Chairman PATMAN. Our next witness will be Dr. Joseph A. Pechman, director of economic studies at the Brookings Institution.
We are glad to have you, sir. You may proceed in your own way.

STATEMENT OF JOSEPH A. PECHMAN, DIRECTOR OF ECONOMIC STUDIES, THE BROOKINGS INSTITUTION

Dr. PECHMAN. Thank you, Mr. Chairman. I am happy to have this opportunity to appear before the Joint Economic Committee to discuss the economic situation and its fiscal policy implications. In this statement, I propose to review the economic outlook, try to explain why the expansion seems to be petering out, and suggest policies that might be adopted to restore our economic momentum. The views I shall express are my own and do not necessarily reflect those of the trustees, officers, or other staff members of the Brookings Institution. Since I agree with practically all of what my two friends said before me, you might call my statement "Variations on the Eckstein-McCracken Theme by Pechman."

THE ECONOMIC OUTLOOK

There is no question that the economic expansion which began early last year has been disappointing. Perhaps the most telling figure—certainly the one which should concern us most—is the rate of unemployment. In July, the unemployed were 5.3 percent of the labor force, after adjustment for seasonal variation. This is a much poorer performance than those of the first two postwar recoveries, and roughly similar to the unsatisfactory 1958–60 performance.

At the same stage in the cycle, unemployment was 3.4 percent in the 1949–53 expansion and 4 percent in the 1954–57; it was 5.6 percent in the same stage of the 1958–60 expansion, but this figure was unusually high at the time because of the prolonged steel strike. The distressing fact about the unemployment situation is that it will get worse if the economy rises by anything less than about $7 billion per quarter at an annual rate.

It is not difficult to demonstrate that the expansion is not only disappointing, but also that it has lost most of its momentum. In the first place, the difference between actual GNP and potential GNP at an unemployment rate of 4 percent has remained at about $30 billion during the past 9 months.

Second, GNP in real terms rose at an annual rate of 8.6 percent in the first three quarters of the expansion; in the last two quarters, the rise has been at the rate of 3.2 percent.

Third, gains in employment, personal income, and industrial production have slowed down almost to a creep. In June, employment rose only one-tenth of 1 percent; personal income, two-tenths of 1 percent; and industrial production, three-tenths of 1 percent.

Fourth, retail sales fell in May and June. The drop was particularly steep in June, perhaps reflecting the impact of the sharp break in the stock market. Although sales appear to have increased again in July, they will probably turn out to be lower than the peak reached in April.

Thus, none of the broad indicators of business activity suggests that the economy is going anywhere very fast. But the gloomy evi-