also results in annual tax revenue losses running into the millions of dollars.

The fact that those who engage in tax loss farming may consider a farm profit, in the economic sense, unnecessary for their purposes puts the ordinary farmer at a disadvantage when competing in the marketplace. One who does not have to depend on farm operations for a livelihood can demand less for his products than the regular farmer, who needs to make a profit to be able to stay in business and often has to, along with his spouse, obtain off-farm work to make ends meet.

We believe that defects in our tax laws which result in undercutting the commercial farmer's efforts to obtain fair prices for his products and to lower his production costs are detrimental to our farm economy and should be removed. We believe that proposals to eliminate this inequitable effect of our tax laws should be carefully considered. The approach embodied in a bill (S. 1560) recently introduced by Senator Miller appears to deal with the problem effectively.

## Agricultural Research

For the last several years we have pointed out in our minority views that the United States has not yet made full use of our research resources in finding industrial uses for agricultural commodities. Again, the overwhelming portion of the USDA budget for agricultural research under the "Johnson budget" relates to what might be called production research activities and only a small part is devoted to utilization research. We believe the emphasis should be better balanced and we are hopeful that the new administration will move in this direction.

## Policy Recommendations

1. That the new administration review present crop control programs with a view to replacement by improved programs which will be oriented toward a market economy rather than a government payment and regulated economy, and which will insure a more equitable distribution of benefits to our farming population than occurs under present programs which clearly favor a relatively few large operators. Consideration should be given to retirement of crop land on a long-term, bid basis, with a limited amount of productivity retired in a community area. Where incentive payments are made to reduce production, there should be a reasonable limitation on the amount of payment made to any one farming enterprise.
2. That monetary and fiscal policies be vigorously pursued to put a stop to inflation and high interest rates with a view to checking the increasing costs of agricultural production.
3. That the war on poverty be reoriented to allocate a fairer portion of funds to rural areas, where half the Nation's poor reside.
4. That strong emphasis be given to increasing our agricultural exports, and that Federal price support programs be administered in such a way as not to weaken the competitive position of our agricultural commodities in world markets.
5. That our Food for Peace program be continued, with emphasis on self-help of recipient nations.
6. That in any future trade negotiations vigorous efforts be made to lower or eliminate both nontariff and tariff barriers affecting not only

agricultural but nonagricultural trade as well, and that any reciprocal agreements negotiated be fairly balanced between agricultural and nonagricultural products.

7. That, in establishing mechanisms to help farmers obtain more bargaining power, the fiscal, monetary, and foreign trade policies of the Federal Government must be made harmonious with the goal of fair prices for agricultural commodities.

8. That prompt action be taken by the Congress to amend the income tax laws to protect the commercial farmer against unfair competition which results when those whose principal occupation is not farming engage in farming operations and are permitted to write off losses from such operations against high tax bracket income from nonfarm sources.

9. That the research activities of USDA be reoriented to give greater emphasis to the development of new and increased uses for agricultural products.

10. That a broad program be established to provide satisfying and self-fulfilling employment opportunities in rural areas and small towns, to include—

(*a*) wherever possible, placing government establishments, both Federal and State, outside the large urban centers along with adequate housing facilities;

(*b*) awarding Government contracts in rural areas, wherever feasible;

(*c*) stepping up conservation and recreation activities as a new source of employment for the rural unemployed;

(*d*) providing rural workers employment and counseling services at least equal to those provided in our cities.

| Senators | Representatives |
|---|---|
| [illegible] | William B. Widnall |
| Jack Miller | Rumsfeld |
| Len B. Jordan | Bill Brock |
| Charles H. Percy | Barber B. Conable |

# COMMITTEE AND SUBCOMMITTEE ACTIVITIES IN THE PAST YEAR

The Joint Economic Committee is directed by the law creating it (Public Law 304, 79th Cong.) to report to the Congress on the main recommendations of the President's Economic Report and to make a "continuing study" of the economy.

The work of the full committee and the subcommittees for the past year is summarized below:

## FULL COMMITTEE

*January 1968 Economic Report of the President*

In February the full committee held 9 days of hearings on the 1968 Economic Report of the President, receiving testimony from the Council of Economic Advisers, the Director of the Bureau of the Budget, the Secretary of the Treasury, the Secretary of Labor, the Secretary of Agriculture, the Under Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the President's Special Representative for Trade Negotiations, academic experts, and representatives of banking, business, agriculture, industry, and labor. The printed record of the hearings, in four parts, contains: the testimony in the first two volumes; invited comments from organizations representing financial institutions, business, labor, agriculture, and economic research groups, in part 3; and a special report, entitled "The Dollar Deficit and German Offsetting," in part 4.

*The 1968 Joint Economic Report*

The annual economic report of the committee was filed with the Congress on March 19, the March 1 deadline having been extended by Public Law 90–250, January 24, 1968. This report also contains a Statement of Committee Agreement, minority, and other views. (S. Rept. 1016, 90th Cong., second sess.).

*Standards for Guiding Monetary Action*

Representatives of the Federal Reserve System have repeatedly acknowledged that the policy objectives of the Employment Act of 1946 serve, along with the Federal Reserve Act itself, as a guide for action. However, there has been continuing controversy whether the broad language of the Employment Act is adequate or sufficiently specific to be a rule for monetary authorities.

In May the committee held 4 days of hearings dealing with standards for guiding monetary action. Topics covered included (1) standards for monetary action as viewed from the academic community; (2) problems of policy determination as viewed from within the Federal Reserve System; and (3) monetary tools as viewed from within the financial and banking community. Witnesses included members of the Federal Reserve System, representatives from the banking industry, and leading academic experts.

The committee's report, entitled "Standards for Guiding Monetary Action," was published early in July. In it, the committee proposed that the Federal Reserve System adhere to a policy of increasing the money supply at a more or less steady rate paralleling the growth rate of the economy. The report contains also supplementary views of Representative Patman. (S. Rept. 1361, 90th Cong., second sess.)

*Employment and Manpower Problems in the Cities: Implications of the Report of the National Advisory Commisson on Civil Disorders*

Many of the recommendations offered in the Report of the National Advisory Commission on Civil Disorders (Kerner Commission), involved manpower and employment policies. Because of the committee's continuing interest in these matters, 5 days of hearings were held in late May and early June, focusing on the findings and recommendations in the Report. These hearings were the only direct congressional response to the Kerner Commission findings.

The hearings analyzed the Commission's Report, the nature of unemployment and subemployment in urban areas, implications for economic policy, employment and job development, and racial discrimination as an economic problem. Two congressional members of the Commission, Senator Fred R. Harris and Representative James C. Corman, appeared as witnesses, together with representatives from universities, business, and urban research and development groups and agencies.

On September 16, the committee released its report, together with supplementary views, based on the findings and recommendations. In its report, the committee urged the Congress to be vigilant to discern any signs of weakness in the economy that might lead to higher levels of unemployment. It recommended more extensive adult education and training programs by government, industry, and labor; elimination of barriers in the form of discrimination to employment through firm enforcement of existing laws and passage of any needed new legislation; revision of job entry requirements; availability of better information and analysis in respect to effectiveness of various manpower programs; expansion of private and public programs to aid and train entrepreneurs in the ghetto; revitalization of our central cities; and, as indicated in the Joint Committee's previous reports, improvement of our capability for determining expenditure priorities. (S. Rept. 1568, 90th Cong., second sess.)

*Federal Reserve Discount Mechanism*

The Federal Reserve System issued a report in early September which proposed significant revisions in the System's "discount window"—the device by which the Fed lends to member banks seeking to enlarge their reserves. Since it is essential that Congress be informed of the full implications of any major proposed changes in monetary policy, the committee—in an attempt to assess what significance these changes would have, if adopted, and to determine whether further study is called for on the part of the Joint Economic Committee—held 2 days of hearings, September 11 and 17. In considering the Report of the System Steering Committee on Reappraisal of the Federal Reserve Discount Mechanism, representatives from the Federal Reserve System and from the academic community discussed the role of the discount mechanism and proposals for its reappraisal.

On February 5, 1969, the committee released its report, *Federal Reserve Discount Mechanism: System Proposals for Change*, together with supplementary views. The report analyzes the uses of the discount mechanism as a monetary device; as a means of aiding individual banks; and as a means of easing general financial emergencies. The report calls for "further study and action by the Congress, leading to legislative directives, removing all doubt as to the meaning of 'lender of last resort' in the context of the Federal Reserve authorities." (S. Rept. No. 8, 91st Cong., first sess.)

*Summer Review of the 1969 Budget*

In 1967, the committee established the practice of obtaining a report on the budget after the end of the fiscal year. On September 12 the Budget Director and his staff appeared as witnesses before the committee to give the members information on changes in tax and expenditure estimates, with emphasis on the effect of the tax surcharge. The record of the hearing contains both the testimony of the witnesses and the revised budget review.

## SUBCOMMITTEE ON ECONOMY IN GOVERNMENT

*Economy in Government Procurement and Property Management*

A subcommittee report, "Economy in Government Procurement and Property Management," released April 23, charged the Defense Department with "loose and flagrantly negligent management practices" in procurement and property control and urged swift enactment of a series of reforms.

This report was based on testimony received during 5 days of hearings on the subject, held in November and December 1967, and follows from subcommittee analysis in this field dating back to early 1967 when the subcommittee published background materials and conducted a series of hearings.

Recommendations included in the subcommittee report are in the areas of competitive bidding and negotiated procurement, noncompliance with the Truth in Negotiations Act, the Buy American Act, procurement of automatic data processing equipment, the amount of Government-owned property furnished to contractors, the replacement of that equipment, inventory of Government-owned property and use of that property. An appendix to the report lists the largest holders of Government-owned industrial production equipment.

*Economics of Military Procurement*

The subcommittee continued its investigation of defense procurement when it opened a new set of related hearings November 11. The hearings ran 4 days, November 11, 12, 13, and 14. During the first 3 days of the hearings, testimony was presented by eight witnesses on the subject of defense contractors' profits and other factors which contribute to the high cost of military procurement. Participating were the Comptroller General of the United States, the General Services Administrator, the Director of the Defense Contracts Audit Agency, the Deputy Assistant Secretary of Defense for Procurement, the Deputy for Management Systems of the Office of the Assistant Secretary of the Air Force, and representatives from universities and research and development organizations.

The subcommittee asked Vice Adm. Hyman G. Rickover, U.S. Navy, to testify in order to get the benefit of the knowledge he has gained in his many years of Government service, first, as an official having operational responsibilities for the practical results of the Defense Department procurement policy decisions, and second, in his unique position dealing with the procurement policies of both the Defense Department and the Atomic Energy Commission. The testimony by Vice Admiral Rickover was presented in executive session, Thursday, November 14, and was subsequently ordered to be printed for public distribution as Part 2 of the Hearings on Economics of Military Procurement.

The November hearings revealed for the first time the enormous cost overruns being incurred in connection with the C-5A cargo plane contract, information which the Pentagon had concealed from the public and the Congress. To learn the reason for these cost overruns the committee asked the General Accounting Office to make a comprehensive investigation of the C-5A cargo plane contract. The subcommittee held a 1-day hearing, January 16, 1969, to examine profitability and cost controls in the Pentagon's buying practices and policies. The GAO's report and the Defense Department's explanation of the reasons for the cost overruns were discussed by the Assistant Comptroller General and the Director of the Defense Division, General Accounting Office; the Assistant Secretary of the Air Force; and the Deputy for Management Systems, Office of the Assistant Secretary of the Air Force.

*Economic Analysis of Public Investment Decisions: Interest Rate Policy and Discounting Analysis*

The interest of the Subcommittee on Economy in Government in Federal expenditure policies accelerated in 1967 and 1968. Hearings and a report on the planning-programing-budgeting (PPB) system completed in the fall of 1967 were followed by another hearing in January 1968 on interest rate guidelines for Federal decisionmaking. The subcommittee continued this line of analysis when it conducted a more detailed investigation of interest rate and discounting policies in a 3-day hearing, July 30, 31, and August 1.

The hearings focused on the topic "Consistent Discounting Procedures for Public Expenditure Analysis." During the hearings, the administration responded to previous Joint Economic Committee recommendations by revising the interest rate used in public projects. That revision was made public in testimony of the Executive Director of the Water Resources Council. Other witnesses included Assistant Secretaries of both the Interior and the Defense Departments, the Deputy Assistant Secretary of Defense for Systems Analysis, the Assistant Director of the Bureau of the Budget, the Assistant Director for Research, Plans, Programs and Evaluation of the Office of Economic Opportunity, and representatives from the academic community. The printed record of the hearings contains, in addition to the testimony, an appendix with additional statements from concerned individuals and organizations.

The subcommittee's report on these hearings was released September 23, and includes findings and recommendations, an appendix on the supersonic transport and the interest rate, and supplemental views of subcommittee members.

Members of the Subcommittee on Economy in Government were Senator William Proxmire (chairman), Senators John Sparkman, Stuart Symington, Len B. Jordan and Charles H. Percy; and Representatives Wright Patman, Martha W. Griffiths, William S. Moorhead, Thomas B. Curtis, and Donald Rumsfeld.

## SUBCOMMITTEE ON ECONOMIC PROGRESS

### *Federal Programs for the Development of Human Resources*

The Joint Economic Committee's involvement with problems of low-income families and human resources dates back to the founding of the committee itself. A recent thrust, through the subcommittee's investigation of Federal programs for the development of human resources, was initiated in 1965. Three volumes were published during the second session of the 89th Congress describing Federal involvement in the human resource field.

As a followup to that study, the subcommittee in June 1967 issued a series of questions and an outline for a compendium of papers providing economic analysis of Government programs. The results were issued in a two-volume compendium which was released March 7, 1968. Topics covered in the first volume include program appraisal, national goals, program management and coordination, and manpower and education; volume 2 includes income maintenance and family support, health care and improvement, and housing and the quality of man's environment.

### *Financing Municipal Facilities*

In both the 89th and the 90th Congresses the subcommittee undertook a major analysis of public facility needs and financing. During 1968, two sets of related hearings were conducted as the subcommittee continued its research efforts in this vital area. Hearings held July 9, 10, and 11 were a sequence to those held in December 1967 when the subcommittee heard testimony on the effects of bond ratings on the ability of municipalities to finance public facilities. The July hearings centered on the relationship of municipal bond financing to the needs of State and local agencies. Previous hearings had indicated that great dissatisfaction existed over present bond-rating systems; the July hearings provided a forum for both critics and advocates of the current bond-rating mechanisms.

Ten witnesses participated in these hearings and gave testimony on the following specific topics: the "Methods Used in Determining Bond Ratings"; the "Role of Federal Supervisory Agencies"; and "Means of Improving the Current Rating Systems." Appearing as witnesses were a member of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, and representatives from various bond-rating and investor services.

### *Public Facility Requirements Over the Next Decade*

The subcommittee spent 2 days, December 3 and 4, hearing testimony from the four Federal agencies most concerned with meeting the

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rising demands for public facilities in an effort to get a meaningful evaluation of priorities and some idea of the financing measures that will be needed to pay for them. Appearing before the subcommittee were the Secretary of Interior, and the Secretary of Health, Education, and Welfare, the Under Secretary of Housing and Urban Development, and the Assistant Secretary for Policy Development of the Department of Transportation.

Members of the Subcommittee on Economic Progress were Representative Wright Patman (chairman) and Representatives Martha W. Griffiths, William S. Moorhead, Thomas B. Curtis, and W. E. Brock 3d; and Senators William Proxmire, J. W. Fulbright, Herman E. Talmadge, Len B. Jordan, and Charles H. Percy.

## SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

### *Soviet Economic Performance: 1966–67*

On June 9 the subcommittee released the latest in its series of studies on the Soviet economy. Analysis in the most current study looked at the Soviet economy during 1966 and 1967 and related that growth to Soviet economic performance over the past decade.

The study dealt with the following topics: comparative growth; industrial production: agricultural development; freight transportation; capital investment; the state budget; population trends; labor and wages; education; consumer welfare; foreign trade; the economies of Eastern Europe; and economic aid to less developed countries. Included also are supplementary papers, a bibliography, and appendix materials from both Soviet and Western sources.

Members of the Subcommittee on Foreign Economic Policy were Representative Hale Boggs (chairman) and Representatives Henry S. Reuss, William S. Moorhead, William B. Widnall, Donald Rumsfeld, and W. E. Brock 3d; and Senators John Sparkman, J. W. Fulbright, Herman E. Talmadge, Stuart Symington, Abraham Ribicoff, Jacob K. Javits, and Jack Miller.

## SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

The subcommittee continued its review of inter-American economic developments.

Members of the Subcommittee on Inter-American Economic Relationships were Senator John Sparkman (chairman) and Senators J. W. Fulbright, Abraham Ribicoff, Jacob K. Javits and Len B. Jordan; and Representatives Richard Bolling, Hale Boggs, Henry S. Reuss, Thomas B. Curtis and Donald Rumsfeld.

## SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS

### *Next Steps in International Monetary Reform*

The series of recurring international monetary crises over the past 2 years has prompted great interest in the development of techniques to guarantee adequate and steady supplies of international liquidity. International monetary reform was a prime subject at the September

1968 meetings of the International Monetary Fund's Board of Governors which were held in Washington.

Prior to the Fund's meetings, the subcommittee conducted a 1-day hearing, September 9, dealing with the "Next Steps in International Monetary Reform." Three prominent experts on the subject appeared before the subcommittee and discussed the desirability of a mechanism to permit nations to deposit their gold reserves with the IMF and obtain in exchange Special Drawing Rights or other automatic drawing rights; the two-price gold system; ways of facilitating relative international price changes within the existing structure of exchange rates to reduce payments deficits and reinforce stability of the current system; methods for neutralizing the possible threat of massive conversions of sterling accounts; and implications of multilateral reserve creation.

On September 19 the subcommittee released its report on the subject. The report analyzed the key objectives of a sound international monetary system. The subcommittee's recommendations call for two sets of goals: first, activation of SDR's and provision of a Fund gold-deposit (or earmarking) mechanism by early 1969 or shortly thereafter; second, by the end of 1969, or as soon as is feasible, IMF adoption of a new reserve facility to enable the earmarking or deposit of official dollar and sterling balances and, to help curtail payments deficits, the introduction of somewhat greater variability in exchange rates. Senator Javits presented his views in a supplementary statement.

*A Review of U.S. Balance-of-Payments Policies*

At the time of a transition between administrations, the subcommittee felt it would be well to examine the balance-of-payments policies used over the past 4 years so as to review the effectiveness and continued desirability of these policies, and also to assist the subcommittee in its evaluation of the new administration's proposals. Three days of hearings were held, January 13, 14, and 15, 1969, and the subcommittee centered its attention on four specific issues: (1) Efforts to promote both foreign travel to this country and U.S. exports; (2) possible tax revisions that would foster exports or curtail imports; (3) size of the contribution that U.S. military commitments abroad and economic assistance programs make to our payments deficits; and (4) whether existing controls over capital exports must be retained. Ten witnesses were invited to discuss these issues, and included a Governor of the Federal Reserve System, the Administrator of the Agency for International Development, the Under Secretary of Treasury for Monetary Affairs, the Assistant Secretary of Treasury for Tax Policy, the Comptroller of the Department of Defense, the Assistant Secretary of Commerce for Domestic and International Business, the Director of the Office of Foreign Direct Investment and the Acting Director of the U.S. Travel Service of the Department of Commerce, and representatives from the banking and academic communities.

Members of the Subcommittee on International Exchange and Payments were Representative Henry S. Reuss (chairman) and Representatives Richard Bolling, Hale Boggs, William S. Moorhead, William B. Widnall, and W. E. Brock 3d; and Senators William Proxmire, Stuart Symington, Jacob K. Javits, and Charles H. Percy.

## SUBCOMMITTEE ON FISCAL POLICY

*Income Maintenance Programs*

One of the most highly debated subjects over the past few years—for both policymakers and analysts alike—has been that of the present welfare system and of various proposals for new forms of income maintenance. Issues such as the negative income tax, the social dividend, and family allowances have become highly controversial.

In its 1967 hearings on fiscal federalism and revenue sharing, the subcommittee noted that welfare has become a major source of financial problems for State and local governments. Therefore, to give Congress a detailed analytical view of both the present system and of alternative policies, the subcommittee spent 9 days in June hearing testimony on the overall subject of income maintenance programs. Witnesses appearing before the subcommittee included Representative Thomas B. Curtis, and representatives from the Department of Health, Education, and Welfare, the Office of Economic Opportunity, State and local government units, research organizations, citizens groups, religious groups, and universities. The printed record of the hearing contains the testimony in one volume and appendix materials in another.

Members of the Subcommittee on Fiscal Policy were Representative Martha W. Griffiths (chairman) and Representatives Hale Boggs, William S. Moorhead, William B. Widnall, Donald Rumsfeld; and Senators William Proxmire, Herman E. Talmadge, Stuart Symington, Jacob K. Javits, Jack Miller, and Charles H. Percy.

## SUBCOMMITTEE ON ECONOMIC STATISTICS

The subcommittee maintained its surveillance of the Government's statistical programs and of the progress made in carrying out past recommendations for their improvement.

Members of the Subcommittee on Economic Statistics were Senator Herman E. Talmadge (chairman) and Senators J. W. Fulbright and Jack Miller; and Representatives Richard Bolling, Martha W. Griffiths, Thomas B. Curtis, and Donald Rumsfeld.

## SUBCOMMITTEE ON URBAN AFFAIRS

The subcommittee continued its study of basic problems of urban areas. In process is a compendium on "Industrialized Housing," which includes a comparative study of some of the experiences of Western Europe, Russia, Great Britain, and the United States. Underway is a survey and analysis of metropolitan goals projects.

Members of the Subcommittee on Urban Affairs were Representative Richard Bolling (chairman) and Representatives Henry S. Reuss, Martha W. Griffiths, William S. Moorhead, William B. Widnall and W. E. Brock 3d; and Senators Abraham Ribicoff, William Proxmire, Jacob K. Javits, and Charles H. Percy.

## OTHER COMMITTEE STUDIES COMPLETED SINCE FEBRUARY 1968

In carrying out its duty to make a "continuing study" of the economy, the Joint Economic Committee from time to time releases for public information pertinent materials prepared for the committee under the direction of the staff. Two such studies were prepared during the past year.

### *Impact of the Property Tax: Its Economic Implications for Urban Problems*

On May 20, a study prepared by Prof. Dick Netzer of New York University for the National Commission on Urban Problems was reprinted as a committee print because of its special relevance to the committee's hearings on selected aspects of the Report of the National Advisory Commission on Civil Disorders. The paper was the first in a series of studies initiated by the Douglas Commission as a complement to its own staff studies and extensive public hearings held throughout the country.

### *Economic Policies and Practices*

On July 30, the committee issued another study in its series on international economic policies as practiced by leading industrial nations. Study Paper No. 11, entitled "Guaranteed Minimum Income Programs Used by Governments of Selected Countries," was prepared by Prof. Martin Schnitzer of the Virginia Polytechnic Institute, and focuses on social assistance programs in Canada, Denmark, France, Great Britain, and Sweden.

## STAFF PARTICIPATION IN MEETINGS WITH OUTSIDE GROUPS

In addition to conducting formal studies and arranging hearings for the committee and subcommittees, the staff participated in discussions of economic problems and research techniques with outside groups. The following list of meetings illustrates the nature of these activities in which the staff took part in 1968.

American Bankers Association—Symposium on Economic Policy
American Mining Congress—Panel Discussion on Economic Outlook
American Statistical Association—Annual Meeting
Bankers Trust Company—Outlook for Credit Policy and Balance of Payments
Brookings Institution, The—Economic Policy Fellowship Program
Brookings Institution, The—Seminar of Government Economists on Regulatory Form
Chamber of Commerce—Council on Trends and Perspectives
Civil Service Commission—Executive Seminar; Institute of Legislative Function; Interagency Training Program; and Legislative Operations Roundtable for Executives
Federal Bar Association
Insurance Investment Officers Group

Maryland, State of—Division of Employment Security
Massachusetts Institute of Technology, Sloan School of Management—Industrial Relations Section
National Association of Manufacturers—Meeting of the Government Expenditures Committee
National Congress of American Indians
National Industrial Conference Board—Economic Forum
National Institute of Public Affairs—Seminars of a variety of subjects, including one on the Urban Scene and the Black Community
Naval War College—Global Strategy Discussions
Public Affairs Institute
Rockford, Ill., College—Life Officers Investment Seminar
Society of Financial Analysts, Nashville, Tennessee
University of California, Los Angeles—Business Forecasting Project
University of California, Riverside—Faculty Student Seminar on the Role of Government and Economic Policy
Western Agricultural Economic Research Council—Committee on the Economics of Water Resources
Wisconsin Welfare Council—Annual Conference
Wiston House, England—International Conference on Economic Cooperation

The Executive Director also conducted a seminar on economic planning and the law for the fall semester at the National Law Center of George Washington University. The committee's Director of Research served as Regents Lecturer at the Institute of Government and Public Affairs of the University of California at Los Angeles, in October. The committee's international economist taught an undergraduate course in international economics for the fall semester at the University of Maryland.

Conferences were held with government officials or groups of foreign visitors seeking information on the activities of the Joint Economic Committee, representing the following nations:

Belgium, Canada, France, India, Ireland, Italy, Japan, The Netherlands, Russia, Sweden, Turkey, and Yugoslavia.

*Student interns*

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

## CHANGES IN COMMITTEE STAFF

During 1968, Robert H. Haveman, John R. Karlik, and Frazier Kellogg joined the staff in the fields of public expenditure policy, international economics, and labor and manpower problems, respectively. Philip B. McMartin joined the staff last month as editorial assistant. John B. Henderson resigned in August to accept the position of Deputy Assistant Secretary for Economic Affairs at the Department of Commerce. George R. Iden resigned to accept the post of assistant professor of economics at the University of North Carolina. Donald

A. Webster resigned from the staff and is now Assistant to the Secretary of the Treasury. William H. Moore, senior economist and a member of the committee's professional staff since 1948, resigned from the committee staff in January 1969.

## CHANGE IN COMMITTEE MEMBERSHIP

Representative Barber B. Conable, Jr., of New York, was appointed to fill the place on the committee formerly held by Representative Thomas B. Curtis of Missouri.

## DISTRIBUTION OF COMMITTEE PUBLICATIONS

During the past year the Joint Economic Committee and its subcommittees issued 25 publications including studies, hearings, and reports. Approximately 200,000 copies of current and previous committee publications were distributed to fill individual requests.

In addition, the Superintendent of Documents sold approximately 50,000 current and past copies of committee publications. This number does not include the subscriptions to *Economic Indicators* which amount to about $27,000 annually; also, individual copies purchased for ad hoc classes in schools, economic departments, and banking seminars amount to nearly $400 per month.

# JOINT ECONOMIC COMMITTEE PROGRAM FOR 1969

## FULL COMMITTEE

Hearings and report on the state of the economy and the President's economic program.

Hearings on national goals and expenditure priorities.

Hearings on economic policy mix.

Midyear review of the budget and economic program.

Compendium and hearings on the economics and financing of higher education.

## SUBCOMMITTEES

### Economic Progress

| REPRESENTATIVES | SENATORS |
|---|---|
| Wright Patman, *Chairman* | William Proxmire |
| Martha W. Griffiths | J. W. Fulbright |
| William S. Moorhead | Herman E. Talmadge |
| W. E. Brock 3d | Len B. Jordan |
| Barber B. Conable, Jr. | Charles H. Percy |

Report on municipal facilities and their financing.

Hearings on economic education and the teaching of economics.

Hearings on rural poverty.

### Economy in Government

| SENATORS | REPRESENTATIVES |
|---|---|
| William Proxmire, *Chairman* | Wright Patman |
| John Sparkman | Martha W. Griffiths |
| Stuart Symington | William S. Moorhead |
| Len B. Jordan | Donald Rumsfeld |
| Charles H. Percy | Barber B. Conable, Jr. |

Compendium and hearings on the economic analysis of public expenditures.

Continuation of study and hearings on military expenditure policies.

Compendium and hearings on economic development programs for American Indians.

### Foreign Economic Policy

| REPRESENTATIVES | SENATORS |
|---|---|
| Hale Boggs, *Chairman* | John Sparkman |
| Henry S. Reuss | J. W. Fulbright |
| William S. Moorhead | Herman E. Talmadge |
| William B. Widnall | Stuart Symington |
| Donald Rumsfeld | Abraham Ribicoff |
| W. E. Brock 3d | Jacob K. Javits |
| | Jack Miller |

Continuing review of current issues in international trade.

Compendium devoted to current economic developments in the satellite countries of Eastern Europe.

Updating of compendiums on Soviet Russia and Mainland China.

### International Exchange and Payments

| REPRESENTATIVES | SENATORS |
|---|---|
| Henry S. Reuss, *Chairman* | William Proxmire |
| Richard Bolling | Stuart Symington |
| Hale Boggs | Jacob K. Javits |
| William S. Moorhead | Charles H. Percy |
| William B. Widnall | |
| W. E. Brock 3d | |

Staff study and hearings on relations between reserve creation and financial assistance to developing countries.

Compendium on the international adjustment mechanism.

### Inter-American Economic Relationships

| SENATORS | REPRESENTATIVES |
|---|---|
| John Sparkman, *Chairman* | Richard Bolling |
| J. W. Fulbright | Hale Boggs |
| Abraham Ribicoff | Martha W. Griffiths |
| Jacob K. Javits | Donald Rumsfeld |
| Len B. Jordan | Barber B. Conable, Jr. |

The role of thrift institutions and cooperatives in Latin American development.

### Fiscal Policy

| REPRESENTATIVES | SENATORS |
|---|---|
| Martha W. Griffiths, *Chairman* | William Proxmire |
| Hale Boggs | Herman E. Talmadge |
| William S. Moorhead | Stuart Symington |
| William B. Widnall | Jacob K. Javits |
| Donald Rumsfeld | Jack Miller |
| | Charles H. Percy |

Continuation of subcommittee's work on revenue sharing, and on pensions.

Study of the relation of manpower programs and income.

### Urban Affairs

| REPRESENTATIVES | SENATORS |
|---|---|
| Richard Bolling, *Chairman* | Abraham Ribicoff |
| Henry S. Reuss | William Proxmire |
| Martha W. Griffiths | Jacob K. Javits |
| William S. Moorhead | Charles H. Percy |
| William B. Widnall | |
| Donald Rumsfeld | |
| W. E. Brock 3d | |

Staff study of industrialized building in foreign countries, particularly Soviet Russia.

Compendium on procedures for establishing urban goals.

Field investigation of long-range urban planning.

## ECONOMIC STATISTICS

| SENATORS | REPRESENTATIVES |
|---|---|
| Herman E. Talmadge, *Chairman* | Richard Bolling |
| J. W. Fulbright | Martha W. Griffiths |
| Jack Miller | Donald Rumsfeld |
| | Barber B. Conable, Jr. |

Hearings and report on Federal statistics needed for public policy.

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