STATE OF THE ECONOMY AND POLICIES FOR FULL EMPLOYMENT

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

PURSUANT TO

Sec. 5(a) of Public Law 304

(79TH CONGRESS)

AUGUST 7–10, 13–17, 20, 21, AND 22, 1962

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

87869 WASHINGTON : 1962

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington 25, D.C. - Price $2.75

JOINT ECONOMIC COMMITTEE

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

WRIGHT PATMAN, Texas, *Chairman*

PAUL H. DOUGLAS, Illinois, *Vice Chairman*

HOUSE OF REPRESENTATIVES

RICHARD BOLLING, Missouri
HALE BOGGS, Louisiana
HENRY S. REUSS, Wisconsin
MARTHA W. GRIFFITHS, Michigan
THOMAS B. CURTIS, Missouri
CLARENCE E. KILBURN, New York
WILLIAM B. WIDNALL, New Jersey

SENATE

JOHN SPARKMAN, Alabama
J. W. FULBRIGHT, Arkansas
WILLIAM PROXMIRE, Wisconsin
CLAIBORNE PELL, Rhode Island
PRESCOTT BUSH, Connecticut
JOHN MARSHALL BUTLER, Maryland
JACOB K. JAVITS, New York

WM. SUMMERS JOHNSON, *Executive Director*

JOHN W. LEHMAN, *Deputy Executive Director*

JOHN R. STARK, *Clerk*

CONTENTS

PANEL DISCUSSIONS AND INDIVIDUAL WITNESSES IN ORDER OF APPEARANCE

State of the Economy

Fiscal Policy

Fiscal and Monetary Policies With Particular Reference to the European Experience

Monetary Policies

Balance of Payments and International Funds Flow

Monetary Policies and Methods

Changes in the Size and Composition of the Labor Force

Competition Policies for Maximum Employment, Production and Purchasing Power

Identical Bidding in Public Procurement

WITNESSES AND EXHIBITS

ADDITIONAL INFORMATION

APPENDIX

STATE OF THE ECONOMY AND POLICIES FOR FULL EMPLOYMENT

TUESDAY, AUGUST 7, 1962

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met at 10 a.m., pursuant to call, in room AE–1, the Capitol, Hon. Wright Patman (chairman) presiding.

Present: Representative Patman; Senators Douglas, Proxmire, Bush, and Javits; Representatives Reuss and Widnall.

Also present: William Summers Johnson, executive director; John R. Stark, clerk; Hamilton D. Gewehr, research assistant.

Chairman PATMAN. The committee will please come to order.

This morning we begin hearings on the state of the economy and on the question of how the policy of the Federal Government might be appropriately amended to help achieve maximum employment, production, and purchasing power.

The purpose of the panel this morning is to present the facts on the state of the economy, and for this purpose we have a distinguished panel of experts:

Mr. Ira Ellis, economist for E. I. du Pont de Nemours & Co.

Mr. James Wishart, research director, the Amalgamated Meat Cutters & Butchers of North America.

And we have two others, who are evidently late, Dr. Daniel B. Suits, professor of economics, University of Michigan, and Dr. J. Frederick Weston, professor of economics, University of California at Los Angeles.

Senator DOUGLAS. May I say these gentlemen are not necessarily late. They may be lost in the effort to find this room. I have heard of the difficulties white rats have in a maze. I have been trying to find this room for 15 minutes, and so I think these gentlemen should be given our condolences.

Senator BUSH. Mr. Chairman, I move that the usual fines be waived for these late or tardy gentlemen.

Chairman PATMAN. Senator Bush desires to make a statement, and he will be recognized for that purpose.

Senator BUSH. Mr. Chairman, I want to take this opportunity to commend you and thank you for the promptness and efficiency with which you and the committee staff responded to the request of the minority members for hearings on the current state of the economy. The public has a vital interest in the subject of these hearings, and can benefit greatly from an open, objective, and dispassionate discussion of the issues and the policy alternatives available to us.

Closed hearings, while benefiting those few fortunate enough to hear the testimony, do not serve to inform either the public or the Congress at large about the problems we face and what we must do to solve them. The Joint Economic Committee has a continuing responsibility in this area, and we are glad to see that it is discharging that responsibility.

The minority believes that the most important objective of these hearings should be the examination of our basic economic situation. We should try to determine whether the Nation is undergoing deep-seated and fundamental economic adjustments.

The near-term economic outlook and the question of whether or not there should be an immediate reduction in taxes is important, and will enter these hearings; but compared to the long-run and basic economic problems before the country, these more immediate questions are but ripples on the stream. We should not permit them to turn our attention too long from the basic economic problems with which we must grapple if the country is to get moving again.

I request that the July 27 letter of the minority members of the committee, addressed to the chairman, asking for these hearings, be made a part of the record at this point.

I thank the chairman and the committee for their courtesy.

Chairman PATMAN. Without objection, the letter will be made a part of the record at this point.

(Letter referred to follows:)

JOINT ECONOMIC COMMITTEE,
Washington, D.C., July 27, 1962.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
New Senate Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: Concern over the state of the economy has mounted in recent months as the recovery from the 1960–61 recession has begun to level off. Some economists believe that we face another recession late this year or early in 1963. In addition to fears of another recession following close on the heels of the last one, there is some opinion that our economy is not growing at a sufficiently rapid rate and that we may be in a period of what has been called high-level stagnation.

One prescription being offered as a cure for our economic ills is an immediate tax cut. The House Ways and Means Committee even now is holding private hearings to study the state of our economy and the need, if any, for an immediate tax cut.

While we recognize and respect the legislative jurisdiction of the Ways and Means Committee over taxation, we believe nevertheless, that the basic issues involved are broadly economic in nature since they involve the proper role of fiscal and monetary policy in the present economic environment. The Joint Economic Committee, through open hearings, could make an important contribution to the clarification and public understanding of these issues.

Therefore, we strongly urge that you schedule hearings by the full Joint Economic Committee on the state of the economy as soon as possible. Such hearings must be open. Not only does the public have the right to know about the health of the economy, but, equally important, it has a need to know. Only a full and frank open discussion of the issues will lead to that broad public understanding and support on which sound economic policies depend.

Very truly yours,

THOMAS B. CURTIS.
CLARENCE E. KILBURN.
WILLIAM B. WIDNALL.
PRESCOTT BUSH.
JOHN MARSHALL BUTLER.
JACOB K. JAVITS.

Chairman PATMAN. Senator Proxmire desires to make a statement. He is recognized for that purpose.

Senator PROXMIRE. I appreciate that. I have a short statement.

Mr. Chairman, on July 9 I wrote you suggesting that this committee hold hearings on the economy because I was deeply disturbed by the increasingly restrictive actions of the Federal Reserve Board at a time when our economy is standing still.

I challenge any witness to appear before this committee to justify the high interest rate economy—slowdown policies of the Federal Reserve Board.

For the Federal Reserve Board to force up interest rates and reduce available bank reserves under present economic circumstances is sure to create further unemployment, especially in the homebuilding and construction industries, which are highly responsive to changes in interest rates. Unemployment in construction has been seriously high for a long time.

Americans ranging from the U.S. Chamber of Commerce to the AFL–CIO have become so alarmed by economic stagnation that they have advocated a tax cut that would pile a huge deficit this year on top of last year's unbalanced budget.

Virtually every economist and business leader who has spoken out on the economy has expressed dissatisfaction with our present rate of growth, and concern that we may be about to drift into a recession.

Unemployment has continued at a seriously high level for more than 2 years, and has failed to improve significantly during the past 7 months. For the Federal Reserve Board to deliberately force up interest rates as it has been doing is to throw sand in the engine, when what we need is more fuel.

In 1929, we cut taxes at the same time interest rates were rising to high levels. This contributed to the worst economic crash in U.S. history.

Two significant effects occurred last week which have very profound implications for the problem into which this committee is inquiring. On Friday it was reported that the Federal Reserve System had again tightened credit last week. This recent reduction in free reserves to $300 million is significant in that it confirms the suspicion of most analysts that the Fed is now committed to a tight money policy.

The indications of such a policy seemed to be clear in June, when for several weeks in a row the Fed reduced free reserves and maintained them at levels lower than had been reached since the tight money policy prior to the last recession. This indication was confused by the temporary easing of credit that occurred in July. But now it is clear that the policy, revealed by their actions in June, does in fact reflect their basic outlook toward the need for credit restraint at this time.

It is thus particularly timely that this committee exercise its responsibility to provide the needed legislative oversight in this vital area. Monetary policy is too important to be left to the bankers. If there ever was a time for Congress to insure that the monetary policy is formulated and executed in the context of the public interest, it is now.

The chronically high levels of unemployment prevailing in this country and the chronic slowdown in our growth rates make it overwhelmingly clear that no monetary constraints whatsoever should be placed on economic activity.

Federal Reserve monetary policies could easily frustrate any attempt to stimulate the economy through a tax cut, in the same manner that proper monetary policies might possibly preclude the need for significant fiscal action at this time.

The second event that occurred last week which gives special meaning and timeliness to these hearings was the failure of the Treasury's attempt to float a new issue of long-term bonds. The Treasury was willing to sell up to $750 million worth of 30-year bonds which were priced to yield 4.19 percent. It is significant that subscriptions amounted to only $316 million. This fell far short not only of the $750 million that the Treasury was willing to sell, but it fell far short of the $500 million that the Treasury expected to sell.

This is a very strong indication that there is not the available liquidity at the long end of the market that many have talked about. If investors are not willing or able to take advantage of such attractive rates, they certain must lack significant loanable funds which are seeking a place for profitable investment. The only other reason for the dismal failure of this recent attempt of the Treasury to attract long-term funds is that the investors feel that the rate of interest is about to go higher.

Either of these two possible explanations is very distressing in its implications. The deficiency of the availability of loanable long-term funds suggests that the restrictive policies of the Fed have already had an effect. In any case, it suggests that the Fed is in error if it feels that it must soak up a significant amount of excess liquidity at the long end of the market.

These recent events suggest why it is necessary for Congress to act quickly to prevent the misguided policies of the Fed from continuing to slow down the economy. It is my hope that these hearings, and further report, will help to remedy this situation.

I thank you very much for indulging me in this statement. As you know, I did write you on this matter, and I feel very, very strongly, and I am sure that you share at least some of my sentiments.

Senator DOUGLAS. Mr. Chairman, I wonder if the Senator from Wisconsin would obtain unanimous consent that the letter which he addressed to the chairman on July 6 should be made a part of the record; and if he does so, I will ask unanimous consent that the subsequent letter, which I wrote, addressed to the chairman, some days after that, also be made a part of the record.

Senator PROXMIRE. Yes, indeed, Mr. Chairman.

Chairman PATMAN. I would like to add that the chairman's reply also be inserted.

Senator PROXMIRE. I make that request, Mr. Chairman.

Chairman PATMAN. Without objection, it is so ordered.

(Letters referred to follow:)

JULY 10, 1962.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee, Washington, D.C.

DEAR WRIGHT: I think we should have a few days hearings of the full committee about the state of the economy, and especially we should get Mr. Martin to come before us to explain why he has been tightening credit for legitimate business loans and investments but loosening credit for stock market speculation.

All this has been done at a time where there is some doubt about the economy, and I think we should properly go into it.

With best wishes.

Faithfully yours,

PAUL H. DOUGLAS.

U.S. SENATE,
Washington, D.C., July 6, 1962.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: Present monetary policies are drastically reducing the free reserves of our banking system and sharply increasing interest rates.

The restrictive effect on the economy is sure to diminish business opportunities, increase unemployment, and slow economic growth. Monetary policies are having these adverse effects at a time when unemployment remains steadily high and the economy is operating well below capacity.

Thus the consequencies of present monetary policies directly contradict the objectives of our Government as expressed by Congress in the Employment Act of 1946.

For these reasons I am writing to suggest for your consideration that the Joint Economic Committee hold hearings on monetary policies to hear Chairman Martin of the Federal Reserve Board, Secretary of the Treasury Dillon, Chairman Heller of the Council of Economic Advisers and others. In view of the great significance of these hearings I hope that they can be set as soon as possible, preferably within the next week or two.

During the month of June while unemployment continued at the same high level of 5½ percent (seasonally adjusted) that has prevailed since February, the FED followed a restrictive policy of selling FED obligations that contributed directly to a reduction of free reserves in the banking system from roughly $500 million down to about $300 million.

Meanwhile, interest rates on Federal, State, local, and private obligations of all maturities rose sharply. Ninety-day Treasury bills rose to a 2-year high.

At the very time these restrictive monetary policies were being followed, the U.S. Chamber of Commerce, the AFL–CIO, and the National Conference of Governors have all endorsed proposals for a substantial tax cut to get the economy moving. At his press conference this week President Kennedy also indicated the possibility that he might favor a big tax reduction.

It appears therefore that the Congress may be on the verge of a tax cut to stimulate the economy. If a tax cut were enacted and monetary authorities refused to change their present restrictive policies, this would perhaps be the first time in the Nation's history when the two great instruments of economic policy in our Nation were deliberately and simultaneously set off in opposite directions.

The results might be an expansion of the economy if the tax cut proves a more potent instrument than contracting credit policies, but any expansion would be dragging an anchor of credit restraint. Or it might very well be that the aggregate effect of these two Government policies might be to shove the economy downhill if the credit restraint proved more potent than a tax cut.

In any event the adoption of both a restrictive credit policy and an expansionary fiscal policy at the same time would seem to be the height of absurdity with the only sure consequences higher interest rates, a bigger national debt, and a greater eventual burden on the taxpayer.

In the event taxes are not cut it is of course even more important that the present restrictive monetary policies be reconsidered so that the economy can move off dead center and start moving ahead.

Sincerely,

WILLIAM PROXMIRE, *U.S. Senator.*

JULY 10, 1962.

Hon. WILLIAM PROXMIRE,
Chairman, Subcommittee on Economic Statistics,
U.S. Senate, Washington, D.C.

DEAR SENATOR PROXMIRE: Thank you for your letter of July 6 concerning the current direction of monetary policy. I know of your deep concern over this matter from having read your speeches in the Senate on the subject.

Needless to say, I agree with the observations you make concerning the adverse effects of restrictive monetary policy on business activity and employment. I, too, am deeply concerned, as I have been over the 15 years the Federal Reserve has been progressively reducing the Nation's supply of money and credit relative to the volume of business transactions requiring money and credit. There have been a few interruptions to the steady reduction in our effective money supply during the past 15 years, but the general trend has been unvarying. Similarly, the Federal Reserve has made numerous changes in margin requirements for purchasing and carrying stocks on the organized stock exchanges, but of course these changes in margin requirements are in no way related to the supply of money, or the supply of other liquid assets, available for carrying on the business of the Nation.

While the United States, among all the principal industrial nations, has made the largest reductions in its effective money supply in the postwar years, and has enjoyed one of the slowest rates of economic growth, those Nations which have maintained or increased their effective money supplies have made the greatest economic gains. To illustrate, Japan's GNP increased 129 percent between 1952 and 1961, and its effective money supply was increased by 13 percent. Germany's GNP increased 104 percent, and its effective money supply increased 6 percent. France's GNP increased 98 percent and its effective money supply increased 17 percent. The U.S. GNP increased by 45 percent, and its effective money supply was reduced by 24 percent.

As to the suggestion that the full committee hold hearings on the recent further tightening of credit, however, it has long seemed to me that the constructive hearings on this subject must necessarily have some relevance to the balance-of-payments problem. This is, of course, the problem which justifies the tight-money high-interest policy, at least in the minds of those responsible for the policy, and our balance-of-payments subcommittee is digging deeply into this problem. I am hopeful, furthermore, that the subcommittee will soon have some constructive suggestions, either as to possible improvements in the money system, or as to a reappraisal of the policies which are leading to a continuous net outflow of dollars.

To me, it would seem to be preferable to find some improvement in the money system which would permit the creation of money claims to wealth in a volume more nearly related to our capacity for wealth production, rather than in a volume limited by our supply of gold. Frankly, I have difficulty seeing the relevance of the "discipline" imposed by a limited supply of gold. True, some of our prices are undoubtedly noncompetitive in world markets, but the fact that we are able to export $4 worth of goods and services for each $3 imported seems to suggest that the gold "discipline" is misplaced.

Assuming that the subcommittee finds no improvements in the international money system to be feasible, however, it would then seem to me that a careful evaluation of the sources of the dollar outflow would be most constructive. Restrictions have, of course, been imposed on our military personnel stationed abroad, and reductions have been made in the duty-free goods which American tourists may bring in.

I know of no steps yet taken to discourage American banks and other financial institutions from freely making loans abroad, to discourage U.S. investors from purchasing foreign stocks and bonds, or to discourage American industrial firms from purchasing foreign competitors and building plants in highly developed nations needing no U.S. assistance. Thus, it would seem that the possibility of some disincentive on these activities—perhaps a tax to equalize differences in interest rates—should not be ruled out. A restrictive monetary policy to equalize interest rates and check the flow of funds seems to me to impose a most unequal sacrifice, namely, one falling on the more than 4 million wage earners who are squeezed out of employment by this kind of policy.

With reference to your expressions of concern over the current proposals for tax reductions, I, too, have serious doubts about these proposals. Indeed, I have serious doubts about some of the assumptions concerning the flow of funds in our economy which underlie the kind of proposals being made, and I have been wondering if one of our subcommittees—perhaps the Subcommittee on Economic Statistics—might wish to develop some proposal for an inquiry into the facts of these matters.

The assumption that the volume of savings—corporate and personal—is inadequate to support a high level of investment is, of course, of quite recent origin, and an assumption which seems to me deserving of the most critical examination. If it is still true, as many experts have believed in the past, that our basic problem is one of excess savings relative to consumption expenditures, then the administration's suggestions for cutting corporate taxes and cutting individual income taxes in ways to give disproportionately large tax relief to the high-income families, who can be expected to save much of their added income, then the proposed tax reductions may prove ill-advised. Indeed, a tax cut which stimulates savings without also stimulating a very large expansion in consumption could worsen unemployment and worsen the other conditions which the tax cut is intended to remedy, once the period of a larger Federal deficit is ended.

I also wonder about the assumption that corporate profit margins are inadequate to draw a high volume of savings into investment. On the face of the data now available, the so-called profit squeeze appears to be a bookkeeping fiction, reflecting the fact that the postwar trend has been to count relatively more of corporate net income as "depreciation" and relatively less as "profits."

These changes in bookkeeping practices have been made possible, first, by the certificates of necessity granted in the earlier postwar years to permit "speedup" writeoffs of new plant and equipment, and, later, by changes in the Internal Revenue Code of 1954 which tended to extend speedup writeoffs to all investment in new plant and equipment. Considering also that the rate of return on corporate investment is closely related to the rate at which capital equipment is utilized, it appears that corporate margins have actually been widening over the past decade rather than being squeezed.

Of course the foregoing does not suggest all of the important questions which need answers. In years past our Subcommittee on Economic Statistics has helped to initiate and bring about improvements in the Federal Reserve's flow-of-funds data, but while these data are intended to provide information that is central to the working of our economy, some of the experts tell me that the reporting system is only in the formative stage and needs much clarification and improvement.

If you feel that there is any merit to the above suggestions, I would appreciate it if you would give consideration to the possibility of a thoroughgoing investigation and hearings on the flow-of-funds data by your subcommittee, and, if such an investigation seems feasible, let me know what the staff and budget requirements of such an investigation would be.

I am,

Sincerely,

WRIGHT PATMAN.

Cc: Hon. Henry S. Reuss, Chairman, Subcommittee on International Exchange and Payments.

Chairman PATMAN. Are you ready to proceed?

Senator BUSH. I might say there was a letter which we all signed, in which we asked for open hearings.

Chairman PATMAN. You may proceed in your own way, Mr. Ellis. I notice you have a prepared statement. You may proceed.

STATEMENT OF IRA ELLIS, ECONOMIST, E. I. DU PONT DE NEMOURS & CO.

Mr. ELLIS. Mr. Chairman and members of the Joint Economic Committee, it is a pleasure to discuss with this group the current state of the economy and the outlook.

I like the statements that have been presented so far, which set up a very good basis for discussion. I have prepared a background statement of the current business situation, which I would like to read to the committee and to use as the basis for my subsequent discussion.

87869—62——2

The economic activity rate in the United States is at an alltime high level, but it is rising only slowly. The total value of goods and services produced in the country in the second quarter of 1962 was at an annual rate of $552 billion, compared with $519 billion for the year 1961. In terms of constant prices, that is, the physical volume of goods and services, the second-quarter level of output of the economy was up 0.7 percent from the first quarter—and, gentlemen, that is almost 3 percent per year—and up 5.1 percent from the 1961 average. And, gentlemen, the 1961 average was the previous alltime high.

The principal gains are occurring in the rate of consumer spending for goods and services, and in construction. Government purchases of goods and services also rose in the latest quarter, and at a rate somewhat higher than the rise in consumer spending. You gentlemen know that Government purchases include State and local purchases as well as those of the Federal Government.

The business inventory accumulation rate in the latest quarter was down significantly from the first quarter rate, but it was at a reasonable level, after being relatively high in the last quarter last year and the first quarter of 1962.

And I call your attention to the fact that that decline in the rate of inventory accumulation had a significant effect on the total change in the gross national product. In other words, final consumption went up even more from the first to the second quarter than the gross national product indicated, because the rate of accumulation of inventories went down.

While we all would like to see the operating rate of our economy at a higher level, the fact still remains that the rate in the latest quarter was at a record high level.

The rate of industrial production in the country in the second quarter of 1962 was also at a record high level, up 2 percent from the first quarter, and up 7 percent from the 1961 average.

The 1961 average was the alltime record high annual average.

Principal gains in production over the past year have occurred in durable goods, where the mild recession of 1961 was largely concentrated. The principal output gains from the low point last year to the latest quarter occurred in primary metals: that is, steel, aluminum, and other metals; machinery; and transportation equipment. And of course in transportation equipment, the big item is automobiles, having an unusually good year. There were also significant output gains over this period in several industries producing nondurable goods, particularly textiles and apparel, paper and products, chemicals and products, and rubber and plastics products.

The production rate of the American economy in 1962 will approximate closely the value indicated by the trend of its growth over the past 11 years; that is, starting in 1951, as may be noted from the attached charts.

Whether we look at the gross national product in terms of constant prices, that is, the physical volume of goods and services, or at the

Federal Reserve Board Index of Industrial Production, which also, of course, is expressed in terms of physical volume, we find the above statement to be correct.

We are maintaining our growth rate of the past 11 years. I would agree with anybody who would desire to see it higher, but I call your attention to the fact that we are maintaining that growth rate.

Wholesale prices are showing very little movement. The index of wholesales prices of commodities other than farm products and foods, that is, largely industrial products, has shown very little net change since January 1959, although there have been significant increases and decreases among the subgroups.

The Consumer Price Index, the prices of goods and services purchased by urban moderate income people, has risen about 1.25 percent per year over this period, and prices of goods and services in the gross national product have risen about 1.5 percent per year in the same time. While the rise in prices in our economy has been slowing down in recent years, it has not yet been stopped—importantly because costs are still rising.

Employment in the country continues to rise, especially employment in nonfarm activities. Total employment in July was recently estimated by the U.S. Department of Labor at 69.6 million, a record high for July, up 1.1 million from July 1961, in spite of a decline of almost 400,000 in reported farm employment over this period.

Nonfarm employment in July 1962, therefore, was up 1.5 million, or 2.4 percent, from a year ago—with the principal gains in durable goods manufacturing, wholesale and retail trade, finance and service industries, and government. The government increase was primarily at the State and local level. Employment in construction and in mining declined over the past year.

Unemployment was down 1.1 million from a year ago, to about 4 million, the reported total in July 1962.

While the reported rate of unemployment is still relatively high, the Labor Department figures show that much of this unemployment is concentrated among boys and girls 14 to 19 years of age, many of whom are single and living at home, or among those out of work for less than 5 weeks.

The unemployment rate in June (July data in detail are not yet available) among boys 14 to 19 years of age was 17.5 percent. That is, among all the boys, 14 to 19 years of age, who said they were in the labor force, 17½ percent reported themselves as unemployed but looking for work.

That figure, of course, is relatively high, importantly because many students were looking for summer work early in June. That 17½ percent for boys 14 to 19 years of age, compared with a rate of only 3.8 percent for men 25 to 34 years of age, 3.6 percent for men 35 to 44 years of age, and 3.4 percent for men 45 to 54 years of age.

In other words, if you are talking about unemployment among the adult male labor force of the country, it is under 4 percent. It was in June. Similar low rates of unemployment were reported for adult women in the labor force.

It seems to me that when we talk about unemployment, we ought to talk about the adult labor force, not boys and girls 14 to 19 years of age. Furthermore, 57 percent of the unemployed potential workers in June 1962 had been out of work for less than 5 weeks. Again, when we talk unemployment, let us talk about serious unemployment, and not about workers who are changing jobs or who have just begun to look for their first job.

Unemployment rates are relatively low among skilled workers, that is, professionals, technical, and kindred workers, managers in farm and nonfarm activities, et cetera.

Unemployment rates rise as the skill level declines. In fact, unemployment rates are relatively high principally among the very young, the unskilled, and the nonwhite potential workers.

As a result of high economic activity, high employment, and high wage and salary rates, the rate of receipt of personal income in the country in June 1962 was also at a record high level—$440 billion per year, up 1.2 percent from the March rate; that is, up 1.2 percent in the second quarter and up 5.8 percent from June 1961.

The principal gains in personal income over the past year have occurred in employee income, up 6.2 percent. There have also been significant gains in income of nonfarm proprietors, in the rental income of persons, and in interest and dividends.

The rise in income has been widely distributed, and the rising level of income is being spent freely for goods and services. The rate of personal savings from income after taxes in the latest quarter showed very little change from the level of a year ago.

Consumers have money, and they are spending it. They may not spend it for just what each individual would desire. Some people are not selling at the rate they would like to sell. But the total volume of personal spending, personal consumption expeditures, is very much in line with the current rate of personal income.

The level of corporate profits recovered rapidly with the rise in busines activity after the recent low point in the first quarter of 1961 until the fourth quarter of last year. There was apparently little change in the level of corporate profits over the past two quarters. The first quarter has been estimated, but the second quarter is not yet available. We are estimating that it may show a slight decline from the first quarter and from the fourth quarter of last year. But earnings in the first half of 1962 virtually assure that the amount of corporate profits this year will make a new high record.

While the amount of profit earned by manufacturing corporations—and here I am concentrating just on the segment of manufacturing industry because that is where we happen to be—the amount of profit earned by manufacturing corporations this year will be significantly higher than it was last year. (It will be a new high annual record, I believe. The rate of profit on stockholders' equity among manufacturing corporations this year will be the lowest since 1945, with the exception of the years 1958, a recession year, 1960, and 1961.)

Senator Bush. How do you define that rate of profit? Is that return on investment? Or what does it mean?

Mr. ELLIS. Yes; return on the stockholders' investment, using the stockholders' total equity.

Senator DOUGLAS. Just a moment. You mean the market value of stocks?

Mr. ELLIS. No. What the stockholders have put in. The common stock, the preferred stock, and the surplus of a corporation.

Senator DOUGLAS. Excluding bonds?

Mr. ELLIS. It would make very little difference if you did include bonds and took the rate on total investment. It is not readily available.

Senator DOUGLAS. You mean the amount realized from the sale of stock?

Mr. ELLIS. No. I mean corporate profits after taxes, divided by stockholders' equity.

Senator DOUGLAS. That is what I am trying to get at, the definition of the denominator.

Mr. ELLIS. The stockholders' equity is the sum of the book value of common stock, preferred stock, and surplus.

Senator DOUGLAS. Book value?

Mr. ELLIS. Book value. What the stockholders have put in and what has been retained for them, of course, by the corporation in the form of surplus.

Senator DOUGLAS. Does this include capital and surplus?

Mr. ELLIS. Yes; capital and surplus. Common stock, preferred stock, and surplus. That figure divided into the reported corporate profit after taxes.

Senator DOUGLAS. Do you think the denominator might be inflated?

Mr. ELLIS. In what way?

Senator DOUGLAS. Well, I just ask you whether you would accept the denominator as a true mirror of investment.

Mr. ELLIS. Yes; I do. I do not think it would be inflated in the sense that some of this money might have been put in 20, 30, or 40 years ago. That certainly would not be inflated now. That is not changed from the amount put in at that time. It is not the market value of the common stock. It would not be inflated that way. It is the original amount put in.

Senator BUSH. This equity is also the depreciated value of these investments, as reflected in the capital and surplus figures?

Mr. ELLIS. No; depreciation does not affect this. This is the amount put in. It does not change. Once it is put in, it is there, and it is not affected by depreciation.

Senator BUSH. Does it not affect the surplus figure?

Mr. ELLIS. No. Depreciation would not affect the surplus figure. Depreciation would affect the net value of the physical assets, the difference between the cost of a plant and its current depreciated value; but that would not affect the common stock and surplus.

Senator BUSH. But if you charged depreciation in a given year, that comes out of your earnings, and your earnings over what you pay out would go into surplus?

Mr. ELLIS. That is right.

Senator BUSH. So it would seem to me that the depreciated value is reflected in the surplus.

Mr. ELLIS. Not in that sense, any more than any other cost. The payroll cost in that sense would also be reflected.

Starting with the net profit of the corporation: now, whatever has been taken out before you arrive at that, of course, would affect the net profit; but depreciation would have no unusual effect or special effect.

Senator DOUGLAS. Mr. Ellis, I do not want to interfere with your argument, but I just want to mention one qualification that I think should be made.

Some of us have felt for a long time that with the management control of corporations there was a tendency to reinvest a larger proportion of the surplus in companies than was economically justifiable, and hence to diminish the cash distribution to stockholders.

Now, to the degree that this is done, this does give a high figure, some of us believe an uneconomic figure, in the denominator, and consequently decreases the ratio.

Mr. ELLIS. That is right.

Senator DOUGLAS. And the point that Senator Bush made I think is also true, that to the degree that the allowances or depreciation have been increased, and they certainly have been under the double declining balance method of 1954, this operates to reduce earnings as stated in the numerator of your fraction, and consequently the two together would naturally serve to have a redoubled effect in diminishing the ratio of earnings to equity.

Mr. ELLIS. That is right; diminishing below what it otherwise might be. But should you not also take into account whether the depreciation amount is adequate? If the depreciation is insufficient, as it obviously was before 1954, then to raise it, while it does raise the cost, does not necessarily make the depreciation excessive.

You have a good point. It has changed and does affect the ratio.

Senator PROXMIRE. May I just ask one other question, Mr. Ellis?

Is it not also true to say that the profits this year are the highest since 1957, with the exception of 1959?

Mr. ELLIS. Profits? Oh, I think the corporate profits will be at an all-time high this year.

Senator PROXMIRE. I am talking about the profit on stockholders' equity.

Mr. ELLIS. Oh, the rate, the rate of profit?

Senator PROXMIRE. Yes, the rate of profit is the highest in the past 5 years, with the single exception of 1959, according to your own figures, here.

Mr. ELLIS. That is true.

That is right, because this is a pretty good business year in total.

Senator JAVITS. Mr. Chairman, could I make one suggestion—that whatever may be in their written statements, each of the witnesses might try, even in their presentations, to answer for us what seems to me at least to be a very worrisome question in the country?

Why, if all of our indexes are up, are we very worried? And why is there, in my opinion, such a demonstrable lack of confidence in the future of the economy?

Representative REUSS. Would the gentleman yield at that point?

I believe that the state of confidence reflects the facts of the economic situation. Let me refer the gentleman to the July 1962 issue of Business Cycle Developments, published by the U.S. Department of Commerce. It shows that many of the principal leading indicators are now pointing downward.

Senator JAVITS. I was merely addressing myself to the witness's general point.

I run through these statements, and everybody says, "We have more gross national product. We have more people actually employed. We have more corporate profits," as Senator Proxmire properly brought out.

And yet there seems to be something gnawing at the vitals of the American economy, certainly in terms of the minds of the people who make up that economy, whether it is workers, management, investors, or academicians.

Mr. Chairman, I thank you for allowing me to make that observation.

Chairman PATMAN. You may proceed.

Mr. ELLIS. I believe the current relatively low level of corporate profit on investment is a significant factor in the failure of employment to rise more rapidly than it has in recent years.

My reason for that statement, of course, is that managements, faced with what they consider an unsatisfactory rate of profit, have been aggressively reducing costs this year, and cost reduction usually means employment reduction.

In summary, economic activity in the country is growing at about the average rate of the past 11 years. Business inventories seem reasonably adjusted to the current and immediately expected rate of sale. Industrial prices are stable, on the average, but there are significant increases and decreases in some areas.

Employment of the adult labor force of the country is relatively high, and personal income is still rising.

While the amount of corporate profits may reach a new high level this year, the rate of profit on investment is still relatively low.

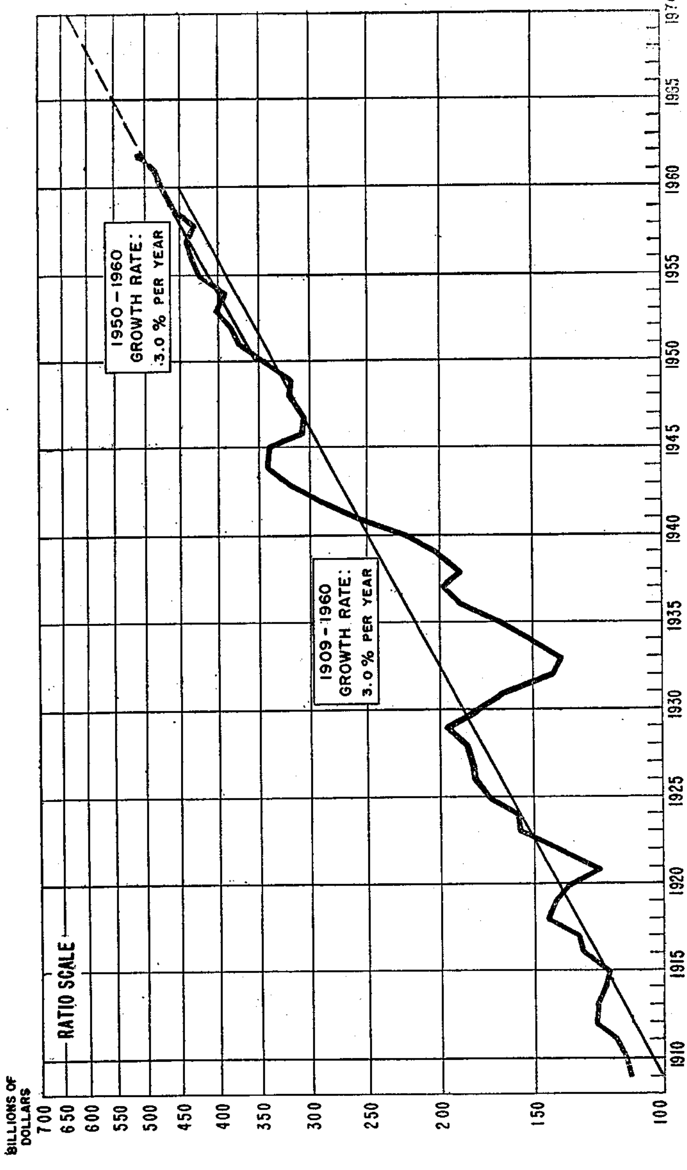
Chairman PATMAN. Thank you, sir.

Without objection, the charts will be inserted in connection with your testimony.

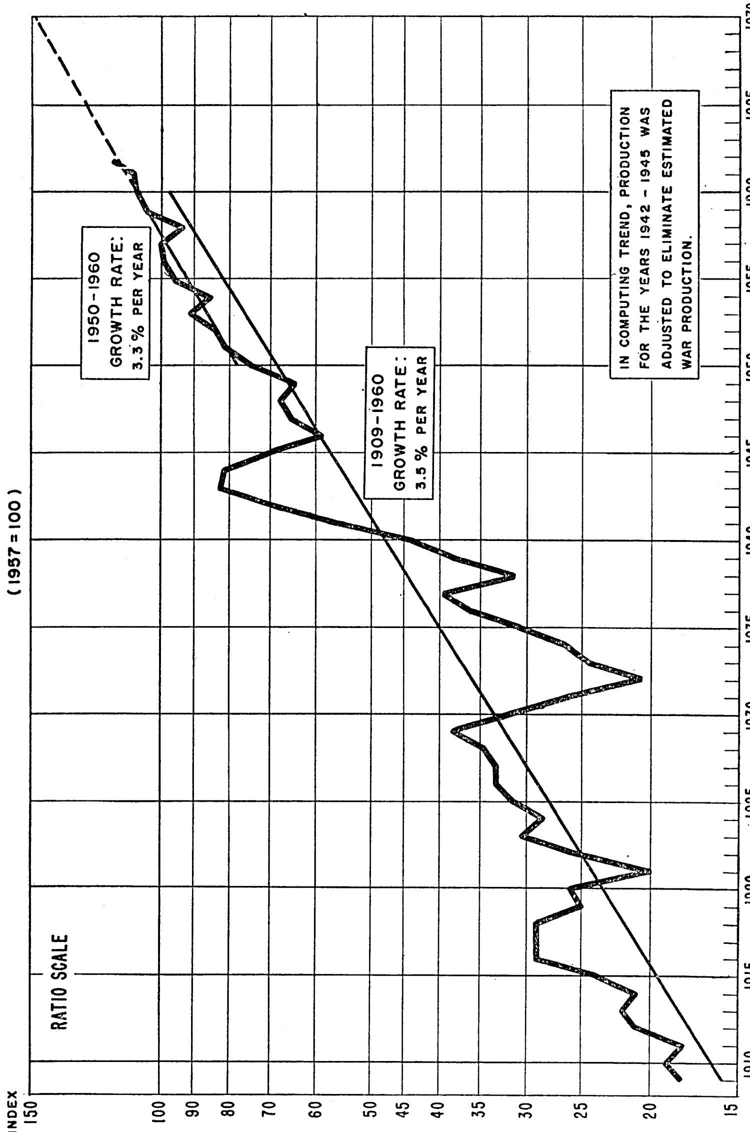
(Charts referred to follow:)

GROSS NATIONAL PRODUCT: 1909-1961

(IN 1957 PRICES)



F.R.B. INDEX OF INDUSTRIAL PRODUCTION : 1909-1961
(1957=100)



Chairman PATMAN. Our next witness will be Mr. James Wishart, research director of the Amalgamated Meat Cutters and Butchers of North America.

STATEMENT OF JAMES WISHART, DIRECTOR, RESEARCH DEPARTMENT, AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN (AFL-CIO)

Mr. WISHART. I hope that my statement itself may be addressed to the question which the Senator from New York raised here, concerning the negative elements within the economy, which do give some cause for concern.

Conflicting trends mark both the state of the economy generally and of the industries in which the 370,000 members of the Amalgamated Meat Cutters and Butcher Workmen are employed.

In both the National economy and in our own industries, output recently has reached alltime high levels.

Seasonally adjusted gross national product running at a $552 billion annual rate, industrial production now 17.8 percent above its 1957 base, and civilian employment peaking out in July at more than 69.5 million—all establish new high records of national achievement.

At the same time, cause for grave concern exists over the future. Even the record breaking $552 billion of gross national product reported for the second quarter of this year falls far short of the $570 billion level for 1962 and the $600 billion rate for the first months of 1963 predicted by the Council of Economic Advisers.

The basic facts show that in the first half of 1962, the pace of recovery slowed down to a tempo substantially below any desired normal rate of national growth.

This is indicated by the table below showing quarterly gains in seasonally adjusted gross national product expressed in constant 1961 dollars.

	Percent gain
1st quarter to 2d quarter, 1961	2.1
2d to 3d quarter, 1961	1.3
3d to 4th quarter, 1961	2.9
4th quarter to 1st, 1962	.9
1st to 2d quarter, 1962	.7

This suggests a growth rate for the full year 1962 which could be even less than a 3-percent increase.

The pace of recovery from the trough of the recent recession compares with increases over similar time spans in two previous recessions as follows:

Percentage gains in real gross national product (seasonally adjusted)

Period:	*GNP increase (percent)*
1961: 1st to 1962 2d quarter	8.5
1958: 2d to 1959 3d quarter	10.1
1954: 3d to 1955 4th quarter	10.7

The wave of recovery seems to be cresting out and breaking even sooner than in these previous periods of recession. The present phase of recovery could be only an interlude between the recession of 1961 and the recession of 1963.

THE EMPLOYMENT SITUATION

Recently released labor-force data, showing a seasonally adjusted unemployment rate of 5.3 percent for July, have been greeted as a reassuring high of continued recovery. The June figure had been 5.5 percent.

Officially counted unemployment in July totaled 4,018,000 as compared with 5,140,000 in July of 1961, and 4,968,000 in February 1961.

It is difficult to say how much these figures may be credited as straws in the economic winds.

However, to certify them as indicative of any basic solution to the national problem of unemployment goes beyond credence.

The character of that basic problem is suggested by the Bureau of Labor Statistics' labor force projections for 1962. On the basis of such projections, an increase in the Nation's labor force of 1,134,000 could have been predicted between 1961 and 1962.

In fact, by June of 1962, the total increase in the Nation's workers (including the Armed Forces) over June of 1961 amounted to 63,000. The civilian labor force, calculated with and without seasonal adjustment, actually dropped by more than 285,000 in this 12-month period. This means that, after counting those who went into the Armed Forces, more than a million workers who had been expected to join 1962's labor force were not, by the middle of the year, seeking any employment.

They are not, according to the official definitions, of course, included among the unemployed. Of that million or more workers who disappeared from labor markets, some were undoubtedly students who decided on more schooling, some were older workers who took advantage of social security retirement set at the age of 62, and some were housewives who had worked only on a marginal basis. A sizable fraction of this group were certainly involuntary withdrawals from the labor force.

The key fact, however, is that the Nation had no work to offer a million or more workers who, under normal economic conditions, would have been seeking jobs.

The key fact is that no employment opportunity existed for them, or seems likely to develop for the additional 1.3 million new workers who are expected to come into the Nation's labor force by 1963.

The cushions which operated in 1962 may not soon be available again. Students who continued schooling will presumably seek jobs some day. No expansion in Armed Forces manpower is now planned. No further reduction in the retirement age levels appears to have any serious congressional contempaltion. New workers, for whom there are no jobs, may again be among the unemployed in statistics as well as fact.

Assuming a continuation of the present trends—a 3-percent growth rate and a 3-percent annual gain in labor productivity—in the year 1963, there will be no jobs for at least 2 million people who desire work, but are not now numbered among the unemployed. This would be, of course, in addition to those officially numbered, a total of roughly 4 million at the present time.

Representative REUSS. If I may interrupt, what would that work out in percentages of the work force unemployed?

Mr. WISHART. Just calculating very roughly, in the neighborhood of 7 percent.

All of this, as has been indicated, assumes continued recordbreaking progress in line with recent trends, and no economic downturn whatsoever.

This is calculated on the most optimistic basis. I might say also that the assumption of a 3-percent annual gain in productivity is a very conservative assumption, too, on the basis of present experience.

Recession, to which some indicators now point, would bitterly augment the totals of next year's unemployment.

THE KEY PROBLEM

The economy seems headed at vastly higher levels, toward an impasse of a type it has not faced in more than 20 years. Four million workers are unemployed. At least an additional million would be available for work, were work available for them at the present time. At least 15 percent of productive capacity is now idle.

And, I might say, this represents a minimum estimate. In my opinion, idle capacity runs to a far greater level than is suggested here.

Growth rates everywhere have tended to sag. Recent declines in common-stock prices suggest sharp doubt over the future and perhaps too firm a faith in the prospects for deflation.

Gains in plant and equipment investment have been under expectation. Private construction appears to be continuing at a vigorous pace, though observation in major cities suggests a soon-to-come surplus in high-rise, high-priced apartment units and luxury office space.

I might say that in the city of Chicago, one very eminent real estate man 10 days ago, withdrew from a major construction venture in the downtown Chicago area. He withdrew on the basis that this type of luxury office space construction was already a drug on the market, and there were some indications that the construction of high-rise, high-rental apartments had gone beyond any realizable market potential.

Certainly, recent declines in resale home values suggest a softening in the basic markets for housing. In some areas, the proliferation of supermarkets and discount centers has gone beyond the needs even of an expanding population for some years to come.

All of this suggests one thing all too clearly—that the onetime enormous pressures of postwar consumer demand have been sharply deflated. The total of consumer buying power—representing somewhere between 65 and 70 percent of the Nation's market—is now substantially less than the Nation's immediate power to produce. Buying power is even more dramatically dwarfed by the Nation's potential for giant expansion.

This is the root cause for the relative stagnation which has marked the course of the economy in recent years. The sweep of pent-up postwar demand, the imperatives of the Korean war period, the expansion of consumer credit, the impact of an enormous defense program—all these things have served, in the past 15 years, to accelerate the economy. None of these things can now promise any renewed impetus for vital new expansion. The key problem of 1962 is the shortage of buying power in relation to the vast potential for production of goods and services.

In view of this, tax concessions to corporations and more generous depreciation allowances seem doubtful tonics for the economy.

Industry faces no shortage of cash for expanding its power to produce, were it assured the markets to make such expansion profitable.

AFL–CIO estimates that such cash flow for American corporations (after tax profits plus depreciation allowances) will come this year to a total of $51.5 billion. This compares with $30.1 billion in 1953, and $48 billion in 1961, as reported by the U.S. Department of Commerce. Cash flow was 8.2 percent of the GNP in 1953, and 9.3 percent in 1962.

Such a sum has been augmented by the Bureau of Internal Revenue's recent changes in depreciation rates for industrial equipment. Even before such sweetening, the rates were more than sufficient to meet the full dollar costs of industry plant and equipment investment at first quarter 1962 rates and provide for stockholders' unimpaired dividend levels. Industry has the cash flow, in other words, to maintain its full dividend rate and its full rate of plant investment without seeking a single new dollar of capial on stock or bond markets.

As of June 1961, Forbes magazine reported that—

> Currently, General Motors treasury is all but overflowing with cash and Government bonds to the tune of $1.6 billion. Of this, a probable $1 billion is surplus cash by any ordinary standards.

Clearly, if General Motors made no major expansion in 1961, it was not for lack of available cash. Nor, considering its income accounts, was it for lack of profitability in its operations. The inhibitor to General Motors investment initiative could have been nothing other than the conviction that no expanding markets existed to justify, profitably, expansion of basic capacity.

GOVERNMENT INITIATIVE

The conditions of 1962 indicate that without massive and prompt Government initiative, economic stagnation may easily become our way of life. The conditions of 1962 suggest that Government has, in fact, been fighting a rapidly evaporating menace of inflation and at the same time giving tacit welcome to the currently live and deadly foe of deflation.

This is a major misallocation of strategic economic resources. The current economic situation calls for a speedy revision before our current momentum drops fully away.

Current practice is to fight for price stabilization, and to hope somehow that the problem of national growth will care for itself.

Sound practice demands that the first and primary battle be for national growth—and that all else be subordinated to this purpose.

Sound practice demands that the disaster of renewed recession, that the specter of mounting unemployment, that the spectacle of a great Nation unable to bend its full economic muscle into production be avoided above all.

The problem is difficult, requiring clear and perhaps "sophisticated" thinking. But above everything else, it is the responsibility of Government now to use every device at its command to create the preconditions of renewed economic progress. In relation to this, the fetish of a quickly balanced budget, the fraction of a percent of GNP represented by unfavorable international balances, and the canons of economic orthodoxy cannot be allowed to exercise a veto.

I might include in that group also the bankers of middle Europe.

Chairman PATMAN. Thank you, sir.

Without objection, the tables acompanying your testimony will be inserted in connection with your remarks.

(Tables referred to follow:)

Employment and unemployment 16 months after trough (seasonally adjusted data)

[In thousands]

	Employment	Nonfarm employment	Unemployment	Unemployment rate
February 1961	66,723	60,922	4,968	6.9
June 1962 [1]	67,911	62,847	3,917	5.5
Change, number	+1,188	+1,925	−1,051	
Change, percent	+1.8	+3.2	−21.2	
April 1958	63,542	57,753	5,070	7.4
August 1959	65,794	60,103	3,696	5.3
Change, number	+2,252	+2,350	−1,374	
Change, percent	+3.5	+4.1	−27.1	
August 1954	60,589	54,242	3,858	6.0
December 1955	64,516	57,539	2,824	4.2
Change, number	+3,927	+3,297	−1,034	
Change, percent	+6.5	+6.1	−26.8	
October 1949	58,057	50,844	4,825	7.7
February 1951	60,494	53,402	2,166	3.5
Change, number	+2,437	+2,558	−2,659	
Change, percent	+4.2	+5.0	−55.1	

[1] Adjusted to 1950 census population base.

Projections of total labor force compared with actual labor force

[In thousands]

	Total labor force (including Armed Forces)		Deviation of actual from projected labor force	Period	Year-to-year increase in labor force	
	Projected	Actual			Projected	Actual
1955	68,896	68,896				
1956	69,692	70,387	+695	1955-56	+796	+1,491
1957	70,681	70,746	+65	1956-57	+989	+359
1958	71,538	71,284	−254	1957-58	+857	+538
1959	72,505	71,946	−559	1958-59	+967	+662
1960	73,381	72,820	−561	1959-60	+876	+874
1960 [1]	73,687	73,126	−561			
1961	74,889	74,176	−713	1960-61	+1,202	+1,050
1962	76,023	74,532	−1,491	1961-62	+1,134	+356

[1] Includes Alaska and Hawaii.

Source: U.S. Department of Labor. Projections from 1960 forward differ from those published in "Population and Labor Force for the United States, 1960 to 1975" (Bull. 1242) to take account of (1) revised population figure shown by 1960 census and (2) to include Alaska and Hawaii; 1962 actual figures are 2d quarter civilian employment seasonally adjusted plus Armed Forces.

Summary employment and unemployment estimates

[Thousands of persons 14 years of age and over]

Employment status	July 1962	June 1962	July 1961
Total labor force, including Armed Forces	76, 437	76, 857	76, 153
Civilian labor force	73, 582	74, 001	73, 629
Employed	69, 564	69, 539	68, 499
Agriculture	6, 064	6, 290	6, 453
Nonagricultural industries	63, 500	63, 249	62, 046
Unemployed	4, 018	4, 463	5, 140
Seasonally adjusted unemployment rate, percent	5. 3	5. 5	6. 9
Unemployed 15 weeks or longer	921	1, 033	1, 634
Unemployed 27 weeks or longer	576	584	1, 026
Nonfarm workers or part time for economic reasons, total	2, 674	2, 630	3, 011
Usually work full time	962	1, 041	1, 119
Usually work part time	1, 712	1, 589	1, 892

Chairman PATMAN. Our next witness will be Dr. J. Frederick Weston, professor of economics, University of California, Los Angeles.

STATEMENT OF DR. J. FREDERICK WESTON, PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA AT LOS ANGELES

Dr. WESTON. Economic data give strong indications that the business upswing which began in February of 1961 is now tapering off.

While the effects of the steel settlement and the stock market gyrations make interpretation difficult, there is no question that the rate of increase in business activity has slowed.

Since significant segments of spending are tied to the rate of increase in general business, rather than to its absolute level, volatile segments of spending are subject to sharp declines. Thus we approach the upper levels of a business recovery substantially short of the economy's full employment potential.

The repetition of an abortive business recovery calls for immediate action to alter the impact of what I would call the fiscal choke on the economy. The strong evidence that at full employment the Federal Government would run a surplus of over $10 billion in its administrative budget calls for counteraction.

I therefore recommend a cut in the normal corporate income tax rate by 5 percentage points, and a decrease in personal income taxes by splitting the first bracket taxable income and halving the rate. This proposal is not made to counter an incipient recession. It is made to change the fiscal structure to remove some of the barriers to full employment growth.

While some may oppose tax reductions until unmistakable evidence of a decline appears, I offer three arguments against the policy of waiting: (1) Substantial professional judgment sees a basis for immediate action. (2) Waiting would require stronger action to counter movements of greater momentum. (3) And on this point I place the greatest weight: monetary policy is relatively tight because of international balance-of-payments considerations. Therefore relative fiscal ease is required to offset relative stringency in monetary policy. If subsequent events indicated that too much fiscal ease had been provided, monetary policy could be tightened further. This further tightening in monetary policy would be consistent with international balance-of-payments considerations.

This point I would like to emphasize very strongly, because you do not have to answer all of the horribly difficult questions in order to formulate policy. You simply have to develop the strategy that makes sense; and the strategy that makes sense under current conditions, if you have tight money policy, is certainly to move in the direction of greater ease in fiscal policy.

The major opposition to tax reduction is based on the fear that the prospective deficit would be increased; but this was the same argument used against a tax cut in the fall of 1957, and as a consequence, a deficit of $12.4 billion in fiscal 1958–59 occurred. This was the largest peacetime deficit in U.S. history, and under an administration that put budgetary balance as a No. 1 economic objective.

It is ironical that a major responsibility for the large deficit must be charged to Senator Byrd. Because of his insistence on the rigid debt ceiling in the fall of 1957, the Air Force did not pay its bills for a period. These actions aggravated the weak economic conditions in the summer of 1957, and precipitated the decline. The resulting fall in Federal Government revenues produced the $12.4 billion deficit.

We have the paradox that apparent fiscal responsibility had the effect of grievous fiscal irresponsibility. Let us not repeat the same mistake under the same arguments. Recasting the fiscal structure in favor of higher economic growth will diminish deficits, not increase them.

The central reason why a tax cut is called for stems from an historical accident. During the Korean war both the corporate and personal income tax rates were increased substantially to deal with the tendencies toward inflation that developed during the Korean hostilities. Those tax rates have never been reduced. As a consequence, since the inflationary pressures have subsided in the economy during the last several years, the fiscal structure that was developed to deal with the Korean inflation actually now inhibits the normal growth of the economy.

The current upswing is beginning to taper off with the economy significantly short of its full-employment potential. This is not a recommendation that the Government use its policies to prevent the economy from ever turning down. The factor that calls for action now is the realization that for the last several upswings the fiscal structure has been a brake on normal recoveries. As a consequence, reductions in taxes are called for, not simply to prevent a downturn, but to alter the fundamental fiscal structure.

A reduction in taxes is particularly called for because monetary policy has been stringent for the past several years in part because of balance-of-payments considerations. The Federal Reserve authorities argue for high interest rates so that money does not flow abroad in quest of higher earnings on deposits in foreign countries. Given that monetary policy is relatively tight and given that the fiscal structure has been inhibiting growth because it has been geared to a strong wartime inflationary economy, a reduction in taxes is essential.

We have the paradox that because our economy does not approach its full employment potential our Federal Government has been running deficits. Deficits occur because revenues depend upon a high-level economy, with corporate profits and personal incomes growing at vigorous rates. Therefore, the experience of the 1957–58 recession particularly emphasizes that a reduction in taxes, by taking the brake off economic recovery will bring in more revenues. Tax cuts will result in no deficits or smaller deficits than would be the case if tax cuts were not made and the economy did not achieve its normal recovery.

The central idea is that the economy suffers from a harsh fiscal policy growing out of the Korean war economy. The Federal Reserve System, concerned with the international balance of payments, has been pursuing a relatively tight money policy course. In order to offset this tight money policy as well as to release the harsh fiscal choke, a cut in taxes is necessary.

There is another element of the strategy. Because of this situation a rather substantial cut in taxes could be made, on the order of magnitude of $10 to $15 billion, to help avoid the repressive effects of fiscal policy on the economy. We have the additional strategic advantage in this situation that if at any point it appeared that fiscal policy were too easy (which is extremely unlikely), the Federal Reserve authorities could tighten monetary policy even further.

Also, the realm where monetary policy is particularly effective is in stopping a too vigorous rise in economic recovery. It is said that monetary policy is like a string—you can pull with it but you cannot push. Hence we are in the position where fiscal policy is so tight that the only thing monetary policy could be expected to do would be to push with the string, and it cannot. Whereas what we need to do is to change the fiscal relationship so that once again we are in a position to use monetary policy effectively in the way that it should be used. But what we have had for several years is both a tight fiscal policy and a restrictive monetary policy. Since the monetary authorities are likely to continue the tight money policy, fiscal policy must be eased in the direction of substantial tax reductions.

Chairman PATMAN. Thank you, sir.

Our next witness will be Dr. Daniel B. Suits, professor of economics, University of Michigan.

Dr. Suits.

Do you have a prepared statement, sir?

STATEMENT OF DR. DANIEL B. SUITS, PROFESSOR OF ECONOMICS, UNIVERSITY OF MICHIGAN

Dr. SUITS. I have only a manuscript statement.

Chairman PATMAN. That is all right, sir. You may proceed in your own way.

Dr. SUITS. My analysis and economic forecasts are based on the use of an econometric model of the U.S. economy. Essentially, this consists of a system of mathematical equations statistically derived from the interplay of the important factors in our economic life.

This system of equations has been generally described in earlier testimony before this committee, and a complete discussion of it, together with its past forecasting experience, will be found in an article entitled "Forecasting and Analysis With an Econometric Model,"

87869—62——3

that I published in the March issue of the American Econometric Review. I have copies of these for the committee.

The forecast levels of economic activity for 1960, 1961, and 1962 are shown in table I.

(Tables I and II follow:)

TABLE I.—*Economic forecasts 1960, 1961, 1962*

[Figures, except as noted, are billions of 1954 dollars]

	1960		1961		1962
	Forecast	Actual	Forecast	Actual	Forecast
Gross national product	432.0	439.2	450.1	447.9	474.3
Consumption expenditure	287.1	296.8	304.3	304.3	318.6
Automobiles	16.7	15.6	14.6	15.5	18.8
Other durables	25.2	25.2	25.1	26.1	26.7
Nondurables	138.9	141.9	144.7	143.3	148.0
Services	106.3	113.7	119.9	119.4	125.1
Private gross capital expenditure	62.4	60.5	61.3	57.8	61.1
Plant and equipment	40.5	39.3	39.0	37.7	38.6
Residential construction	19.7	18.0	19.9	18.2	17.8
Inventory:					
Durable goods	2.2	3.2	2.4	2.0	2.6
Nondurable goods					2.1
Government purchase of goods and services	83.7	80.3	84.7	84.0	92.3
Net exports	−1.3	1.6	.2	1.8	2.3
Civilian employment (millions)	65.5	66.7	67.0	66.8	68.9
Unemployment (millions)	4.4	3.9	4.3	4.8	3.6
Percent of labor force	6.3	5.6	6.0	6.7	5.0

TABLE II.—*Changes in basic economic factors, 1960, 1961, and 1962*

[Figures except as noted are billions of 1954 dollars]

	1960	1961	1962
1. Government expenditures for goods and services:			
Federal	−$0.5	$4.4	$7.5
State and local	3.6	4.4	3.9
2. Plant and equipment (producer durables plus other construction)	3.4	−1.2	+2.1
3. Nonfarm residential construction	−1.2	.1	+.4
4. Automobile demand	.7	−1.6	+3.0
5. Civilian labor force (millions)	1.3	1.0	.9

Senator BUSH. This forecast is your forecast?

Dr. SUITS. This is my forecast; yes, sir.

Each of these forecasts covers the average for a calendar year and was prepared and presented in the preceding November, before the Conference on the Economic Outlook at the University of Michigan. Moreover, many of these forecasts had additional publicity. For example, the forecast of 1960 was placed in the record of this committee in the fall of 1959.

The general agreement between the forecast values and the subsequent economic events speaks for itself, but the important point shown in the table is the fact that there is nothing unusual or extraordinary about the present state of our economy. It is the result of the same underlying factors that generated the recession of 1960, and the recovery of 1961.

The most important of these factors are the level of government expenditure for goods and services, the expenditure of business firms for new plant and equipment, the volume of residential construction, and the behavior of the market for consumer durables, particularly automobiles, and finally, the growth in the labor force. The behavior of these factors is shown in table II.

The recession of 1960 can largely be traced to the slackening of Federal expenditure for goods and services. During calendar 1960, the Federal Government expenditure for goods and services declined by one-half billion dollars, and the State and local expenditures increased by a relatively small amount, $3.6 billion.

These were combined with a decline in residential construction of about $1.2 billion, and were somewhat offset by a rise in plant and equipment expenditure.

Despite the decline in activity in the fall, the average level of activity in 1960 stood somewhat higher than 1959, and indeed was almost adequate on the average to absorb the normal growth of the labor force; we experienced only a slight growth in unemployment.

The rapid recovery following the first quarter of 1961 was almost entirely the result of the sudden acceleration of U.S. defense activity. This is reflected in the enlarged rate of expenditure by the Federal Government. In contrast to the decline of one-half billion dollars in calendar 1960, the expenditure of the Federal Government for goods and services during 1961 increased by very nearly $4.5 billion over the 1960 average. State and local expenditures were also somewhat higher.

Despite the rapid rate of recovery during this year, the average was insufficient to absorb the growth in the labor force, and the rate of unemployment rose to the level of over 6.7 percent.

For 1962 Federal expenditures are projected to rise by $7.5 billion. This, coupled with a very substantial rise in automobile sales, has brought us to our current position.

The average level of GNP for 1962 in current dollars will be somewhat short of $560 billion. But, combined with the low rate of growth in the civilian labor force, this will bring unemployment down to about 5 percent of the labor force.

The present state of the economy is the best it has been in many years. We are experiencing a record level of output and sales, and the proportion of unemployment this year will average less than in any year since 1957. Yet we are uncertain, uncomfortable, and even somewhat fearful. There is good reason for this.

The defense buildup is rapidly approaching its new steady level, and under present programs we can expect little further expansion from the Government sector beyond the continued growth of State and local services required by our growing population. The modest showing of profits, coupled with substantial existing unused capacity, promises no marked expansion of new plant and equipment expenditure. The present level of rental vacancy rates casts a shadow over the residential construction picture, and no one expects the automobile market to hold its own in face of the present rapid buildup in the number and quality of cars on the road.

In view of these considerations, the apparent sluggishness of the recovery hardly comes as a surprise, and there is every chance of a downturn within the next 6 months.

But while the prospect of a downturn occupies the center of attention at the present time, it seems to me to be a secondary matter. The real problem is not so much the prospect of a downturn as the obvious fact that at the peak of a year of great prosperity we did not reduce unemployment below 5 percent of the labor force. This fact is underscored by the current abnormally low growth in the civilian labor force itself. Had the labor force grown by what I would consider a more normal annual rate of 1.2 million, instead of the projected 0.9 million, the rate of unemployment would be another half percent higher. Even at its best, the growth of production and employment has barely kept pace with the growth in the labor force. In the absence of action to the contrary, we may expect the level of unemployment in the next four quarters to again rise to over 7 percent of the labor force.

What accounts for this current sugglishness in the midst of prosperity? The answer is esentially this: The tremendous heritage of inflationary pressure from World War II made it essential to operate this economy with a tight tax brake, applied to control inflation. The defense buildup of the Korean period required the continuation of this tight tax brake. But the inflationary forces are now abating, and the brake is bearing directly on the level of production and employment. In my opinion, it is now time to release this brake and cut taxes.

The amount of tax cut required may be substantial. My calculations suggest that with the continuation of the existing level of Government expenditure, a cut in the personal income tax of $10 billion would be expected to raise the level of employment by about 1 million jobs. Of course this means that in the traditional accounting definition, the Government will operate at a deficit, but the deficit will be substantially less than the $10 billion of the tax cut. The expansionary effect of the cut itself will operate to recoup something in the neighborhood of 40 percent of the tax cut, and the so-called deficit amounts to only about $6 billion.

I do not propose that a cut of this magnitude be made at once. So long as we are aware that larger tax reductions are probably necessary, we can ease off the brake little by little and find that point which is consistent with the maximum growth of the economy. In this way, we can use the fiscal power of the tax brake, together with the Government expenditure accelerator, for their proper purpose, to balance the growth of a prosperous American economy.

Chairman PATMAN. Thank you, sir.

Senator Douglas, we will start with you, and we will observe the customary 10-minute rule, if that is satisfactory with the committee.

Senator Douglas?

Senator DOUGLAS. I would like to start with a proximate issue, and not with basic issues.

The issue I want to ask about is the high incidence of unemployment among juveniles, to which Mr. Ellis referred, and which Mr. Wishart touched upon.

Mr. Ellis pointed out the percentage listed as unemployed among the age group of 14 to 19 years of age. I suppose it is true if you narrow the age grouping to from 16 to 19, this percentage would be even higher, would it not, Mr. Ellis?

Mr. ELLIS. Yes. The lower levels would be higher. I do not have them cut that fine, but the lowest levels are highest.

Senator DOUGLAS. Mr. Wishart made the point that there is a great deal of suppressed unemployment, or unemployment not shown, of people who would like to get work if work were available, but who, because they do not have employment records, as I understand it, are not included as part of the labor force.

Mr. WISHART. Because they are not actively seeking work. I am sure there are hundreds of thousands of individuals who are out of the labor market because their experience, their knowledge, has indicated to them that there is no work for them in the labor market.

Senator DOUGLAS. Do you not think that these are concentrated among the juveniles who have dropped out of school, and have not been able to find work, and are more or less drifting?

Mr. WISHART. That could be one large element.

Of course, another and more favorable side of the picture would be those juveniles who have continued in school, rather than going on to the labor market. But a substantial factor of this could be represented by the kids who are hanging around street corners. This is the sociological economic basis for juvenile delinquency, of which we have heard a great deal.

Senator DOUGLAS. Last year, of course, Dr. Conant made his study of slums and schools and, as I remember it, he estimated that there were a million boys and girls of high school age who were dropped out of school and were not at work. And I think every large city in the country knows what is happening as a result of this. The warfare which broke out on West 94th Street in New York City just a few days ago is connected with this.

Mr. WISHART. I should say this is a symptom of the unemployment picture.

Senator DOUGLAS. I understand. And, therefore, while the unemployment is concentrated, as Mr. Ellis says, in the juveniles, its incidence is extremely high among them.

Now, I think Conant's estimate of last year was on the whole a conservative one. Now, if you take the changes since last year—I have the economic indicators before me, and comparing June 1961 with June 1962, the increase in the labor force was only something like 70,000.

Mr. WISHART. That is correct.

Senator DOUGLAS. And that was the figure you gave. I was somewhat startled when Mr. Suits estimated the change in the labor force had been 900,000.

Mr. WISHART. This may have been on an annual basis.

Dr. SUITS. This was on an annual basis, yes.

Mr. ELLIS. Would you not still question that it will rise that much this year? It has not risen that much in the first 7 months.

Senator DOUGLAS. That is exactly right.

I think it is fairly clear that the economy has not absorbed these youngsters, the new entrants, who normally would have been absorbed, during this last year, and therefore that the amount of nonstated unemployment is greater than when Conant made his estimate of last year.

Mr. WISHART. I should say also that the fact that this unemployment has hit more heavily the younger groups by no means mitigates its social seriousness or its gravity.

Senator DOUGLAS. Not at all. That is the next point I wanted to pass to: that, to my mind, this calls for a frontal attack on the problem of juvenile employment. It calls for the necessity of a revival of CCC, a beginning of job training on the job. It calls for the other features of the youth employment opportunities bill on a much larger scale than contained in that bill.

This, it seems to me, is the basic necessity. And I find it somewhat difficult to see how people are thinking of certain forms of communication at 3,000 miles distance with other portions of the earth, and neglecting the need for giving employment to the kids here in the United States of America.

Mr. WISHART. I might add this, Senator, that our studies of automation in the meatpacking industry have indicated that the primary impact of automation does not come on employed workers, except where a plant may be closed down. The impact is felt by the young people who are not hired in the first place, because their potential jobs have been taken over by new technology and new machines. And in farm communities this has been a very serious thing.

Senator DOUGLAS. In other words, the avenues of entrance are being closed?

Mr. WISHART. That is correct.

Senator DOUGLAS. Now, Mr. Ellis properly says that this incidence falls with greatest weight upon the young, the unskilled, the minority groups. Now, if you have all three of these combined in one set, a youngster who is unskilled, and who is also a member of a minority group—this means that it is intensified among them. I think this accounts in large part for the wolf packs which are organizing in the cities of the country, that it is really the most serious social problem that we have in the country, and it is an economic problem.

That is all I want to say, Mr. Chairman. That is the point I wanted to bring out.

Chairman PATMAN. Senator Bush?

Senator BUSH. Mr. Wishart, in your statement, you say:

> But above everything else it is the responsibility of Government now to use every device at its command to create the preconditions of renewed economic progress.

What devices do you have, there?

Mr. WISHART. My understanding had been that we were not to present organizational programs, or specific listings of legislative proposals. However, I would include first of all a tax cut, lifting the burden of taxes, particularly on the lower income brackets, where a tax cut becomes immediate purchasing power, with volatility and circulation, to multiply its economic impact.

Senator BUSH. You would suggest that irrespective of any reduction in Government expenditures. Is that so?

Mr. WISHART. I would suggest that without reduction in Government expenditures.

Senator BUSH. Without any reduction in Government expenditures?

Mr. WISHART. That is correct, sir. I would suggest it as a means of shoring up essential purchasing power.

Senator BUSH. I did not quite understand this. Is there some inhibition about witnesses recommending relief, here, in the situation that we are talking about? Was there any advice?

Mr. WISHART. There was no absolute prohibition. I should go on to say that basic urban renewal, a more substantial investment in education, a more substantial investment, if I may use the controversial term, in medical care, all of these are essential.

Senator BUSH. Would you increase Government expenditure and at the same time reduce taxes, especially in the lower brackets?

Mr. WISHART. Yes, especially on the short-term basis. The question of the long-term balance of the budget I would say is perhaps another issue. But in terms of the immediate impasse, it seems to me that the Government responsibility here is to provide the lacking purchasing power, which Mr. Suits and others have indicated, along with my own testimony, is at the root of the present loss of acceleration in the economy.

Senator BUSH. So in your judgment it calls for increased Government expenditures along the lines that you said, and at the same time a reduction in taxes. What order of magnitude do you have in mind, there?

Mr. WISHART. This is a question which I have not studied. I am not in a position to give an authoritative answer.

Senator BUSH. Mr. Ellis, toward the end of your statement, there, you say:

> I believe the current relatively low level of corporate profit rate on investment is a significant factor in the failure of employment to rise more rapidly than it has in recent years.

Would you care to expand on that a little bit, there?

Mr. ELLIS. Yes, Senator. I would be glad to.

We have to keep in mind that in this country most of the employment is private employment. It is not Government employment. And private employment depends on the outlook for profit. If the outlook for profit is good, the employer will make additional investment and hire additional people.

At the moment, and in recent years, in the last 5 years, as was mentioned by the gentleman over here, there has been a definite profit squeeze in this country, in the sense that it is becoming more and more difficult to get the profit rate up to a satisfactory figure or to find new things which, with today's costs and today's taxes, can be produced at a satisfactory profit.

Therefore, the effort to find additional employees has been somewhat blunted.

If the profit level were higher, if the opportunity to earn a profit were one of the objectives of the present administration, the stimulation of profit, I think you would find the level of employment rising.

We talk about the level of unemployment being 5.3 percent, but if you look, as I mentioned, at the level of the adult labor force, it is under 4 percent, and it would not take much of an increase in employment to reduce that to perhaps 3 percent.

We are not talking about very large magnitudes.

Senator BUSH. Why is the rate of profit declining? Why is it so disagreeably low, in your estimate? What are the principal factors that bring about that condition, which is so serious in your mind?

Mr. ELLIS. Importantly because costs have risen and are still rising, and foreign competitive prices are lower than prices in the United States.

The steel industry is an outstanding example. It is difficult to sell steel abroad at the prices that apparently are necessary in this country to make a profit on the steel investment. It is difficult to sell American automobiles abroad, with our costs.

Senator BUSH. What do you think we can do about that?

Mr. ELLIS. We must do what has been mentioned here at the table: Increase the productivity per man, and per man-hour, so that we can get our costs down and therefore our prices down to a competitive level. That is the ideal.

At least we ought to hold costs in this country, so that if other countries, as in Western Europe, for example, do inflate their prices, it would be to our advantage.

Senator BUSH. Do you think American industry is doing a pretty good job of holding costs in line now?

Mr. ELLIS. Steel wage rates recently went up. Other wage and salary rates are rising. Social security taxes are going up the first of the year. State and local tax rates are rising. Transportation costs are rising. Postal rates may be raised. A lot of costs are still rising. In construction, for example, it may be that one of the difficulties with construction is the very high level of cost of construction. I think this committee has heard frequently about the difficulties caused by rising residential construction costs.

Senator BUSH. Principally in high costs of labor. Is that right?

Mr. ELLIS. Well, basically labor, because most costs are labor costs.

Senator BUSH. In construction?

Mr. ELLIS. In everything. Most costs of production are labor costs. By labor I do not mean wages only. It includes salaries. It includes the research people. It includes the sales people, the clerical people, everybody. Payroll is the primary cost item in anything.

Senator BUSH. What do you think is needed to sort of bring the realization of this thing home to those in authority? What do you think can be done about it to help us stabilize this cost situation?

Mr. ELLIS. We need to recognize the function of profit in the American economy. Profit is the stimulator in the American economy. If we had the acceptance of that fact, rather than the attitude that frequently prevails—that profit is a nasty word—the American economy would grow faster. To put it bluntly, if the administration would come out for a satisfactory rate of profit, I thing businessmen would increase the purchases of capital equipment and their employment.

It could not be done overnight. It is not something sudden. But I think that is the direction in which we have to go. We have to recognize that the American economy is a profit-stimulated economy; not a Government-stimulated economy.

Senator BUSH. You do not feel that the business authorities have a sense of real security in the attitude of their Government toward this important point. Is that right?

Mr. Ellis. That generally is correct; yes. I do not get the impression that the administration is in favor of seeing profits rise. They seem to apologize for them, when profit rates go up.

Certainly there is no outstanding program that would stimulate a profit rise. When businessmen come to Washington to talk about profit, the reception is not very favorable.

Senator Bush. I would like to ask the gentleman from Michigan one question if I still have the time.

You spoke about the gradual release of the tax brake. Would you amplify that a little bit?

Dr. Suits. By this I mean, sir, that I am not certainly sure myself how large a tax reduction would be needed to stimulate the demand that I think is needed for the growth that we ought to get from our economy. I would recommend, therefore, that we proceed with reasonable caution, but with all due dispatch.

I would suggest, therefore, a tax reduction in the neighborhood of $5 billion. I do not believe that this is adequate for the purpose but I proposed reducing a little at a time. If this $5 billion proves to be inadequate, we should follow with another $5 billion.

Senator Bush. With the prospects of a tax reform bill, a general sweeping reform of our whole tax structure, being fairly good, I think, for next year, do you think we ought to release the tax brake, as you say, right now, rather than wait until we can do a comprehensive overhaul job on our tax structure in the light of extensive studies by the Treasury and by the House Ways and Means Committee?

Dr. Suits. This is, of course, a problem of political procedure in which I am by no means competent.

Surely, if we could, tomorrow, bring in a completely reformed tax structure, with generally reduced tax rates, this would be something that everyone would be in favor of. But we must probably wait a year for a tax reform bill to get through hearings and through the Congress. I would think it would be better to proceed at once to reduce taxes within the context of the existing tax structure and then make the reform later within the new level of rates.

Senator Bush. My time is up.

Chairman Patman. Mr. Reuss?

Representative Reuss. Mr. Chairman, all the witnesses appear to agree that this country's rate of national growth has continued at the unsatisfactory 3-percent rate which it achieved during the 8 years of the Eisenhower administration. I commend our Republican colleagues for being alarmed about this, and I join with them in thinking that this merits consideration by the Joint Economic Committee.

I would like to call the attention of the panel to the July 1962 issue of the U.S. Department of Commerce publication, Business Cycle Developments. I think you all have a copy in front of you.

The leading indicators shown on page 5 have turned downward in the last month or two. The average workweek has gone down. The rate of new hirings in manufacturing has gone down. In all industry, it has gone down. The layoff rate is higher. The average weekly unemployment compensation claims have increased.

I notice that these changes also preceded the 1949, 1953, 1957, and 1960 recessions. I am disturbed at the similarity in the movements of the leading indicators to those which occurred before previous cyclical downturns. I'd like your opinions.

Mr. Ellis?

Mr. ELLIS. Gentlemen, I think you have to accept the fact that our economy fluctuates. Sometimes it is rising. Sometimes it is falling. When it has risen to a peak, it is likely to go down rather than up.

I think there is entirely too much discussion of the fact that we have business fluctuations in this country. Do you expect to eliminate business fluctuations? Is that the ideal?

Dr. WESTON. I think the fact that causes concern, however, is that as we approach this business cycle peak, we still have very high excess capacity in the industry.

Now, one can argue about the unemployment rate, but there is no question about the high excess capacity, high unused capacity. And I think the thing that causes alarm is that we have reached our turning point far short of using our national potential.

And this particular point suggests that probably an increase in the rate of the economic growth would do more for corporate profits than any single Government action. There is clear evidence that corporate profits are a function primarily of rate of capacity utilization, and the greatest increases in productivity you obtain when you are utilizing capacity to a high extent and spreading relatively fixed costs over a much larger rate of output.

Representative REUSS. I am sure you would not disagree with this last point, Mr. Ellis.

Mr. ELLIS. I would not disagree. But I would point out that businessmen spend a great deal of money on developing new products, on sales forces, and on advertising to do just what the gentleman mentioned. If someone has a plan to increase sales volume, I certainly would like to hear about it.

Dr. WESTON. Well, I think the answer there is the difference between a microeconomic approach and a macroeconomic approach. When the general level of business activity is declining, all the efforts on the part of individual businessmen are likely to come to naught. Income elasticities of demand are going to be pretty substantial, and particularly in a producer goods industry, such as Mr. Ellis' industry.

Certainly the individual businessman would like to do everything in his power to help contribute to economic recovery, and I think he can make some contribution. I do not say this is a job entirely for Government. But it seems to me that the central fact here is that you have a fiscal system now that does put a brake on recoveries, as Professor Suits described it. And in that total environment, particular efforts come to naught. You have to get at the fundamental cause.

Mr. WISHART. The individual businessman by investing in advertising does not create any new purchasing power. He may succeed in taking a share of the consumer dollar from another manufacturer. But in terms of the total economic system, he creates nothing new in terms of expanded capacity.

Mr. ELLIS. I would question that statement. But let us look first at this matter of capacity, which receives a great deal of attention.

The Du Pont Co. has some excess capacity. In the case, for example, of viscose rayon yarn, we built it 30 years ago. It was very good capacity at that time. The world has moved on. We have developed some new synthetic fibers that do a better job than viscose rayon did. But we still have maintained some of that viscose rayon capacity in operating condition.

Now, gentlemen, where did we make a mistake? We have excess capacity here, but only because the world is moving on. We have developed something new, something better.

Dr. WESTON. Would you say that the largest proportion of existing excess capacity is represented by technological obsolescence, or even a significant portion?

Mr. ELLIS. Yes, a significant proportion is. But, gentlemen, do not use the 100 percent of capacity as your ideal operating rate. Do not assume that we always should be operating at 100 percent of capacity. We are operating at about 85. Ninety would be a good figure. If we get much above 90, we start to build more capacity.

It takes 2 years to build a large plant. Suppose we decide this year that demand for our products in 1964 will be enough to absorb more than 90 percent of our present capacity. Then we had better get started building more capacity.

Our excess capacity in this country is not very large in total. Even in the steel industry, is not some of that excess in steel in a sense a defense reserve? Suppose we got into a shooting war. Would we not need that apparent excess capacity in steel? Is not some of the other excess capacity in a sense a defense reserve?

We ought to have a little leeway in capacity, even in normal commercial operations. We do not shift easily from one item to another. We may overestimate the demand here. We may underestimate it in another product.

Representative REUSS. Would you carry this argument to the point of saying that the 17 or 20 percent of our young people around 20 years of age who are now unemployed are a necessary soil bank?

Mr. ELLIS. No. But a lot of that 17 percent are boys and girls living at home looking for summer jobs. They are not looking for full-time work. Should we reorganize the economy so that every boy who wants a job cutting grass can find it or every boy who wants a high-income job can find it before he goes back to college?

Representative REUSS. Let me say that this committee takes seriously its mandate under the Employment Act of 1946, which says that it is the goal of the United States to have maximum employment, production, and purchasing power. And this means that, to the maximum extent possible, we do try to iron out extremes in business cycle movements. This view is shared by Republicans and Democrats alike. That is why the Republicans asked for this hearing.

Mr. ELLIS. I would question that statement, gentlemen. I think you are getting on very dangerous ground if you put as your idea a smooth, steady growth with no fluctuations.

Representative REUSS. I did not say "no fluctuations."

Mr. ELLIS. That is the business cycle. Remember, gentlemen, the business decline in the spring of 1961 was the mildest we have had in this country since 1926. That was not a very serious fluctuation. Now, if you mean to eliminate things like that by pouring in massive Government spending which is financed by selling securities to the commercial banking system, I think you are presenting a dangerous ideal.

If you can sell securities to savers, that is something else. But I am not in favor of massive Government spending to iron out that kind of fluctuation.

Representative REUSS. I believe we must remember that we are not talking of fluctuations around a rapidly rising upward trend in the economy but those which have occurred at a time of inadequate long-term growth.

Chairman PATMAN. Senator Javits?

Senator JAVITS. Gentlemen, I see a full debate shaping up right here, and I would like to state it.

Mr. Wishart, who represents one point of view, says the key problem of 1962 is the shortage of buying power in relation to the vast potential for production of goods and services.

Mr. Ellis, at the other pole, says the rate of profit on investment is still relatively low. And being in management, he naturally understates, whereas Mr. Wishart says it right out. But I think we get the point.

Now, what I would like to ask you gentlemen: Are these two ideas, which do represent the debate this fall, perhaps even the political debate between the parties—are they mutually exclusive?

If I may just finish my question: In other words, is the only thing we can do, according to Mr. Wishart, to get more urban renewal, pass aid to education, win for medical care, pass, as my distinguished colleague Senator Douglas says, the Youth Opportunities Act? And that will do it?

Or must we go with Mr. Ellis in a mutually exclusive way, and say, "Let's put a roof, not in law but in national climate, on wage increases and price increases, and let's give a real boost to automation, and let's go to town with giving business the expectation of more profit"?

Are these mutually exclusive?

Mr. WISHART. Might I say this: The increase of purchasing power which would expand industry's markets is by no means inconsistent with a certain profit return to industry. In fact, in my opinion the profit squeeze, about which we have heard so much, reflects primarily the underutilization of equipment. The cost of equipment, the cost of research and development, the cost of the sales force, the cost of the salaried personnel, does not decline with the drop in production. That cost remains relatively fixed.

The wage cost does go down in relation to production cutbacks.

So that the way out of the cost squeeze does not lie along the avenue of a wage freeze. The way out lies along the lines on which we have been talking here, the increase in purchasing power, to make it possible for industry to operate at something close to a desired level of capacity utilization. I think industry generally is quoted as saying that 94 percent is roughly the preferred level of operation.

I might add also that in my opinion the deterrent in business investment policy—and here, obviously, I am not speaking from the inside—the deterrent on investment policy is not profit as such, but the estimate of the market, the estimate, in other words, of the available buying power.

Obviously, Du Pont and General Motors are not going to build new plants if, in their opinion, the products of those plants cannot be sold. If the market demand for that output does not exist, the new plants are not going to be built, no matter how profitable current operations may be. And a move simply to jack up industry profits will have no long-range multiplier effects in reviving the economy as such.

Senator JAVITS. I would like to have Mr. Ellis's view on that. I would like to add to my question for him, which is the same question as for Mr. Wishart, that he owes us an explanation of why the forceful administration action on the steel price increase is said to have shaken business confidence more severely than even what he considers an inadequate rate of profit.

Mr. ELLIS. Let us take, first, this idea of purchasing power.

Gentlemen, it is a myth that there is any source of purchasing power that can be poured into the economy. Where do you get the purchasing power? Does it not come from the sales dollar? If you sell a product, some of it goes to pay salaries, some goes to wages, some goes to research. It all gets distributed. Is not income generated by production?

I think it is very easy to imply that what we need are massive injections of purchasing power, without saying where it is to come from. Where is this purchasing power to come from? If Europe would give us massive doses of foreign aid, of course we would be prosperous. There is no hope for that.

Purchasing power must be generated by production. There is no other place to get it. Temporarily, of course, you can supplement it by bank loans, which presumably get repaid later, and the same purchasing power then is withdrawn. You cannot rely on bank credit to provide large amounts of purchasing power, nor can you rely on printing dollar bills.

Senator JAVITS. Or Government appropriations—is that not right? You would add Government appropriations to that. It is still production that makes——

Mr. ELLIS. I would consider the receipts side rather than the expenditures side. You cannot consider selling Federal securities to the commercial banking system as providing purchasing power.

I agree with the gentleman on my right, who had a very specific statement. It would be fine if the total growth rate of the country, the total output of industry and finance, insurance, and real estate, wholesale and retail trade, could be expanded. That is why I stress this 3-percent growth rate in the physical volume of the gross national product. We are expanding at that rate. I would like to see it faster, but I do not know of any small changes that would give us a faster growth rate. If you want a faster growth rate, significantly faster, then you have to make some major changes in the economy, improve the educational level of the labor force, particularly these young people, 14 to 19 years of age.

It takes a long period of training to do that. You do not do it suddenly. Also increase the productivity, reduce the cost, so that we could sell a wider volume of goods.

But I would also call attention to the fact that while personal consumption expenditures do account for two-thirds of the gross national product, there is another third. What about new construction? If it is not profitable, it will not be built. What about producers' durable equipment, that is, the machinery used in production? If it is not profitable, it will not be bought. What about changes in business inventories? If it is not profitable to accumulate inventory, businessmen will not do it.

Let us not confuse the purchasing power of the American economy with the purchasing power of individuals. That is part of it. That is the bulk of it. But that is not all of it. Businessmen also spend large amounts of money in our economy.

That is why I like the Joint Economic Committee presentation of the gross national product. It shows immediately the pattern of spending, the relative importance.

In that pattern, of course, you have government spending—Federal as well as State and local. State and local spending is rising, has risen every year since 1941, will continue to rise, should continue to rise. That is primarily spending for roads and schools and public welfare, goods and services provided for people. There is no serious problem there. There is not much objection to tax rates there.

I also call your attention to the suggestion, with which I strongly disagree, that all we need to do is to make our personal income tax rates more progressive and you improve the outlook for the American economy. I think the current very high progressivity is one difficulty, as the gentleman on my immediate right has suggested. It is providing a tax brake. At some levels, you take 91 percent of a portion of income. Now gentlemen, reducing the first bracket tax is not going to help that upper income recover very much; it is not going to make him interested in contributing for college construction or investing money in new ventures, for example.

I think our personal income tax structure is very restrictive, especially because of the nearly confiscatory rates at the top. If you consider permanent tax reduction, I suggest that you do it across the board, for the reason that we ought to loosen restraint on the sources of saving in this country. It is not only purchasing power. We also have very large amounts of spending financed by investment funds, from savings for consumption spending that concerns us. There should also be substantial reductions of corporate income tax rates, and some reductions in Federal spending.

Senator Javits. Mr. Ellis, thank you very much.

My time is up, but I would like to make a statement before I yield my turn. I may not be here later.

I think one thing you gentlemen have not dealt with is one of the causes for our dissatisfaction with the 3-percent growth rate. It is not enough to sustain our world obligations, and our world responsibilities, as shown by our balance of payments, which is, as it were, the thermometer of our temperature. And that shows that we are fine if we were not giving foreign aid, if we were not maintaining large military forces abroad, if we did not have the world responsibilities we do.

The second thing I would like to lay upon this record is this: You have all agreed pretty much on a tax cut; yet a tax cut itself is nothing but a shot of adrenalin. None of you have told us, in my view, except possibly Mr. Wishart, with his thesis that we need Government programs—none of you have told us how you essentially deal with the American economic problem, which is a problem of automation, a problem of foreign trade and investment, as well as a problem of domestic improvement.

After all, the growth potentials in our country apparently are now limited, and we have got to look to the world in order to give the American economy the new plateau upon which to stand, in the world and in science. And these are the things I would hope, as we go along in these hearings, may be developed.

Thank you.

Chairman PATMAN. Senator Proxmire?

Senator PROXMIRE. Before I ask Mr. Weston about his very provocative reply to my challenge on monetary policy, I would like to say I am delighted to see so much of this discussion revolving around excess capacity. Our Statistics Subcommittee of this committee held hearings, and we have just filed a report. I put the report in the Congressional Record only yesterday, the recommendations from the report.

I think this would be an extremely useful area for further exploration. The data on statistics on industrial capacity is very unsatisfactory, very incomplete. We have some fine people working on it, and they are doing the best they can, but we have a long, long way to go.

And this is one of the reasons why I feel that we cannot make decisions as confidently or as surely or as effectively as we should because we just do not have the statistics necessary for them.

And I would like to ask, Mr. Weston——

Dr. WESTON. I was just going to say that although there is quite a bit more work to be done on measuring capacity utilization for purposes of comparison all you need for judgment in a situation like this is to compare the measures of capacity utilization in this recovery with previous recoveries.

And although as absolute measures the measures may be imperfect, the measures themselves have not fundamentally changed in their concept and techniques. And when you compare the degree of capacity utilization in this recovery with previous recoveries, it falls significantly short.

And it does not have to fall very much short to have a significant negative impact on the profits, because with a higher degree of fixed costs, now, as a percentage of total cost, a smaller decline from some norm of full capacity utilization will produce a much more repressive effect on profits.

I just wanted to make that point.

Senator PROXMIRE. Yes. Well, I do not want to get sidetracked.

We have an excellent chart in the Economic Report on page 55, showing the distinct, direct, constant relationship between capacity utilization and corporate profits. There is just no question about it.

At the same time, I think that much of what Mr. Ellis says is true, that 90 percent seems to be the optimum level.

There is about the same degree of excess capacity that there is of unemployment.

But let me get into this right now, because I think this is so crucial and so important.

You seem to share the view that we should not put on fiscal brakes, but you seem to think that we should put on monetary brakes, slowly, gradually, but we ought to put them on. You say that monetary policy is relatively tight because of the international balance-of-payments considerations. You go on to say this further tightening in monetary policy would be consistent with international balance-of-payments considerations.

Now, the two people in the country who are perhaps most responsible for monetary policy, particularly in relation to balance of payments, are Mr. Martin, of the Federal Reserve Board, and perhaps Mr. Roosa of the Treasury Department.

Mr. Martin earlier this year, in response to a question from this committee, said this with relation to this very question:

> Interest rates are necessarily a factor affecting the movement of funds—short term and long term—between the money markets and capital markets of developed countries. There is, however, no invariable relationship between relative interest rates in such markets and capital movements. While interest differentials can be an important factor in movements of capital, other factors also exert a conditioning influence. These other factors include the availability of credit, the supply of credit instruments of ready marketability, the demand for credit for borrowers of good standing, and—of predominant importance at some times—expectational and confidence factors.
>
> Capital movements are sometimes viewed in the narrow context of funds seeking liquid investment in prime market paper of short maturity. The differences that existed last year between money rates here and abroad on this kind of paper do not appear to have been a primary determinant of international movements of funds of this type.

Mr. Roosa has said almost the same thing. He also indicated that interest was not a highly significant factor in balance-of-payments considerations.

Mr. Gemmill, a very distinguished economist with the Federal Reserve Board, in an article I just put in the Congressional Record recently from the Journal of Finance, said exactly the same thing, only with more emphasis, saying that this was not very significant.

I notice that the statistics show that our interest rates are already substantially higher than they are in Germany, higher than they are in the Netherlands—and these are short term rates, which are most important—higher than they are in Switzerland.

And on the basis of all this data, it seems to me that to rely on international balance of payments as the only alibi for higher interest rates when we know that this does exert a restraining influence on the economy, is inexcusable.

And when the economy, as you testified so well, and everybody here has, is not moving fast enough, is not growing, and we have unemployment and excess capacity—it just does not make sense.

Now, how do you justify it?

Dr. Weston. I think you misunderstood my statement. I was not advocating higher interest rates.

What I was saying was this: that I am talking to the Joint Economic Committee of Congress. And Congress, under our traditions, does not control monetary policy.

Senator Proxmire. Oh, bless you for saying that. And we should. The Constitution gives that power, as you know, in article I, section 8. And this is something we ought to stand up and insist on.

Dr. Weston. Why do you not do it, then?

Senator Proxmire. I am glad you said that, too. The Federal Reserve Board is our creature. They are accountable to us.

Dr. Weston. Being a practical person, I look at the facts of life, and I say that over recent years you have not exercised this prerogative of yours. And so I address myself to the realm of powers which you do have, and which you have exercised, and this is in the realm of fiscal policy.

Senator PROXMIRE. Do you feel we should exert this influence?

Dr. WESTON. Let me take one point at a time. Let me clarify my basic position, which is that the kind of monetary policy that we have had has been relatively tight. When you refer to the circumstances of last year and say that very little of capital movement was due to differentials in interest rates, this would certainly be true for last year, because our short-term interest rates were relatively high.

Senator PROXMIRE. They are higher, now.

Dr. WESTON. All right. What I am saying is that given this external factor over which you have chosen up to this point not to exercise control, given relative monetary stringency, then in the area in which you have presumably the power and have historically acted in the area of fiscal policy, certainly you should act here.

Senator PROXMIRE. Let me say: Is it not true that historically, speaking now of the Government as an entity, the Government has acted consciously at least more with regard to monetary policy than fiscal policy? Fiscal policy is a relatively new tool of stability. For the last 40 years at least we have had a conscious attempt on the part of the Government to influence the economy through controlling the supply of money. But the fiscal policy, tax-cut notion is a very new notion, and from the Gallup poll and other indications the public does not accept at all that we should use fiscal policy.

This is a radical new idea, that you should deliberately create a deficit, and particularly in a time of relative prosperity—lower taxes and increase spending or maintain spending. That is something it seems to me that is quite radical; as compared with the far more conservative notion that when conditions do not look so good you ease up a little bit on credit.

And I am not asking for pegging bonds at par. I am simply asking for a little easier credit; not having just $300 million worth of free bank reserves, but $500 or $600 million.

Why is this not a more traditional and a more conservative approach? And also from what you are saying—and tell me if this is not true—if we did not have this tight money policy, you would not need as big a tax cut? Is that not what you are telling me? That because we have a tight money policy, you are going to need a bigger tax cut than you would have to have without it?

Dr. WESTON. That is correct.

Senator PROXMIRE. Therefore a bigger deficit than you would have without it?

Dr. WESTON. I would disagree with the bigger deficit. I think it is questionable whether you would have a larger deficit if you had a tax cut.

Senator PROXMIRE. No, no. I am not talking about that. You indicated we have about a $6 billion bigger deficit with a $10 billion tax cut. But I am not talking about that.

Dr. WESTON. That was Professor Suits. I would feel that the dynamic consequences of a $10 billion tax cut would substantially eliminate the deficit.

87869—62——4

Senator PROXMIRE. It was my fault. I should have emphasized: I am saying you will need a bigger tax cut if you have higher interest rates.

Dr. WESTON. Yes. That is absolutely true.

Senator PROXMIRE. In order to do the same job?

Dr. WESTON. Certainly.

Senator PROXMIRE. And the higher interest rates do restrain employment? They do restrain expansion?

Heaven knows in the construction industry, it is just as clear as the nose on my face that between 1955 and 1957, when we had an increase in income, an increase in population, a big increase in family formations, in spite of all this housing starts just nosedived—because the interest rates were climbing. And here is a tremendous area of employment.

Dr. WESTON. Yes. But given that we are near the top of an upswing, the ability of monetary policy to stop a turn is questionable. This is why I argue for moving in the realm where you do have authority, in the realm of fiscal policy.

Yes, I would agree to ease up on the monetary side, also. But on this you have exercised no control. Ease up on fiscal policy, because this has the greater power to stop the downturn.

Senator PROXMIRE. My time is up. I just want to say that I think we have all the control in the world, far more as a matter of fact, over monetary policy than we have over fiscal policy. All we need is the resolution to exercise it.

Chairman PATMAN. I want to interrogate the panel after Mr. Widnall, but first I would like to congratulate you, Dr. Weston, on reprimanding Congress for failing to assume its constitutional monetary powers.

Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

I will ask this question of the entire panel.

If an immediate tax cut is enacted, should it be limited as to length of time?

Dr. WESTON. I would say no, because certainly my basis for recommending the tax cut is not for the cyclical problem, but for the fiscal structure problem.

Structurally, the taxes just levy too large a burden on spending power.

And incidentally, with regard to where you provide the tax cuts: While it is true that we have very high rates on high incomes nominally, it is questionable as to the extent to which our personal income tax program is de facto progressive. Look at the facts; taxable incomes over $20,000 a year account for only 26 percent of the total revenues, of the revenue system.

As Prof. Henry Simons so aptly put it, we dip deeply with a sieve in our personal income tax rate, and it really does not make too much difference. The Harvard Business School studies of effects of the progressive personal income taxes on incentives have very clearly concluded they did not have negative effects on incentives.

And this is why I argue that if the structural problem is inadequate spending, you do it at the low end of the scale. You cut taxes there.

Representative WIDNALL. Am I right in stating that none of you have advocated an increase in exemptions on the income tax?

Mr. WISHART. I would certainly argue for an increase in exemptions applying with major impact, of course, on the lower brackets.

I think it is interesting that if you apply the cost-of-living index to the $600 exemption, you will find that in constant dollars, the $600 exemption is now about a $480 exemption; that even the 1948 exemption, in other words, is no longer effective in terms of the real buying power of the lower bracket family.

Representative WIDNALL. Is it your thought that you should not only have an increase in exemptions, but also a decrease in the rates?

Mr. WISHART. Yes.

Representative WIDNALL. Particularly in the lower brackets?

Mr. WISHART. Yes.

Dr. SUITS. I think I would differ with that. Our personal income tax as it stands is an immensely complicated thing to administer, and it is a terrible nuisance for a person to fill out. We very badly need reform in the entire structure of the tax.

I should certainly not—and this comes back to Mr. Bush's question—want, in connection with an immediate tax cut, to run counter to the longrun need for tax reform. I think this would be a step in the wrong direction.

Personally, I think it would be politically expedient and economically efficient to think in terms of some kind of an across-the-board cut that would yield $5 billion reduction in tax revenue at our current level of employment and income.

Representative WIDNALL. You all agree, then, that there should not be any specific length of time. It would be permanently effective?

Dr. SUITS. That is correct.

Mr. ELLIS. I would support that position. I think the current business level is sufficiently high that we should not stimulate the economy at this level. If at some other time it is not satisfactory, you might do that. But I think there is extreme danger in the Federal Government taking the position that they will determine the level of income, they will reduce tax rates over short periods and then they will put them back up again.

I think the Federal Government should reduce the magnitude of its spending, rather than increase it. I would not be in favor of a quickie or temporary tax cut. I would be in favor only of basic reform in tax rates. And I think that would take at least until the 1st of January.

Secondly, I do not think the economy now needs a quickie tax cut. I think there is danger of implying that we can set the level of growth at anything we want by just changing tax rates a little bit in a mild recession and putting them back at some other time. You gentlemen know how difficult it is to raise tax rates. It would never be appropriate to put them back up.

Let us have basic tax rate reform, and not use tax changes as a regulator of the economy.

After all, businessmen have to make plans for several years in advance. We would like to know what the conditions are going to be 5 or 10 years from now. What will the tax rate be then?

Let us not use tax rate changes as a minor adjusting factor. There are too many factors to consider now in business investment. Do not add any.

Dr. WESTON. I think it should be pointed out in this connection that not to take any action at all is a policy matter. The fact of life is that the Federal revenue system now accounts for something like 20 percent of gross national product. This means that even if you do not make any change, there is a significant impact, and it is a policy decision in effect to say that what we have is the correct thing.

Now, among all of the multitudinous things that can affect business decision making, technological change, and so forth, changing the structure of taxes on the side of easing up on the fiscal brake should pose few problems for business planning. In the first place, it is a favorable change for business. In the second place these changes are so infrequent, so episodic, that compared to the many other uncertainties that business faces, you certainly cannot use this as an argument against a tax reduction.

Mr. ELLIS. I was using only the argument against a quickie tax reduction which may be for a short time. I am very much in favor of permanent reform.

Mr. WISHART. I might add to that the concept of a quickie tax reduction, even a temporary one, on a countercyclical basis, is one which has great support.

For example, in a period of declining employment, or in a period where recession may be threatening, a $100 deduction of Government tax withholding would I think have a strongly stimulating effect. It can be used as a short-term offset.

Dr. WESTON. I would add that a permanent tax reduction enacted promptly is not a quickie.

Mr. ELLIS. No, I was thinking of a reduction which would be rescinded at some time in the future. That is what I meant by a quickie.

Dr. WESTON. We were certainly proposing a permanent reduction.

Mr. ELLIS. Yes. One without a time limit, then.

Dr. WESTON. Without a time limit, and done promptly.

In this connection, it should be pointed out that such a great need for tax reduction exists that a tax cut now does not rule out the need for another tax reduction at the time the tax reform proposals come before Congress. The present proposals for tax cuts would so stimulate the economy that the revenue loss would be very small. Tax cut measures with initial cuts totaling at least $10 billion could well accompany the tax reform proposals.

Representative WIDNALL. We have heard much recently about budget deficits promoting prosperity. Now, in fiscal 1961 and fiscal 1962, we have budget deficits, and we are going to have one in fiscal 1963. Why has the economy been so sluggish, then, that we have been incurring deficits?

Dr. WESTON. It is the difference between a deficit incurred passively, and one incurred actively. When a deficit is incurred passively, because of lighter economic growth, this has no stimulating economic effect. A deficit that is planned for turns out not to be deficit.

Representative WIDNALL. Government spending has incurred the deficit, and you are going to increase the Government spending? I do not see the difference between the two.

Dr. WESTON. The cause of the deficit is the lag in Government revenues as a consequence of the lag in the rate of economic activity.

Dr. SUITS. May I answer that question this way: I think we have entirely too much emphasis on the "deficit," which is a number, an accountants' number, associated with particular accounts dealing with selected activities of only one government in our Federal structure, organized as we are.

It is elementary that any expenditure by anybody—a business, a State government, a school board, the Federal Government—stimulates economic activity and employment. It is elementary that any taxation by anybody, by a school board, by the Federal Government, by the State government, retards and brakes economic activity.

The extent to which we get stimulation or braking in our economy depends on the extent to which we manipulate these two controls. The difference between the tax revenues that we take in, and the expenditures that we make on certain specified accounts we call our deficit. But neither the magnitude nor the direction of this difference tells us what effect the fiscal activity will have on the economy. With equal deficits we can have either expansion or contraction.

In principle, by increasing taxes and by increasing expenditures by more or less, we could have a runway inflation in a situation in which we were accumulating budgetary surpluses at a record rate, or we could have the world's worst depression in a situation where we had the largest budgetary deficits that we have ever had, as we did, indeed in the 1930's.

We ought not to think of the deficit itself as doing anything. It is expenditure that promotes, and it is taxes that retard. The deficit is merely an accounting difference.

The purchasing power that we have been talking about already exists. The profits that we are talking about already exist. Corporate profits are at a record rate, I believe.

Mr. ELLIS. That is right.

Dr. SUITS. If we want corporate profits after taxes to be higher, all in the world we have to do is to cut a couple of points off the corporate income tax.

If we want consumer purchasing power to expand, it is not a question of asking where this purchasing power originates, it is already there. All we have to do is take off the tax brake and let it free.

Now, there are two sides to this current problem that we are in. And this is, it seems to me, the proper approach to the fiscal side.

On the other hand, there is an aspect of this problem whis is not a fiscal matter. This refers to the points that were raised by Senator Douglas a moment ago: The question of the proper preparation of our young people to take their place in a world in which we have an entirely new technology; the proper provision of steps to the employment and training for these people. This is another matter. Nothing we can do with the purely fiscal powers—tax, spend, deficit, or what you will—will attack these underlying problems.

There is nothing about the lack of education or preparedness of a 16-year-old young man that we can fix by any kind of Government action except training and education, and related projects.

Chairman PATMAN. Thank you, sir.

It is about 12 o'clock, but I want to ask one or two questions.

The question of what kind of a tax cut we should have has been discussed by the panelists. I believe you said, Dr. Suits, that your calculations show that a reduction of $10 billion in taxes would result in 1 million new jobs. I assume that you meant an across-the-board reduction.

Dr. SUITS. I meant across the board in the personal income tax.

Chairman PATMAN. In the personal income tax?

Dr. SUITS. That is right.

Chairman PATMAN. Suppose you were to increase the exemption on the lower income groups.

Dr. SUITS. I think that the difference in effect would not be very much greater.

Chairman PATMAN. It would not be very much?

Dr. SUITS. I do not think so.

Chairman PATMAN. During the depression in the early 1930's, many of us recognized that it was primarily due to an absence of purchasing power, and the main thing we wanted to do was to increase purchasing power.

We accused those who differed with us of being members of the trickle-down group. They favored pouring in money at the top, so that it might trickle down, but it never did get down to the masses, where real purchasing power was most needed in our economy.

Do you not think that it is better for an economy to have what you might call the percolate-up type? In other words, shouldn't it start at the bottom? If purchasing power is made available at the bottom, it can always percolate up. Isn't that better than pouring it in at the top and expecting it to trickle down?

Dr. SUITS. This is certainly correct. I want it clearly understood, however, that my view here is with regard to the immediate situation. I am a great and a long-term advocate of tax reform. And I think we should keep these two problems completely separate.

If we become involved in internecine discussion of whether it is Mr. A or Mr. B who is most deserving, or is most conducive to economic expansion, we can get locked in dead center and not have what I believe to be essential; namely, immediate tax relief. So that I would propose, from the standpoint purely of fiscal policy, without regard to justice, or without regard to the longer run problems of tax balance, that we simply cut taxes across the board by enough to yield, let us say, an initial $5 billion reduction.

Chairman PATMAN. Thank you, sir.

I shall not take more time. If any other member would like to ask questions, of course, we will be glad to listen to you.

Tomorrow morning, Wednesday morning, in this room, we will start with a panel—Douglas Greenwald, director of research, McGraw-Hill; Mona E. Dingle, economist, Board of Governors, Federal Reserve System, and George Katona, professor of economics, University of Michigan.

I want to thank you gentlemen very much. You have made a great contribution to the success of our hearings.

Representative WIDNALL. Mr. Chairman, I wonder if the members of the panel could submit some answers to us on what they feel have been the primary determinant of the rapid rate of growth in Western

Europe and Japan, and whether there are any lessons we can learn from that, in fiscal policy and other matters.

Chairman PATMAN. That is a good question.

When you get your transcripts to correct, if you will extend your remarks and provide an answer to Mr. Widnall's question, it will be appreciated.

(The following was later received for the record:)

COMMENTS SENT IN ANSWER TO REPRESENTATIVE WIDNALL'S QUESTION, BY IRA T. ELLIS, ECONOMIST, E. I. DU PONT DE NEMOURS & CO.

The more rapid growth rate of economic activity in Western Europe than in the United States over the past decade was due to a variety of reasons:

1. It was a period of extensive rebuilding in Europe to repair the damage of World War II. No similar rebuilding was necessary in the United States. Now that the rebuilding phase in Europe is largely completed, stimulation from this source has declined significantly.

2. The growth rate of the American economy since 1939, or 1936, compares very favorably with the growth rate of any other large industrial country over this period. We enjoyed a great stimulation of production during World War II and the early postwar years, when Western Europe was suffering extensive destruction of their productive capacity. Concentrating on growth rates since 1953, for example, ignores the very much larger growth in output in the U.S. economy from 1939 to 1953 than occurred in Western Europe over this period.

3. The burden of defense expenditures in Western Europe was very much less over the past decade than it was in the United States.

4. Western Europe resumed her usual place in the export business of the world over the past decade, while U.S. exports were declining from their abnormally high levels immediately after World War II.

5. There was a concerted drive by national political administrations, management, and labor in Western Europe to hold down production costs and increase output. In this country, on the other hand, much of the political and union effort was directed toward increasing the share of labor in the production pie rather than reducing costs or increasing output.

6. Substantial reduction in U.S. Federal personal and corporate income tax rates, with significant cuts in some low-priority Government spending programs, would stimulate the U.S. economic growth rate—at a time when there is clear evidence of some slowing in the economic growth rate of Western Europe. There should also be a concerted drive in this country to reduce production costs, even at the cost of some shifts in employment, to widen our domestic market, and to improve our competitive position in world markets.

GROWTH IN WEST EUROPE

Statement by James Wishart, director, research department, Amalgamated Meat Cutters and Butcher Workmen (AFL–CIO)

What have been the determinants of growth rates in West Europe and Japan which have, in recent years, substantially exceeded those of our own economy?

If a single generalization may be submitted in tentative answer to this question it would seem that the one unifying principle behind recent European experience has been the acceptance of government responsibility for the creation and growth of markets for industry. Table I compares various measures of growth abroad with our own.

Although tax policy in West European countries has favored capital investment through depreciation allowance and other stimulants, the government's basic economic role has been that of assuring present and future markets at home and abroad.

1. Government fiscal and monetary policy has not been fettered by orthodox concepts of budget balancing. Table II indicates that all countries of the European Economic Community have accepted budget deficits running far above the American level. Such deficits have been recorded through accounting methods, which, in comparison with those in effect here, understate actual deficits in-

curred. And such deficits were tolerated as matters of national policy, even in years of high level economic activity and growth. Government expenditures have been used as a tool for assuring desired economic growth rates.

If this country were to accept deficits equal to the Italian deficit as a proportion of gross national product, our budget would fall short of Government income by $15 billion annually. At the French level, our deficit would run substantially over $25 billion.

2. The basic stimulant of the Common Market has been the clear prospect it holds out for expanding continental markets. This has been sufficient to float a boom in capital expansion for the six EEC countries, which, in turn, has shored up the economies and rates of capital investment for other countries of the hemisphere, with the possible exception of Great Britain.

In addition, government itself has taken direct responsibility for projecting various sectors of domestic markets. France, for example, using input-output analysis has projected a 5-percent growth in gross national product for 1962. Although this is less rigid than a fixed national plan, it is more substantial than a mere forecast of trends. It becomes a key and goal for the patterns of initiative from both private and government sectors of the economy. Although the decisionmaking power remains officially in private hands for the most part, such private decisionmaking is influenced and guided by specific knowledge of national, sector, and industry patterns, and by the more basic assurance that markets to absorb output of newly created capacity will also be created.

Government policy in all EEC countries has called for various forms of guidance to private investment.

3. Direct government support and stimulus has gone to the creation of foreign markets, which account for a larger sector of each nation's output.

Export subsidies in various forms, import limitations or levies, and other forms of control, have been used substantially by all EEC countries. They are continuing in use, though to a lesser degree in relation to other members of the Common Market, for the purpose of maximizing imports and favorable balances of trade.

To assume any rigid application of strict free-trade principles among EEC countries is currently unrealistic.

4. Unemployment levels have been kept low (see table III), and, as a consequence of relative shortages of labor, wage levels have risen rapidly. As the New York Times reported (Jan. 9, 1962):

"For the workingman, despite occasional headlines about strikes, 1961 was the best year ever, particularly in the private sector.

"Wages in Europe are not easy to measure, partly because of the large social security element. But in some countries they went up by more than 10 percent in 1961, and in almost all by more than 5 percent. The major reason, no doubt was the labor shortage and the classic operation of the law of supply and demand.

"This huge increase in mass incomes—to the extent it was not taken away again by higher prices—laid the foundation for a big burst of consumer spending. This was already being felt in such countries as Germany and France as the year ended.

"This 'push' from the consumer side, was one main reason why forecasts for 1962 remained, on the whole, optimistic."

No restraints from government so far have been placed on wage gains running far above gains in productivity of European labor.

The Wall Street Journal of July 17, 1962, reported some pressures developing in this direction in West Germany: "Mr. Erhard (Economic Minister for the Bonn government) has warned that soaring wages and prices threaten to price German manufactures out of world markets."

The Journal account of this declared that West German wages rose 11 percent last year, as compared with a 4-percent productivity gain.

Secretary of Labor Goldberg reported, early this month, that wage settlements this year in the United States have averaged 3.2 percent. This figure does not, of course, include substantial areas of industry in which no wage changes have been reported.

It is beyond question that recent gains made in wage levels and in purchasing power by the mass of West European peoples have been proportionally much greater than those achieved in this country. They have been gains from a lower base than our own. But to fail to see a correlation between such gains and gains in gross national product, also from a base far below our own, is to ignore basic economic fact.

TABLE I.—*Increases in gross national product, industrial production and consumption, selected countries, 1953–60*

	Percent increase, real GNP	Percent increase, real GNP (per capita)	Percent increase, index of industrial production	Percent increase, per capita, private consumption
Belgium	21	16	27	17
France	36	28	68	24
Germany (Federal Republic)	61	48	80	46
Italy	49	44	82	29
Netherlands	42	30	57	26
Austria	58	55	69	49
Sweden	30	24	35	17
United Kingdom	22	18	30	21
Canada	22	1	30	11
United States	19	6	19	12

Source: Organization for European Economic Cooperation, General Statistics, July 1961, No. 4.

TABLE II.—*Government deficits and surpluses as a percent of gross national product, selected countries, 1952–59*

[Key to symbols: D, deficit; S, surplus]

Countries	1952	1953	1954	1955	1956	1957	1958	1959	Number of deficits	Average deficit, relative to gross national product [1] (percent)
Germany	S	S	S	S	S	D	D	D	3	1.17
France	D	D	D	D	D	D	D	D	8	4.61
Italy	D	D	D	D	D	D	D	D	8	2.70
United Kingdom	D	D	D	D	D	D	D	D	8	1.27
Sweden	S	D	D	D	D	D	D	D	7	2.20
Belgium			D	D	D	D	D	D	6	2.21
Netherlands	S	S	S	D	S	D	D	S	3	.71
United States	S	S	D	D	S	S	D	D	4	.95

[1] The deficit for each year in which a deficit was incurred was converted into a percentage of gross national product. These percentages were then averaged over the total number of years in which deficits occurred.

Source: Derived from International Monetary Fund data.

TABLE III.—*Average annual rates of unemployment in selected countries, percent of labor force*

Country	1953	1954	1955	1956	1957	1958	1959	1960	Source of data
United States	2.9	5.6	4.4	4.2	4.3	6.8	5.5	5.6	Survey.
Germany	7.5	7.0	5.1	4.0	3.4	3.5	.7	1.2	Registration.
Netherlands	2.8	1.9	1.3	.9	1.3	2.4	1.9	1.1	Do.
Sweden	2.8	2.6	2.5	1.5	1.9	2.5	2.0	1.5	Do.[1]

[1] Trade union returns prior to 1956: Registration only of insured workers.

Source: National statistics; International Labor Organization, international labor statistics.

(Reply to Mr. Widnall's question, by Daniel B. Suits:)

This important question could well become the basis of a large, important study by this committee. It is one that deserves careful research by experts in the field of foreign economic development. Unfortunately, I am not one of these, and any serious expression of opinion on such a matter would be presumptuous.

Senator PROXMIRE. I would like to ask a couple more questions. I apologize to the panel and to the members, but I think this is such a good panel, and so well balanced, and the statements have been so provocative that I just cannot resist.

Mr. Ellis, you pointed out, and I think rightly so, that a substantive proportion of our unemployment problem is the young people. I am persuaded, as Senator Douglas brought out so well, that this is true. I am wondering if one constructive way of solving this situation and contributing very greatly to the long-term reduction in unemployment is not to do all we can to persuade the States to increase the age at which students leave school from 14 to 16 up to a higher level as they in their best judgment can do it; combine this with a much more vigorous vocational education program and a dovetailing of this in cooperation with management, labor, and others, so that when young people leave the school there is a job for them available.

Now, one of the things that President Conant, former president of Harvard, brought out in his book was that in communities where this is done—and there are many communities in America where they do that—there is very little problem of youthful unemployment.

Now, if we could somehow use what influence we have, here, the President and Members of Congress, to work on the States to do it, it seems to me we would do two things. No. 1, we would reduce unemployment; No. 2, we would solve a very vital problem of training more skilled people in a technological society. Is that not correct?

Mr. Ellis. I think you are going in exactly the right direction. It takes time, of course, but we have made a start in that direction when we began to put this greater stress on mathematics and science in the schools, and pointed out the shortage of engineers and the high salaries they receive when they finish the training. We are trying to pull them through the school system. And it is all to the good.

It would of course also be desirable to increase the level of vocational training which would be importantly at the high school level rather than the college level, because unemployment is a very definite function of lack of skill.

If you can provide more skill in the jobs where there are shortages of people for the jobs, you can increase employment. And in that connection, I would like to point out that the fact that we have 4 million unemployed does not mean there are no jobs available. Some of those people prefer not to work at the jobs that are available.

I think that is another point that we must keep in mind: that there are a lot of jobs available in this country, but for some reason people prefer not to take them.

I think you are going in exactly the right direction. Let us increase the level of skill of our young people, particularly the ones that now drop out of school.

I do not take the figure for June 1962 as typical of the labor market. Many of those boys and girls reported as unemployed in June are merely looking for summer work. They are going back to school in the fall.

Senator Proxmire. I know. I am seasonally adjusting all these figures, and in October, November, and all during the school year there will be millions of those teenagers who will be out of school and out of work.

Mr. Ellis. Look at October, for example, when the schools are in full session. I think you are going in the right direction. Let us increase the level of skill of these boys and girls.

I do not know whether raising the school dropout age would do it. That is at 14 primarily in the Southeast, and in most of the rest of the country it is now 16. I do not think you could make it 18.

Senator PROXMIRE. No, but it could be from 16 to 17 in some parts of the country.

Mr. ELLIS. I would prefer to see it done in pulling them through and point out the opportunities. Point out how much better life they will have later if they increase their education now.

Senator PROXMIRE. When I have spoken in most of the high schools in my State and everywhere, they stress the commercial or monetary value of staying in school. But I think if you could make it mandatory—after all, we used to permit students to leave after grade school, and very few people had a high school education, many years ago, and we have been making progress, but it has been slow.

Mr. ELLIS. Right.

Senator PROXMIRE. Secretary Goldberg said just the other day that now for the first time labor leaders are really serious about a 35-hour week, and about this approach to the problem. I do not blame them for being concerned.

I do not blame them for feeling this way. They see their people unemployed. They do not know whether or not these tax-reduction proposals are going to work. And frankly, I do not think a $10 billion or even a $15 billion tax reduction is going to do the big job that many people expect it to do. It may help some.

Therefore I feel we should pay some attention to the supply side of this equation. One way would be to keep our young people in school. That would help a lot.

Another way: Imagine the massive unemployment problem we would have today if we did not have social security. The fact that we have 14 million people receiving social security checks, and therefore it is unnecessary for them to work, and they are able to retire—I can see if we can continue what we did very constructively, I think, in the first part of this session, and reduce the retirement age from 62 to 60, but make it voluntary, and at the same time reduce the benefit that will be received under these circumstances——

What is the cost? If a person chooses to retire at 60, and believe me, on the basis of the petitions I have received, thousands and thousands would do so—you open up jobs and industry for younger people, and you do not have to have this very heavy cost of reducing hours from 40 hours to 35 and trying to maintain the same wages, which would really aggravate our problems.

I cannot see what is wrong with trying to look at the supply side of the equation, as well as the demand side. I think it has been overlooked badly.

Mr. ELLIS. In the first place, Senator, I do not think there is any strong push back of the 35-hour week. Labor does not want to work less and enjoy more leisure at the cost of a lower standard of living.

Senator PROXMIRE. They want more jobs. But I think while I would concede there is no strong push now, believe me, if the cycle does what it has almost always done, and we move into recession and get 7 or 8 percent unemployment, there is going to be terrific pressure.

Mr. ELLIS. What I meant to say is that you cannot reduce the hours of work and pay the same weekly wage.

Senator PROXMIRE. Not without a punishing increase in costs. I do not favor it now.

Mr. ELLIS. I do not, either. I do not think labor wants a shorter workweek with a lower standard of living. And it is impossible, without increasing productivity correspondingly, to have a lower workweek at the same weekly income rate.

Our standard of living is based upon what we produce.

Senator PROXMIRE. I will not argue with you on the facts. I would say Mr. Meany has indicated that he is serious about this. And he is the spokesman for 16 million workers.

Mr. ELLIS. But would it not result in more moonlighting?

Senator PROXMIRE. Again, I am not arguing the merits. I think perhaps moonlighting has been somewhat exaggerated. But whether it would or would not, I think it is something we should be concerned with. And I think there is a legitimate reason behind this, because the working people are really concerned about seeing a situation in which, even in periods of recovery and economic prosperity, there are 4 million people unemployed.

And while your figures are perfectly correct, I call your attention to the charts on page 43, which show that about 2 percent of the unemployed have been unemployed for more than 15 weeks, and some 3.6 percent of the married men are out of work, and of the experienced wage and salaried workers, a very, very high percentage, over 5 percent, are out of work.

Mr. ELLIS. Senator, would you say that it is possible that the wage rate is also affecting unemployment, that labor in some cases has priced itself out of the market?

Mr. WISHART. At certain points administered prices in industry have reduced possible demand to a level which has created unemployment. In terms of wage costs, the fact is that the wage costs per unit of output have been declining in absolute terms over the past 3 years. And I refer you to an exhibit submitted by Mr. Reuther before this committee last February.

Senator PROXMIRE. This is certainly true in many industries. It seems to be true in steel and in some other areas, even though they have had very substantial wage increases.

Mr. WISHART. These are overall figures, covering manufacturing industry as a whole.

Senator PROXMIRE. There is an indication of this, too, in the fact that we have had fairly stable prices over the last couple of years.

Mr. WISHART. Might I say, too, that labor's proposal for a shorter workweek—and I am speaking on behalf of a labor organization, here—is not one to be underestimated in any sense of the word. Obviously, we would prefer full employment, with a 40-hour workweek, but without full employment, without the prospect of full employment, the proposal for a shortening of work hours is one which has behind it genuine force, momentum, and support.

Senator BUSH. Do you really believe that union members would want to reduce their workweek from 40 hours to 35 hours without substantial increase in pay?

Mr. WISHART. Not without substantial increases in pay; no.

Senator BUSH. So it is not just a reduction in the workweek they want. It is really to get an increase in pay through that device. It that right?

Mr. WISHART. An increase in hourly rates would be involved in such a reduction.

Senator BUSH. So as to mean a stabilization in wage costs? It would result in a net income increase to the members. Is that true?

Mr. WISHART. I would not concede that a rate increase is necessarily an increase in wage costs. Under the impact of automation——

Senator PROXMIRE. What the workers want to do is to preserve their present annual income or weekly income. You speak for the AFL–CIO, and they want a shorter workweek not because they are lazy or do not want to work 40 hours, but because they know so many people who are relatives and friends and so forth who cannot get work, and they see in the auto industry and the steel industry people who have worked for 10 and 15 years and are thrown out because the automation has created a situation in which far fewer people can do more work. Is that not correct?

Mr. WISHART. Yes. And in some sectors of the auto industry there has been the deliberate application of a 6-day workweek, creating conditions under which the unemployed may lose their right to pension, to hospital, surgical, and other coverages. This has been part of the operation in the Detroit area.

Senator BUSH. This is why I raise the question, then, as to this 35-hour workweek, as to whether it would not result in considerable more overtime payment, beginning at the 35-hour level, and whether it would actually result in decreased employment for those who need the work.

Mr. WISHART. This would certainly not be the purpose.

Senator BUSH. I beg pardon?

Mr. WISHART. There has been a proposal for the increase of overtime premium to obviate this tendency on the part of employers to work a limited work force an unreasonable number of hours per week, in order to avoid certain fringe benefit costs.

Senator BUSH. The thing that puzzles me about the proposition is this: If you have a reduction in the workweek to 35 hours, whether employers would rather pay—they are going to work 40 hours anyway, maybe more—whether they would rather pay the overtime rate to those employed, rather than train a bunch of new workers to take up the one-eighth slack, or whatever it would be, and whether they would not find the latter more expensive than paying the overtime. What is your judgment on that?

Mr. WISHART. My judgment is that in most industries today the choice would be for the 35-hour workweek. This might be a problem which we will face down the road, assuming the achievement of the 35-hour workweek. All the problems flowing from that have not been given total analysis at the present time.

Senator BUSH. Do you think the 35-hour workweek would actually increase employment?

Mr. WISHART. This is the reason that labor is solidly and substantially supporting the idea of reduced hours, without reductions in weekly take-home pay.

Very frankly, the preference would be for not only the maintenance of weekly take-home pay, but for the increase in take-home pay, an increase in annual earnings. Organized labor generally would be willing on a short-term basis to sacrifice this goal of increased annual earnings, were it possible, through this action, to provide jobs for those currently unemployed.

Senator BUSH. They believe, then, that it would provide more jobs—this 35-hour workweek proposal. Is that right?

Mr. WISHART. This is the reason that proposal has been seriously advanced. And in the New York City area, in a number of construction industries, it has been applied at a level below the 35-hour level, as I am sure you know, Senator.

Senator BUSH. Twenty-five; yes.

Representative WIDNALL. Normally, when you talk about a 35-hour workweek, you are talking about mass employment in an industry. Are there not thousands of jobs, union jobs, that have been lost recently because of pricing out of the market individual home repair work, electrical work, plumbing work, building a gameroom, building an extra room? You have had this tremendous increase of do-it-yourself, because labor has priced itself out of the market with the individual homeowner.

Now, those are all jobs, but they are odd jobs, they are not the type of job people want, because there is not enough employment in them. And it is increasingly difficult to fill such jobs.

Mr. WISHART. I am not familiar enough with that, except from the view of the putative and injured do it yourselfer, to be able to say anything authoritative on this.

I would like, if I may be pardoned, to refer back to one earlier statement in regard to the educational approach on the problem of unemployment.

The Armour Automation Committee did a good deal of work in this general area in seeking jobs for displaced packinghouse workers. We found that there were in certain labor markets a number of unfilled jobs, jobs as computer programers, jobs as missile designers, jobs as electronic engineers. But we found also that a worker who had had perhaps 4 or 5 years of primary education, and who spent 25 years cutting hides off steers, somehow could not qualify for these openings.

In regard to vocational training, our conclusion was one of some hesitation. Our feeling was that training in very specific skills in this period of automation, with very rapid shifts in skill requirements, was not necessarily the most desirable thing. Our feeling was that the concentration should be on basic education, in reading and writing and arithmetic, to provide workers who are then available for industry to go through the usual procedures of on-the-job training in the specific skills required in a given situation.

Senator BUSH. I would agree that is probably the case.

Senator DOUGLAS (presiding). Any further questions?

We want to thank you gentlemen very much.

(Whereupon, at 12:30 p.m., the committee was recessed, to reconvene at 10 a.m., Wednesday, August 8, 1962.)

STATE OF THE ECONOMY AND POLICIES FOR FULL EMPLOYMENT

WEDNESDAY, AUGUST 8, 1962

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met at 10 a.m. in room AE-1, the Capitol, Hon. Wright Patman (chairman) presiding.

Present: Representatives Patman, Reuss, Thomas B. Curtis, and Widnall; Senators Douglas, Proxmire, Pell, Bush, and Javits.

Also present: William Summers Johnson, executive director; John R. Stark, clerk; Hamilton D. Gewehr, research assistant.

Chairman PATMAN. The committee will please come to order.

This morning we have as our panel Mr. Douglas Greenwald, Mr. George Katona, and Miss Mona Dingle of the Board of Governors of the Federal Reserve System.

This morning we continue hearings on the state of the economy. We have with us a panel of distinguished economists who are specialists in surveys of business and consumer expectations.

Before we begin, I would like to say a special word of thanks to Miss Dingle and her associates on the staff of the Board of Governors, who worked over the weekend in order to speed up the tabulation of their most recent survey of consumer plans for purchases.

We will proceed now with Mr. Greenwald first, and then the members of the committee may put questions to the panel. If there is no objection, the committee will ask questions under the 10-minute rule.

Mr. Greenwald, you may proceed in your own way, sir.

STATEMENT OF DOUGLAS GREENWALD, MANAGER, DEPARTMENT OF ECONOMICS, McGRAW-HILL PUBLISHING CO., NEW YORK, N.Y.

Mr. GREENWALD. Thank you, sir.

My assignment is to discuss the current and short-run health of the economy with particular reference to the key area of the economy—private investment in new plants and equipment. My contribution, for the most part, will be based on recent important factual information from McGraw-Hill's surveys of business' anticipations. And results of these surveys indicate that capital investment intentions by business constitute an element of strength in the business outlook.

In my department of the McGraw-Hill Publishing Co. we have made surveys of plans for business' spending on new facilities for 15 years. We also maintain a monthly index of new orders for nonelectrical machinery which reflects the new incoming business of producers of capital equipment, and a quarterly forecast index of machinery orders, which reflects the producers' expectations for four quarters ahead. The indexes cover a relatively small number of large manufacturers of machinery.

We generally survey business on its plans for domestic investment twice a year—in the spring and in the fall. The spring survey is very comprehensive and is geared to longer range plans; the fall survey covers fewer questions and is geared to short-range plans.

In October 1961 we carried out our fall survey of business' plans for 1962 and 1963. Our comprehensive survey of business' plans for 1962 to 1965 was made during March and early April of this year. At the end of June we carried out a special checkup of plans.

The McGraw-Hill checkup of spending plans showed that business, in general, is planning to invest approximately the same amount in new plants and equipment in 1962 that it reported to us in our comprehensive survey taken earlier this year, and a considerably higher amount than it anticipated last fall. The table below shows the results of the three McGraw-Hill surveys and actual 1961 capital expenditures as reported by the U.S. Department of Commerce.

(The table follows:)

Business plans for capital spending in 1962

[Billion dollars]

Industry	1961 actual [1]	1962 planned— As of October 1961	As of March and early April 1962	As of end of June
All manufacturing	13.67	14.59	15.41	15.30
Mining	.98	.99	1.09	1.08
Railroads	.67	.64	.85	.87
Other transportation and communications	5.07	5.03	5.50	5.50
Electric and gas utilities	5.52	5.87	5.74	5.82
Commercial	8.46	8.72	9.39	9.39
Total, all business	34.37	35.84	37.98	37.96

[1] U.S. Department of Commerce.

Mr. GREENWALD. Our fall 1961 survey indicated that business had plans to invest $35.84 billion in 1962, an increase of about 4 percent over 1961. Over the past several years our fall surveys of business' plans have always provided the correct direction of change in investment as well as fairly reliable indications of the degree of change.

The McGraw-Hill comprehensive survey of business' plans for new plants and equipment taken early this spring indicated that business firms had raised their investment sights significantly from the fall. Planned investment for 1962 was $37.98 billion, up 10.5 percent over 1961. During the years that we have been making these spring surveys, they have proved remarkably accurate in indicating the trend of overall investment for the year ahead, except in 1950, when all plans were altered by the Korean war. During the last decade, the average error between the McGraw-Hill survey's planned percentage change and the Department of Commerce's percentage change for actual data is only 3.5 percent.

Senator BUSH. That doesn't mean 3½ percent annually?

Mr. GREENWALD. Yes, sir. The average annual error.

Senator DOUGLAS. Somewhere in the range of a billion dollars.

Mr. GREENWALD. In the earlier years it would be smaller in dollar terms, and in the current years it would be bigger.

Senator DOUGLAS. But the average range would be about a billion dollars?

Mr. GREENWALD. Yes, sir.

We do not conclude from this experience, however, that we have a sure-fire forecasting device. We claim nothing for the results of our surveys except that they report present plans. We heavily emphasize the proposition that our surveys are not promises of what is actually going to happen.

Our special checkup in late June showed that business planned to spend $37.96 billion on new plants and equipment this year, up 10.4 percent over 1961.

This checkup was based on plans of a substantial cross section of business, accounting for 35 percent of total capital investment. For the most part the results reflect the plans of large companies. This recheck provided no indication of what small companies were doing about their investment. To begin with, investment plans of small companies were not up as much for 1962 as those of larger companies.

The downward movement of the stock market in May and June may have had some impact on their investment plans. However, small companies account for a relatively small percentage of total capital investment.

Our checkup pointed up the fact that business in general had not cut back or canceled plans for investment in new facilities in 1962 as a result of the sharp drop in stock prices in May and June or the so-called loss of business confidence.

Manufacturing industries overall planned to invest $15.3 billion this year, down about $110 million from plans reported to us in the spring. Steel, machinery, electrical machinery, stone, clay and glass and miscellaneous manufacturing industries plan to invest less in 1962 than they did earlier. However, transportation equipment (aircraft, railroads and shipbuilding) fabricated metal products and instruments, chemicals, rubber and food industries plan to increase their capital expenditures this year more than planned originally.

Among manufacturing industries, railroads and utilities planned slightly higher capital investment for 1962 than they did earlier, while the mining industry cut its plans.

About 80 percent of the companies that answered in our recheck indicated they had made no change in their 1962 plans for new plants and equipment. The remaining 20 percent indicated some changes in their planning. But this group was split right down the middle, with half increasing plans and half cutting them.

Among the companies indicating investment cutbacks, only a very few cited economic conditions as the reason. In most cases where investment plans were lower than they were earlier, the reasons given had absolutely nothing to do with a lack of business confidence or the drop in the stock market. Instead, technological delays and construction delays were the reasons given.

We should point out that in the past years of high and rising business activity a large number of companies increased investment plans during the year. This has not been the case so far in 1962.

87869—62——5

This recheck was taken before stock market prices began to recover, before margin requirements were reduced from 70 percent to 50 percent and before revenue procedure 62–21, with its more realistic depreciation guidelines regarding lives of machinery and equipment, became effective. It is conceivable that these three factors, along with the 7 percent tax credit for new machinery and equipment purchases, which Congress may soon make a part of the Nation's law, could result in higher capital expenditures at the end of this year than are now anticipated by companies and by business economists in general.

However, it is my opinion that their impact on capital spending may be slow in coming. We have some factual evidence on this point.

In our spring survey, we asked the question:

If the administration's program of tax incentives for investment were enacted, how much would this increase your capital expenditures in 1962?

Business as a whole indicated that it would raise its 1962 plans by only 1 percent, or about $300 million. Nine out of every ten companies replying indicated that they would not use such a program at all in 1962.

The fact that American business is going ahead with its investment plans for 1962 was not a surprise to us. It confirmed our belief that business plans for new plants and equipment, once made for the year ahead, are generally carried out. In the past, wars, recessions and booms have led to significant changes in investment plans. But in my view, we are not likely to be in any of these three situations this year.

Also, it makes good sense for businessmen to go right ahead with their modernization programs in 1962. Business firms reported to us in our recent checkup that this year's capital investment programs are stressing modernization, with the hope that these cost-cutting projects will result in better profit margins.

In our earlier survey this year, manufacturers reported that they planned to devote 70 percent of their 1962 investment dollar to modernization. The reason for their concern is obvious. About 40 percent of U.S. plant and equipment dates back to before 1951, and nearly 25 percent goes back to World War II or even before that. These significant statistics were also revealed by our spring survey.

Only a very small percentage of investment is going for new capacity this year. Most of this is going for capacity for new products which are an important part of the payoff of industry's tremendous expenditures on research and development during the last decade. Little investment is going for additional capacity for existing products.

Based on the McGraw-Hill measures of manufacturing operating rate, we estimate that manufacturers, on the average, are currently utilizing 84 percent of their capacity, whereas they prefer to operate at about 90 percent. Therefore, it is true that industry has a modest amount of excess capacity at present. And the gap between the operating rate and the preferred rate may widen if manufacturing output were not to continue to expand during the rest of the year.

As this committee well knows, my department compiles the only direct measure of manufacturing capacity. Only a few months ago I testified on the McGraw-Hill measures of capacity before the Subcommittee on Economic Statistics of the Joint Economic Committee. In its report on measures of productive capacity, the committee recommended and I quote—

> an exploration of the McGraw-Hill techniques would offer an excellent opportunity for a joint public-private project in which McGraw-Hill, the pioneer of this technique, might work in cooperation with a suitable Government agency.

We at McGraw-Hill are giving this project serious consideration.

Another piece of evidence that confirms our belief that investment will continue to expand throughout the rest of this year is provided by the quarterly McGraw-Hill nonelectrical machinery new orders forecast index. For today's hearings, I have had computed, earlier than usual, a preliminary estimate of our forecast index for the four quarters ahead. Although this index does not provide a precise gage of the future level of new orders, it provides an indication of relative changes in the confidence of machinery manufacturers.

Capital goods manufacturers now expect to book a far bigger dollar volume of new orders in the current quarter than they ever did before. They anticipate that new orders will subsequently fall off and that the decline will continue into the first quarter of 1963. They forecast that the second quarter of 1963 will see a slight pickup in their new orders.

The group of machinery manufacturers reporting forecasts to us in our current quarterly survey are slightly less optimistic about prospects for new orders for the last two quarters of 1962 than they were 3 months ago. One reason for decreasing optimism about the immediate future among this particular group of companies is the fact that their actual incoming new orders in June dropped by about 10 percent.

But despite this sharp drop for one month, their anticipations for the last half of 1962 are only off about 2 percent from what they were back in April. And most of the returns for this calculation arrived in my office before the new procedure for depreciating machinery became effective.

Corporations now have a high enough rate of cash flow to finance a considerably higher level of investment than is now planned for 1962. Our comprehensive survey taken early this year showed that businessmen anticipated increasing their volume of cash flow, composed of retained earnings and depreciation, at a faster rate than their investment in new plants and equipment. At that time they expected to increase cash flow by 14 percent and investment by only 10.5 percent.

It is my belief that the McGraw-Hill data on plant and equipment expenditures indicate that this key segment of the economy will continue to expand this year. If plans hold up for the year as a whole, then the quarterly rate of capital expenditures may be expected to reach $39 billion in the fourth quarter compared with a rate of about $37 billion in the second quarter.

I now turn briefly to other major areas of the economy: Inventories, consumer spending, housing, the net export balance and Government spending.

Inventories are currently being built up at a much more moderate pace than earlier this year. In the first quarter, business was accumulating inventories at an annual rate of about $6.7 billion. In the second quarter the rate dropped to about $3.5 billion. In the current quarter, it probably is still lower. The rate of addition to inventory will continue to slow down during the rest of the year.

However, considering the relatively low inventory-to-sales ratios, it is unlikely that business will reverse its policy soon and let its inventories run off. However, a declining rate of inventory addition means that the negative impact on our Nation's total dollar volume of business has already taken place.

Consumer expenditures, which are by far the largest sector of the total business picture, are dependent on many psychological factors. I will leave the discussion of this sector to George Katona, except to note that as long as personal income rises, and at this time we cannot see any reason to expect it to turn down before yearend, consumer spending on goods and services may be expected to follow the same general path.

Housing is booming. Private starts in the second quarter were exceedingly high at an annual rate of nearly 1.5 million units, despite a drop in June. And because of the lag betwen a start and put in place construction, we can look for the dollar volume of new housing construction to break through previous record highs.

The net export balance is just about holding its own. Exports have been holding up very well, while imports have not increased significantly. We do not expect to see a significant change from the current rate of surplus of exports over imports during the rest of the year. Thus the net export situation will have a neutral effect on the economy in the months ahead.

This year's Federal budget guarantees a modest rise in Federal spending right through the end of the fiscal year, June 30, 1963. However, the increase during the current fiscal year will be considerably smaller than the big gain registered during fiscal 1962.

Meanwhile, State and local spending on highways, schools, and other projects is due for a large increase over the coming months. States and cities are taking advantage of relatively easier money markets to issue a record volume of construction bonds.

In conclusion, the pluses and minuses of the various sectors of the economy add up favorably for the rest of the year. There is nothing now in sight which clearly indicates that in the next few months there will be a marked change in the direction of the economy.

Chairman PATMAN. Thank you, sir.

Senator DOUGLAS. There is just one question I would like to ask, Mr. Chairman. This is a very able statement, but the witness stated that States and cities are taking advantage of relatively easy money markets. I wonder what your evidence is for the money markets being easier.

Mr. GREENWALD. We were looking at the rates on State and municipal bonds, and we found that they were around 3.27 in early June.

Senator DOUGLAS. 3.29 as of July 14.

Mr. GREENWALD. But this compares with 3.40, 3.50, and 3.60 in earlier periods of this year.

Senator DOUGLAS In April it was 3.08 and in the last 3 months they have gone up 21-hundredths of a percentage point, or relatively speaking, have gone up 7 percent.

Mr. GREENWALD. I think, Senator Douglas, you are looking at the figures on the triple A State and local.

Senator DOUGLAS. That is right.

Mr. GREENWALD. If you look at the total for States and local bonds which is in the Federal Reserve Bulletin, you get a slightly different picture.

Senator DOUGLAS. That is you don't think this index on page 29 of the indicators is useful?

Mr. GREENWALD. I think it is useful, but I look at the total for State and local bonds.

Senator DOUGLAS. What is that?

Mr. GREENWALD. Starting with January, it was 3.55, February 3.40, March 3.30, April and May 3.21, and the week to which I referred, which was June 2, it was only 3.27.

Senator DOUGLAS. An increase of 2 percent.

Mr. GREENWALD. Yes sir. But relative to the earlier periods in the year, it is still low.

Senator DOUGLAS. Recently, as compared to April, there has been an increase?

Mr. GREENWALD. That is right, sir.

Senator DOUGLAS. Thank you.

Chairman PATMAN. Miss Dingle, economist from the Board of Governors of the Federal Reserve System, we are glad to have you, and you may proceed in your own way.

STATEMENT OF MONA DINGLE, CHIEF, CONSUMER CREDIT AND FINANCES SECTION, DIVISION OF RESEARCH AND STATISTICS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Miss DINGLE. I understand you are interested in receiving from me a report on the most recent quarterly survey of consumer buying intentions. Unlike Mr. Greenwald and, I assume, also Mr. Katona, I will not attempt to make any forecast of what is likely to happen in the next 6 months but will merely report my best interpretation of what the most recent Quarterly Survey of Consumer Buying Intentions shows.

We do appreciate your recognition for our weekend work, but I would like to add that a great deal of appreciation is due to the Bureau of Census staff, which was on an around-the-clock schedule part of last week and which spent a great deal of weekend time itself checking the data and seeing that their interpretations of the data generally tallied with ours.

Before I refer to the data that were collected, let me say something about the nature of the buying plans data themselves. Taken alone, these data are by no means a direct forecast of subsequent sales. They represent individual consumers' best estimates of the likelihood of their subsequent purchases as reported in sample surveys, and thus give a measure of consumers' interest in a market as of the interview date. Purchases that consumers subsequently make reflect not only the strength of their interest as expressed in the plans data but also supply conditions and developments affecting consumer spending such as changes in employment and income.

In general, consumers who report plans to buy are substantially more likely to purchase than those who do not, but many planners do not purchase and many nonplanners do purchase. Survey experience shows that purchase rates of nonplanners are particularly affected by changes in economic conditions, while purchase rates of planners show somewhat more stability.

Senator DOUGLAS. Is this an argument for planning?

Miss DINGLE. We would certainly appreciate it if all consumers did plan definitely far in advance. I hope that you as a consumer will do so.

The interpretation of buying plans data is complicated by their seasonality. Plans show seasonal movements that are not identical with those of purchases, and unfortunately the Quarterly Survey of Consumer Buying Intentions has not been in existence long enough to enable us to develop seasonally adjusted series. This is the fourth year of interviews, but all four of these years have shown different types of economic developments.

The year 1959 was one of general economic expansion characterized by strong consumer demand, but expansion was interrupted by a prolonged steel strike in the second half of the year. The first half of 1960 was strong, and the decline in economic activity in the second half was tempered by continued strength in the automobile market. Most of 1961 was characterized by recovery, but consumer expenditures for durable goods lagged compared with other recent cyclical recoveries.

This year has shown mixed developments, with consumer purchases of durable goods declining in the first quarter and picking up in the second and with the strong demand for automobiles accounting for a substantial part of the second quarter rise. These differences among years create problems of comparison by affecting quarter-to-quarter movements in plans as well as the relationship between plans and purchases.

There are special problems involved in relating plans to buy automobiles at this time of year to developments over the coming months. Important factors in realized purchases are the supply of old model automobiles, and of new ones once they are introduced, and consumer reception of new model automobiles. Shortages due in part to strikes kept purchases down in 1959 and to a lesser extent in 1961, while in 1960 sales were encouraged by the large supply of old model automobiles which were sold at discounts from list prices.

As is illustrated in the material that has been distributed, information is obtained in the Quarterly Survey of Consumer Buying Intentions covering buying plans reported for varying time periods and with varying degrees of certainty, and data are tabulated for various groups of consumers. We have always considered it desirable to make the data available in detail in order to enable analysts to make their own interpretations.

I hope the other members of the panel and the committee will take advantage of that. I tried to show as much detail as I could, given the limitations of time.

Tables 1, 2, and 3 and the chart showing the movements of buying plans are being released today with our quarterly press release on buying plans data. Additional tabular material will be included in an article which will appear in the Federal Reserve Bulletin for August and which will be released earlier in preprint form.

Table A and the bar chart have been especially prepared to facilitate the comparison of current plans and recent movements with those in the corresponding period of earlier years. I might say I do not plan to refer directly to tables and charts but to summarize what they show. Most of my statements can be followed in table A. In comparing the level of plans this year with those in earlier years, it should be kept in mind that the data given show percentages of all families in the United States and that the total number of families has been increasing at the rate of about 2 percent per annum.

Thus, in terms of numbers of families reporting plans, a figure of 5 percent in 1962 is equivalent to 5.1 percent in 1961 and 5.3 percent in 1959, and a figure of 20 percent in 1962 is equivalent to 20.4 percent in 1961 and 21.2 percent in 1959. Movements are shown for the period April–July for all items except used cars, for which January–July movements are shown. Movements of course reflect cyclical as well as seasonal developments.

As would be expected, the July data do not all point in the same direction, and they may lend themselves to varying interpretations depending in part on one's analysis of related developments. In general, however, reported buying plans were at or close to highs for the current cyclical upswing. Automobile buying plans may have weakened slightly from the strong April level.

Plans to buy household durable goods, however, after lagging throughout 1961 and picking up from January to April, strengthened further from April to July. Buying plans for houses have shown little change since earlier this year.

Reports of plans to buy new cars within 6 months were unchanged from April to July this year, compared with increases in the corresponding period of the expansion years 1959 and 1961 and a small decline in 1960. Plans to buy in 3 months and in 6 to 12 months were down somewhat. Buying plans reported in July were about equal to those in July 1961 and higher than in either 1959 or 1960.

Plans to buy used cars continued strong in July. Since this figure was abnormally high in April of this year, I have shown changes from January to July for used cars rather than from April to July. For this period, 6-month plans increased, compared with reductions in each of the 3 preceding years. Reported plans to buy used cars in July were higher than in any of the 3 preceding years.

The Quarterly Survey, while concentrating on buying plans, also asks several other questions pertaining to the automobile market. In July, the proportion of families that expressed dissatisfaction with the car currently owned, which had been running above year-earlier levels, declined to a level below that in July 1961 but above 1959 and 1960 levels. The proportion of families that reported shopping for a car in recent weeks also declined to a level about the same as in 1961 and below that of other recent Julys.

As in each of the 2 preceding years, reported plans to buy houses within the next 12 months showed little change from April to July, but short-term plans and definite plans apparently strengthened somewhat. In July total plans to purchase within a year were slightly higher than in 1961 but slightly lower than in 1960. The increase from a year ago was concentrated in plans to buy new houses.

Plans to buy household durable goods, which had continued weak throughout 1961, showed greater strength in July than in any other recent survey. Plans to buy such goods declined less from April to July than in either 1960 or 1961, as a less than seasonal reduction in plans to buy air conditioners was offset by an increase in plans to buy most other items covered.

As in the second half of last year and the first half of this year, but in contrast to the 1959 to early 1960 expansion period, strength was concentrated in plans to buy within 3 months and in definite plans, as opposed to plans to buy in 3 to 6 months and in more tentative plans. Three-month plans were at the highest July level since the survey began, while total 6-month plans were only moderately higher than in 1961 and below earlier July levels.

In general, planners expressing plans to buy within 3 months and those saying that their plans are definite are more likely to purchase than those expressing tentative plans to buy or plans to buy after a longer period. On the other hand, such planners account for a relatively small share of total purchases in any period, and a high level of aggregate purchases requires large purchases by tentative planners and by consumers classified as "nonplanners."

It is possible that the tendency for 3-month plans and definite plans to rise while the more tentative plans remain low may mean that people are willing to make those purchases to which they have given considerable thought but that they are adopting a wait-and-see attitude with respect to making longer range plans.

It should be noted that the weakness of 6-month plans for household durable goods compared with earlier years was concentrated particularly in refrigerators and washing machines; plans to buy television sets and growth items such as air conditioners and clothes dryers are generally close to or above 1960 levels. The strength in 3-month plans, however, was particularly great for refrigerators and washing machines.

There has apparently been some shift recently in the income structure of plans to buy new cars and household durable goods. While total plans to buy these items were generally equal to or above year-ago levels, plans on the part of families with incomes of $7,500 or more—about 25 percent of all families—were at the lowest July level in the 4-year history of the Survey. Plans to buy houses and used cars on the part of this upper income group, however, were equal to or above year-earlier levels.

Plans to purchase household appliances by high-income respondents have remained weak during the entire period of economic expansion, while plans of lower income groups have strengthened. Recently there has been some pickup in plans on the part of high-income respondents to buy growth items—air conditioners, clothes dryers, dishwashers, and radio and phonographic equipment—but their plans to buy the items labeled as major durables—washing machines, refrigerators, and television sets—were at new July lows.

Senator Bush. Why do you call those growth items?

Miss Dingle. They have been expanding more with respect to ownership in recent years than washing machines, refrigerators, and television sets. Like other items, at the time of introduction they were purchased primarily by the higher income groups and are now expanding into the lower income groups.

Senator BUSH. Thank you.

Mr. GREENWALD. It might also be that these are relatively new items, if I might add a point here, and fast growth begins in the period when you first market new items, air conditioners, and so on.

Miss DINGLE. Washing machines, refrigerators, and television sets are owned by an extremely high proportion of all families. The demand is either the result of necessary replacements or obsolescence. Practically all purchases of those items are made by families that already own one. Most families don't have much need for more than one washing machine or refrigerator, except perhaps for summer camps. There is expansion in the numbers of owners of television sets.

One might refer to color television as being a growth area, but television sets are generally very, very widely owned.

This reduction in plans may reflect in part saturation in the ownership of such appliances by high-income families and a tendency to make expenditures in other directions, rather than any significant change in their willingness to spend. Plans to buy new cars on the part of the high-income group appear to have weakened from April to July.

While I don't feel that I am in a position to explain this decline, it is possible that it may reflect in part the recent stock market developments and perhaps some sense of economic uncertainty on the part of this group.

A shift of buying plans from higher to lower income groups does not necessarily presage a decline in purchases on the part of all planners, since purchase rates for planners generally differ little among income groups. Purchase rates of nonplanners are higher in the upper income group, however, and any sign of caution on the part of this income group might be reflected in a reduction in overall purchase rates.

In looking at data for families with incomes of $7,500 or more, it should be recognized that these families constitute a relatively small part of the total, and hence that the data are subject to more sampling variability than data for all families or for families with incomes below $7,500. Planning rates of this group over a period of years may also be affected by general increases in consumer incomes and the movement of new families into the higher income group.

Unlike the surveys conducted by Professor Katona, the Quarterly Survey of Consumer Buying Intentions has only a limited number of questions directed toward general economic attitudes and financial developments. I hope he will say a great deal more about this area in the course of his discussion.

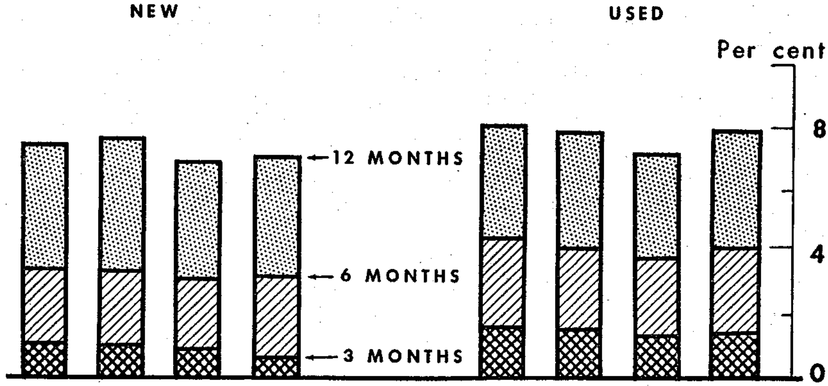
Concerning income prospects, slightly fewer consumers than in other recent quarterly surveys expected their incomes to increase over the coming year, and a correspondingly higher proportion expected their incomes to be unchanged. There was no change, however, in the number expecting lower incomes or uncertain about their income prospects. Slightly fewer families than in other recent surveys also reported an increase in income compared with a year earlier.

(The tables and charts referred to follow:)

BUYING PLAN LEVEL - JULY

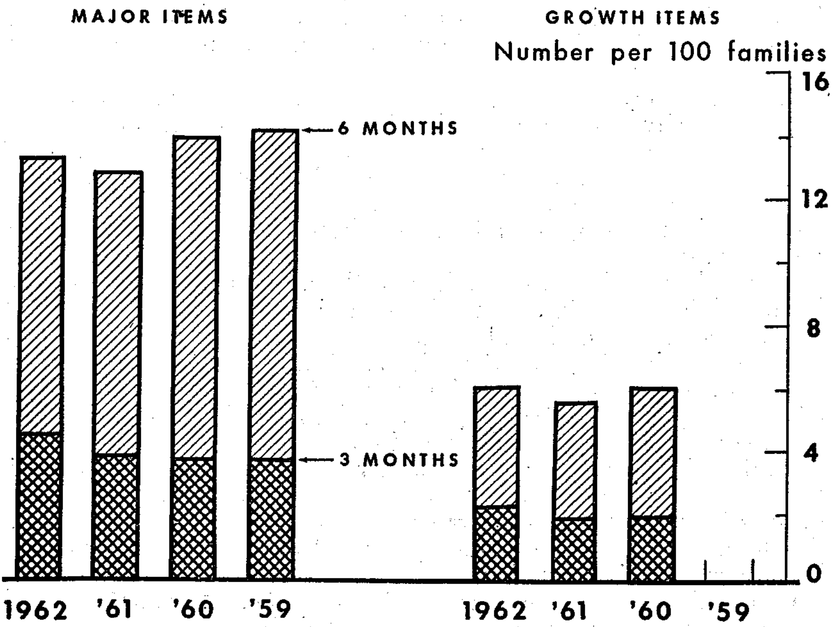
WITHIN 3, 6, AND 12 MONTHS

AUTOMOBILES



WITHIN 3 AND 6 MONTHS

HOUSEHOLD DURABLE GOODS



NOTE. -- THOSE INDICATING UNCERTAINTY ABOUT TIMING WITHIN THE 6-MONTH PERIOD ARE INCLUDED IN THE SECOND 3 MONTHS.

SEE NOTES TO TABLE A FOR ITEMS INCLUDED IN HOUSEHOLD DURABLE GOODS GROUPS.

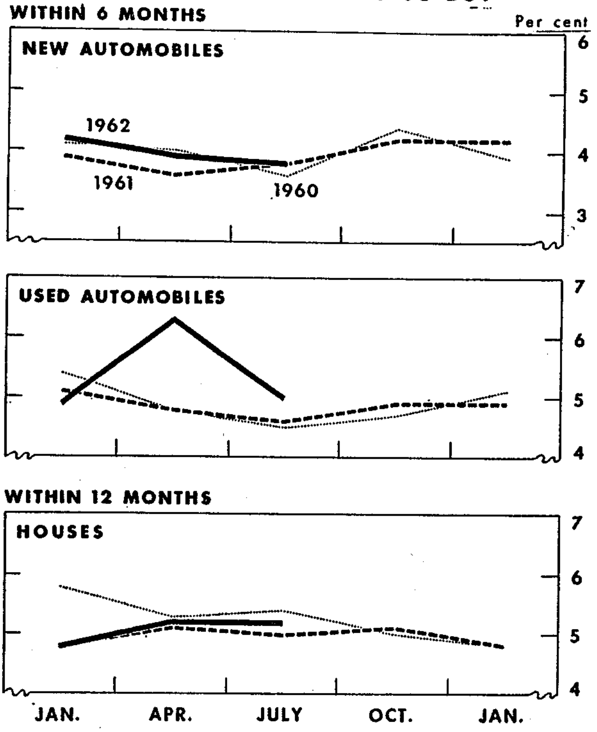
Table A.—*Buying plans for houses, automobiles, and household durable goods*

Item and time period	Level, July				Change, April–July [1]			
	1962	1961	1960	1959	1962	1961	1960	1959
	Percentage of all families or of families in specified income group							
New cars:								
Plan to buy in 12 months	7.4	7.6	6.9	7.0	−0.3	+0.8	−0.1	+0.4
Plan to buy in 6 months	3.4	3.4	3.1	3.2	--------	+.3	−.2	+.5
Income under $7,500	2.1	2.2	2.0	2.2	--------	+.1	−.4	+.4
Income $7,500 and over	7.7	8.3	8.2	8.7	−.1	+1.2	+.7	+1.2
Definitely plan to buy	1.4	1.4	1.2	1.2	−.1	+.3	−.3	+.3
Plan to buy in 3 months	1.1	1.1	.9	.9	−.2	+.2	−.3	+.2
Used cars: [1]								
Plan to buy in 12 months	8.1	7.9	7.2	7.8	−.1	−.4	−1.2	−.7
Plan to buy in 6 months	4.5	4.2	3.8	4.2	+.2	−.3	−.8	−.5
Income under $7,500	4.5	4.1	3.8	4.4	+.1	−.4	−.8	−.6
Income $7,500 and over	5.1	5.0	4.8	4.7	+.7	+.2	−1.2	−.1
Definitely plan to buy	1.7	1.5	1.4	1.4	+.2	--------	−.2	+.1
Plan to buy in 3 months	1.7	1.6	1.4	1.5	+.4	+.3	+.1	+.3
Houses (new and existing):								
Plan to buy in 24 months	10.1	10.0	11.2	(2)	+.1	--------	+.1	(2)
Plan to buy in 12 months	5.2	5.0	5.4	(2)	--------	+.1	+.1	(2)
Income under $7,500	4.4	4.4	4.8	(2)	--------	+.2	+.2	(2)
Income $7,500 and over	8.4	7.8	8.8	(2)	+.3	−.2	−.4	(2)
Definitely plan to buy	2.3	2.0	2.2	(2)	+.3	−.1	--------	(2)
Plan to buy in 6 months	2.3	1.9	2.4	(2)	--------	−.4	−.1	(2)
	Plans per 100 families							
Household durable goods: [3]								
Plan to buy in 6 months	19.3	18.4	20.1	(2)	−0.8	−1.8	−1.8	(2)
Income under $7,500	16.0	15.1	17.6	(2)	−.7	−.6	−.7	(2)
Income $7,500 and over	29.6	31.0	34.3	(2)	−1.6	−2.9	−2.6	(2)
Definitely plan to buy	6.9	6.2	6.5	(2)	−.2	−.3	−1.2	(2)
Plan to buy in 3 months	6.8	5.8	5.9	(2)	−.4	−.9	−1.5	(2)
Major household durable goods: [4]								
Plan to buy in 6 months	13.2	12.8	14.0	14.2	+.2	−.2	+.1	+1.8
Income under $7,500	12.2	11.4	13.1	13.6	+.4	+.2	+.6	+1.8
Income $7,500 and over	16.7	19.0	20.1	19.8	−.3	+.8	+1.0	+2.6
Definitely plan to buy	4.7	4.1	4.4	(2)	+.3	--------	−.3	(2)
Plan to buy in 3 months	4.5	3.9	3.8	3.8	+.5	+.2	--------	+.4
Growth items: [5]								
Plan to buy in 6 months	6.1	5.6	6.1	(2)	−1.0	−1.6	−1.8	(2)
Income under $7,500	3.8	3.7	4.4	(2)	−1.1	−.8	−1.3	(2)
Income $7,500 and over	12.9	12.0	14.3	(2)	−1.3	−3.7	−3.7	(2)
Definitely plan to buy	2.2	2.1	2.1	(2)	−.5	−.3	−.9	(2)
Plan to buy in 3 months	2.3	1.9	2.0	(2)	−.9	−1.1	−1.6	(2)

[1] Change for used cars shown for January–July rather than April–July period.
[2] Not available.
[3] Sum of plans to buy washing machines, refrigerators, television sets, air conditioners, clothes dryers, radio and phonographic equipment, and dishwashers.
[4] Sum of plans to buy first 3 items listed in note 2.
[5] Sum of plans to buy last 4 items listed in note 2.

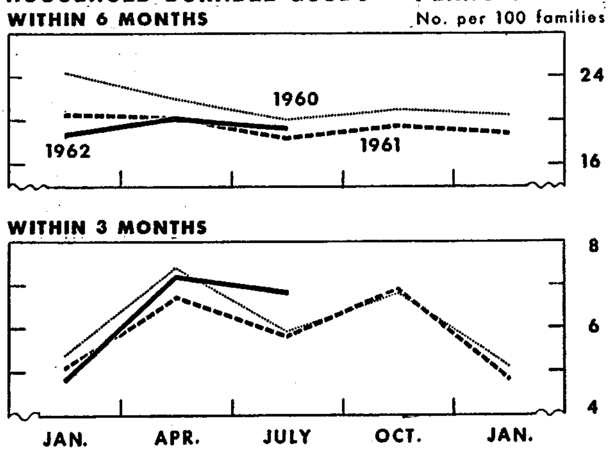
Note.—Plans to buy include plans of families for which income was not ascertained.

AUTOS AND HOUSES – PLANS TO BUY



Note.--Plans to buy new autos and used autos include pro rata shares of planners undecided between new and used. They differ from proportions in Table 1 which include only specific plans to buy either new or used cars.

HOUSEHOLD DURABLE GOODS – PLANS TO BUY



NOTE:--Plans to buy items listed in Table 2.

TABLE 1.—*Plans to buy houses and durable goods, selected periods, 1960–62* [1]

Buying plan	April 1960	July 1960	April 1961	July 1961	October 1961	January 1962	April 1962	July 1962
	Percentage of all families							
Planning to buy new or used automobile: [2]								
Within 12 months	17.1	16.8	16.6	17.4	18.5	18.1	18.9	17.4
Within 6 months	8.8	8.1	8.4	8.4	9.1	9.1	10.2	8.8
Within 3 months	3.1	2.7	2.9	3.0	3.0	2.6	3.6	3.1
Planning to buy new automobile								
Within 12 months	7.0	6.9	6.8	7.6	8.1	7.8	7.7	7.4
Within 6 months	3.3	3.1	3.1	3.4	3.7	3.7	3.4	3.4
Within 3 months	1.2	.9	.9	1.1	1.4	1.1	1.3	1.1
Planning to buy used automobile								
Within 12 months	7.2	7.2	7.7	7.9	8.2	8.2	9.2	8.1
Within 6 months	3.9	3.8	4.1	4.2	4.4	4.3	5.6	4.5
Within 3 months	1.4	1.4	1.7	1.6	1.4	1.3	2.1	1.7
Planning to buy house (new or existing):								
Within 24 months	11.1	11.2	10.0	10.0	10.6	9.8	10.0	10.1
Within 12 months	5.3	5.4	5.1	5.0	5.1	4.8	5.2	5.2
Within 6 months	2.5	2.4	2.3	1.9	2.0	1.8	2.3	2.3
	Plans per 100 families							
Planning to buy household durable goods: [3]								
Within 6 months	21.9	20.1	20.2	18.4	19.6	18.8	20.1	19.3
Within 3 months	7.4	5.9	6.7	5.8	6.9	4.8	7.2	6.8
Planning to buy major household durable goods: [4]								
Within 6 months	13.9	14.0	13.0	12.8	13.1	12.2	13.0	13.2
Within 3 months	3.8	3.8	3.7	3.9	4.5	3.2	4.0	4.5

[1] As reported in interviews in the 1st month of each calendar quarter. Interviews are taken in the week that includes the 19th of the month. Planning period begins on date of interview.
[2] Includes those undecided between new and used.
[3] Sum of plans to buy washing machines, refrigerators, television sets, air conditioners, clothes dryers, radio and phonographic equipment, and dishwashers.
[4] Sum of plans to buy 1st 3 items in note 3 above.

TABLE 2.—*Plans to buy specified durable goods within 6 months, selected periods, 1960–62*

[Percentage of all families]

Type of durable goods	April 1960	July 1960	April 1961	July 1961	October 1961	January 1962	April 1962	July 1962
Washing machine	6.0	5.9	5.3	5.1	5.4	5.2	5.4	5.3
Refrigerator	3.8	4.0	3.6	3.4	3.3	3.1	3.4	3.6
Television set	4.1	4.0	4.1	4.2	4.5	3.9	4.2	4.3
Air conditioner	3.4	1.4	2.6	1.1	1.2	1.9	2.6	1.3
Clothes dryer	1.8	2.0	1.8	1.7	1.9	1.8	1.8	2.1
Radio and phonographic equipment [1]	1.9	1.9	2.1	2.1	2.5	2.3	1.9	1.9
Dishwasher	.8	.8	.8	.7	.8	.6	.8	.8

[1] Radios or phonographs (or their component parts) costing together $100 or more.

TABLE 3.—*Past and expected changes in income, selected periods, 1960–62*

[Percentage distribution of families]

Direction of change	April 1960	July 1960	April 1961	July 1961	October 1961	January 1962	April 1962	July 1962
Current income compared with a year earlier:								
Higher	22.2	21.5	20.7	20.6	22.6	22.2	23.1	21.1
Same	61.3	61.9	59.9	61.0	59.9	60.2	61.6	63.7
Lower	15.5	15.7	18.5	17.6	16.6	16.5	14.6	14.4
Doesn't know	1.0	.9	.8	.9	.9	1.0	.8	.8
All families	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expected income compared with current:[1]								
Higher	24.2	24.6	23.9	24.7	23.7	24.0	24.2	23.2
Same	60.2	59.6	59.4	58.5	59.3	60.0	60.3	61.2
Lower	5.6	5.9	5.4	5.8	5.7	5.0	5.1	5.1
Doesn't know	10.0	9.8	11.4	11.0	11.3	11.1	10.4	10.6
All families	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Expected a year hence.

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

Chairman PATMAN. Thank you, Miss Dingle.

Before calling on Mr. Katona, I would just like to invite Miss Dingle's attention to the fact that she referred to the idea that the stock market might have something to do with consumer caution. In this connection, Mr. Greenwald said in his statement—this is a very significant statement—that business in general had not cut back or canceled plans for investment in new facilities in 1962 as a result of the sharp drop in stock prices in May and June or the so-called loss of business confidence.

Miss DINGLE. I wish we knew what the effect of the stock market decline was. Certainly I would not like to be in the position of saying exactly what it is. One of the questions frequently asked is what the stock market decline has done to consumer confidence, and if it had any effect directly, it would be more likely to be on the upper-income groups. I would not want any sign of weakness on their part to be overemphasized, and certainly it does not show up in their plans to buy houses or used cars.

I thought this was a matter that might be of interest in view of the questions that have been raised.

Chairman PATMAN. Thank you very much.

Mr. Katona you may proceed in your own way.

I believe you have a prepared statement.

STATEMENT OF GEORGE KATONA, SURVEY RESEARCH CENTER, INSTITUTE FOR SOCIAL RESEARCH, UNIVERSITY OF MICHIGAN

Mr. KATONA. Thank you.

I have been director of the economic behavior program of the Survey Research Center since its establishment in 1946 and professor of economics and of psychology at the university of Michigan. Originally, I have been a psychologist, but devoted the last 25 years to a study of consumer behavior and expectations.

Our research program stems from the conviction that the role of consumers in the American economy has undergone substantial changes. Before World War II it was justifiable to consider business investment and Government deficits or surpluses as the sole autonomous factors influencing the business cycle and to assume that the consumer sector was an unimportant transmitter of income generated elsewhere. But during the past 25-odd years the number of middle-income families has increased greatly, and today a very substantial proportion of American families have discretionary income; many families also have some reserve funds; credit is available and buying on credit is widely accepted by consumers; finally, a sizable share of consumer spending is for postponable and discretionary expenditures. Today we must recognize three forms of investment: business investment, consumers' tangible investment expenditures for housing, automobiles, and appliances, and investment in human capital—primarily for education and health.

Consumer investment expenditures are not a function of money alone. Ability to buy is important, but changes in willingness to buy may occur independently of changes in income and may influence discretionary consumer demand. That optimism or pessimism, confidence or its absence matter has often been asserted in the past. What is new is that we are in a position to measure changes in consumer attitudes and expectations. The Survey Research Center began with such measurements 15 years ago. Even after 15 years of experience, shared over the last few years by other organizations, there remain many unsolved problems. Yet several crucial turning points in consumer expenditures for durable goods have been signaled in advance by Survey Research Center data on consumer expectations, and statistical analysis indicates that consumer expectations, as measured by the Survey Research Center, have substantial predictive value.

It is not possible to determine changes in attitudes and expectations through a few simple questions. The Survey Research Center conducts hour-long personal interviews at regular intervals, each time with a different nationwide sample of consumers, drawn by rigorous methods of probability sampling.

Senator DOUGLAS. May I ask how large your sample is?

Mr. KATONA. Our quarterly samples are about 1,350 families, and the first quarter of the year it is about double.

Senator BUSH. What is the geographical distribution?

Mr. KATONA. It is all over the Nation from Atlantic to Pacific.

Senator DOUGLAS. Is that about the same number of persons sampled in the Gallup poll?

Mr. KATONA. The Gallup poll unfortunately gives very little information about the size of its sample and the sampling composition. The number of cases is not the most important point. We assume from published data and information that Gallup still does not use rigorous probability methods.

Senator DOUGLAS. But on numbers, I have seen various statements that the probable number covered by the Gallup poll is somewhere around 1,500. Have you seen those?

Mr. KATONA. I have seen those, too. I don't know the facts. The number is not essential as is well known from the Literary Digest debacle. There were thousands and thousands of interviews.

Senator DOUGLAS. I understand.

Chairman PATMAN. There are 3,070 counties in the United States. That is about one for every two counties?

Mr. KATONA. No.

Senator DOUGLAS. There are about 1,500 of these counties which are insignificant in size. There are many counties—I will not mention in which State—which consist primarily of sagebrush.

Charman PATMAN. You mean one to the county, then, instead of one to two counties?

Senator DOUGLAS. It would be very interesting to get the sampling figures. This figure of 3,100 counties is very deceptive, as anyone who runs for office in a large State knows.

Mr. KATONA. May I say that the sampling variations are important to assess the significance of certain small changes. But on the whole, modern statistical mathematical research has proved that sampling is substantially solved. If you have the money, you can draw reliable small samples. The real questions are reporting errors people not telling the truth, or not expressing themselves correctly; how to formulate the questions, since the answers depend on how the questions are formulated. Here are our great problems, and not in sampling any more.

Senator DOUGLAS. You have to have a minimum number, however.

Mr. KATONA. Of course.

Chairman PATMAN. You may proceed.

Mr. KATONA. The fixed question—free answer method of interviewing is used; respondents answer in their own words and are asked to explain why they think as they do. We do not ask multiple-choice questions which suggest the answers. We conduct such surveys now four times a year, in February, May, August, and November.

Our August survey, devoted especially to a study of consumer reactions to the stock market decline and the tax reduction proposals, is now in the field; the findings will be available in September. Therefore I am basing my discussion on our May survey, the major findings of which were given to survey sponsors early in June and released to the press on July 3. I brought along a few copies of the survey report for submission to the committee. With your permission, I shall summarize the major findings and conclusions and omit detailed documentation in my presentation.

The reason is I would like to concentrate my oral presentation here on new data and its interpretation. Statistical documentation of the data is available here in this supplementary material.

The Survey Research Center's measures of consumer attitudes and expectations advanced from the low point registered in February 1961 for about 12 months. Yet the improvement was not as extensive as following the 1958 or the 1953–54 recessions and did not continue in 1962. As table 1 of the survey report shows, there was even a small decline in the center's index of consumer attitudes from February to May 1962. The decline was so small, when sampling variations are taken into account, that it is appropriate to view the index as having stayed at a plateau during the first half of 1962.

The recovery was not as long and not as large as following previous recessions, and over the last few months, that is from February to May 1962, we had a sidewise movement.

While general consumer attitudes indicate the sluggishness of the recovery from the 1960–61 recession, in one important area our data have justified optimism since the spring of 1961. Attitudes toward the automobile market and intentions to buy new cars showed an upsurge as early as May 1961 and remained on a high level during the following 12 months.

The original report given to the press over a month ago shows a table about intentions to buy cars. Let me summarize here three major figures. They showed that according to our surveys, 13.8 percent of families intended to buy cars during the next 12 months in February 1961; 16.4 percent in May 1961; and 17.4 percent in May 1962. The statistical data are presented in the report submitted to the committee. I may add that the upsurge of automobile intentions and, generally, of attitudes toward automobile buying was shown in our surveys, whereas it was not reflected or at least not strongly in the surveys conducted by the Bureau of the Census and reported by Miss Dingle.

In each of its surveys the Survey Research Center asks more than 50 questions about consumer attitudes and expectations. There have been times in the past when practically all these measures pointed uniformly upward or downward. Not so in the recent past. In addition to questions about automobiles, questions about personal financial prospects and market conditions have indicated satisfaction and optimism in 1962. In particular, the feeling that rising prices are reducing real income has become less frequent during the past 12 months.

On the other hand, there was a change for the worse in people's opinions about economic prospects, especially among upper income people. The consumer's mood is sober because of three persistent concerns: the recurrence of recessions, the relatively high level of unemployment, and the cold war. The great majority of Americans have drawn the conclusion from the experiences of 1958 and 1960–61 that Government and business are capable of forestalling a depression, but can do nothing to stop the recurrence of short and nevertheless painful recessions.

Our findings are, if you ask people whether a depression like in the thirties will recur, the overwhelming majority says, "No, it is impossible. Government and business know how to deal with it." If you ask how about recessions, how about some short peaks of unemployment, the overwhelming majority says, "No, we can't do anything. They will recur. They are in the cards." Given this frame of mind, people are sensitive to bad news.

We concluded, therefore, from an analysis of our data that up to May 1962 there was a sidewise movement which, although it did not signal a downturn, indicated that consumers would not contribute to a faster economic growth—unless new stimuli alter the prospects seen by them.

I turn now to an analysis of consumer reactions to two new developments, the stock market decline and the tax cut proposal. The dramatic break in the stock market occurred the end of May, when interviewing for our May survey was almost completed. Yet the market was already weak in the preceding weeks and even months. Nevertheless, we have reason not to attribute the findings reported up to now to stock market developments. It must be kept in mind that stockholdings are highly concentrated: Our surveys show that only about 18 percent of the 55 million American family units own stock, and only about 7 percent of family units own stock worth $5,000 or more. Thus the proportion of people who have suffered losses, even paper losses, is relatively small.

Yet the decline in the stock market has received wide publicity, and I expect to find in our August data that a very substantial proportion of consumers have heard of it. On the other hand, on the basis of past data, I expect to find that only a small proportion of the American people accept the notion that the stock market decline is a signal for an economic recession. Most Americans do not see a close connection between what happens in the stock market and what happens to the economy. This attitude is in line with the high demand for automobiles which continued in June and July. But there exists a minority with different views and therefore, overall, taking majority and minority together, the probability is that the August data will indicate more consumer caution and uncertainty than the May data.

Over the past few years the Survey Research Center has carried out extensive studies about consumer attitudes toward taxes. Since there has been some discussion about the results of a recent Gallup poll—it was criticized by President Kennedy at his press conference last week—permit me to submit some data.

In May and again in November 1961 we asked the following question of representative, nationwide samples:

There has been discussion about reducing taxes at the present time; do you think this would be a good idea or a bad idea?

The findings are reproduced in my table below. It appears that in 1961 the American people were about equally divided between those who thought tax reduction was a good idea and those who thought it was a bad idea. Naturally, many people might not have given any thought to the problem and might have made snap judgments. Of particular significance, therefore, is a question about the reasons people have for their opinions.

After they say that would be a good idea or a bad idea, we asked them, "Why do you think so?" In reply to this question, we found that only 13 percent of all people favored a tax cut because they thought it would increase purchasing power and stimulate recovery. So, if you wish to call it that, the sophisticated economic notion was shared last year by about 13 percent of American consumers.

Slightly over 20 percent favored a tax cut because, as they put it, "taxes are too high." On the other hand, 35 percent held that tax cuts would not be appropriate since the money was needed for national defense and other Government services. Another 8 percent were against tax cuts because they feared deficits or felt the budget should be balanced.

We shall have more data along these lines when our August survey is completed. Then we shall also know more about how people would use the money from a tax cut. Past data indicate that most low- and middle-income people would spend the money.

Recently people may have heard much more about the problem of a tax reduction than a year ago. Nevertheless, probably, the connection between tax reduction and increase in purchasing power is not fully understood. During World War II when our group made extensive studies of war bonds for the Federal Government, we found that in the opinion of many people the Government could not buy the tanks and planes if the people did not buy war bonds.

In 1946 a substantial proportion of the American people said, "We buy war bonds to bring the boys back home," as if it would be impossible to ship the boys back home from the South Pacific if people would not buy war bonds.

Similar erroneous notions still prevail about taxes and defense expenditures. There are many people who believe that if taxes are not high enough, we can't do our duty in defending the country and in fighting the cold war. I conclude that should a tax cut be enacted, the Government would have an additional task of informing and educating the public about the reasons for its action.

Also, I may add, the Government should sponsor surveys about consumer attitudes toward a tax cut, both if the measure takes effect and if it does not, so as to understand better what is happening in our economy.

Should taxes be reduced now? As said before, people feel uncertain and cautious because they are not aware of any factor that might be capable of stimulating the economy and reducing unemployment. In a tax reduction, I believe, many people would see such a stimulus.

We are not in a recession today, even though the extent of the recovery is far from satisfactory. According to available indications there will be no recession in the consumer sector during the winter of 1962–63. Therefore the argument, let us wait with the tax reduction, is not without merit. But the last few weeks have brought forth a new consideration. Probably very many people have heard about the tax reduction proposals. There is a risk that they would view a decision by Congress not to reduce taxes now as a disappointment. A negative decision about the tax cut might then represent a new factor adding to pessimistic views and making the recurrence of a recession more probable than it has been. What Congress does is important; how the people interpret what Congress does or doesn't do is likewise important.

(The chart and report referred to are as follows:)

Opinions on the advisability of a tax reduction, spring and fall, 1961

[Percent]

Tax reduction	All families [1]	Family income				
		Under $3,000	$3,000 to $4,999	$5,000 to $7,499	$7,500 to $9,999	$10,000 and over
A good idea	42	53	43	39	32	33
Pro-con	6	4	7	6	6	4
A bad idea	43	29	44	47	57	55
Don't know, not ascertained	9	14	6	8	5	8
Total	100	100	100	100	100	100
Number of cases	2,256	564	462	581	250	282

[1] Includes cases whose income was not ascertained.

Reasons given for opinions (all families)

	Percent
Good idea because:	
Demand needs to be increased; to stimulate recovery	13
Taxes are too high	22
Bad idea because:	
Government needs money; defense expenditures high	35
Tax cut would cause deficit; budget should be balanced	8

NOTE.—The questions were: "There has been discussion about reducing taxes at the present time. Do you think this would be a good idea or a bad idea?" "Why do you think so?"

Source: Survey Research Center, the University of Michigan.

CONSUMER ATTITUDES AND INCLINATIONS TO BUY, MAY 1962

Survey Research Center, Institute for Social Research, University of Michigan, Ann Arbor, Mich.

The Survey Research Center conducted the latest of its quarterly Surveys of consumer attitudes and inclinations to buy between April 23 and May 29, 1962. A nationwide cross section of about 1,300 adults, selected by probability methods, was interviewed. Similar surveys have been conducted regularly since 1951.

This report summarizes the major findings of the May 1962 survey. In addition to measuring consumer expectations and intentions to buy, these surveys are particularly concerned with investigating the reasons for changes in attitudes. The surveys are directed by George Katona and Eva Mueller.

Consumer attitudes show stability over the past few months. The American people remain soberly optimistic and appear disposed to continue the high level of spending evident during the spring months of 1962. The outlook appears particularly favorable for the automobile market. These are the indications obtained from the latest Survey of Consumer Attitudes and Inclinations to Buy, conducted by the Survey Research Center of The University of Michigan from April 23 to May 29, 1962. The Center's Index of Consumer Attitudes is at the same level as in November 1961, but slightly below January 1962. The recent decline is so small (when sampling variations are taken into account) that it is appropriate to view the index as having stayed at a plateau during the past half year. As table 1 shows, this plateau is significantly below the peak levels attained in 1955–56, but does not compare unfavorably with more recent highs reached by the index.

The overall stability of the index is brought about by counterbalancing changes in two major areas of consumer sentiment. Consumers' satisfaction with their personal financial situation has improved since November. Favorable changes in personal finances seem to be reinforced by price stability, or more precisely, by absence of the feeling that rising prices are reducing real income. Fewer people indicate that they have worries of an economic kind. The recent accumulation of liquid assets by consumers has contributed to their feeling of financial well-being. Yet, as in past years, many people are far from content with their savings performance and strive to save more. The proportion of people who expect to be better off in another year has not been higher at any time in the past 10 years (table 2). And even longrun personal financial expectations which usually show great stability, have grown somewhat more optimistic in recent months.

At the same time, people's expectations regarding business conditions in the coming year, which improved decidedly between November 1961 and early 1962, show some change for the worse since the beginning of the year. A very small deterioration also occurred in attitudes toward longer term economic prospects. Table 3 indicates that evaluations of the business outlook are considerably more favorable now than at the bottom of the 1960–61 recession, but (as in November 1961) are well below peak levels.

The weakening of optimism about business prospects since January is particularly pronounced among people with incomes of $7,500 and over. Moreover, this is the only group which views business conditions less confidently than last November. It is likely that people in the upper income brackets are most sensitive to stock market news, and that stock market developments account in part for their change in attitudes. Yet, this group may also be most aware of public discussions about the somewhat unsatisfactory strength of the recovery.

Although stock prices declined throughout the interviewing period, the most dramatic break in the stock market occurred near the close of interviewing. This may explain the fact that only 3 percent of all people spoke spontaneously of the drop in stock prices when discussing economic news they heard recently. Direct questions on what people know about stock market developments and how they react to them were not included in the survey. Still, it is possible to compare interviews taken early during the interviewing period with those taken in late May when people might have been more concerned about the stock market decline. These comparisons reveal only a slight deterioration in evaluations of business conditions in late May as against late April and early May. Since late May the stock market has dropped further and has been repeatedly in the news. If the downward trend persists, it might well come to have a stronger impact on consumer confidence and expectations. The Survey Research Center's August survey will (among other things) be concerned with this question.

Answers to questions about the news people heard in the past few months show clearly that consumers are mindful of a number of unfavorable aspects of the business situation other than the stock market. Among the 51 percent of people who could recall some recent economic news, 28 percent referred to unfavorable news, and only 23 percent to favorable news. Even without the 3 percent who spoke about the stock market, references to adverse developments exceeded references to favorable developments by a small margin, while the reverse was true in November 1961. (At that time 21 percent referred to unfavorable news and 26 percent to favorable developments.)

The current mood of consumers is sober, perhaps even cautious, because of three persistent concerns: the recurrence of recessions, the relatively high level of unemployment, and the cold war. Given this frame of mind people are sensitive to bad news. Adverse developments in particular industries or localities, which may be of minor importance in the overall picture, are discussed and remembered. In May more people than last November said they had heard or read that business is declining; occasionally mention was made of specific industries, particularly steel. The steel price stabilization was rarely mentioned, and in these few cases opinions regarding it were divided. People also spoke about intense business competition, the impact of automation on employment opportunities, and labor problems.

Attitudes toward market conditions for major consumer goods were very favorable already last November. Evaluations of the automobile and housing market have improved slightly since then, while buying conditions for household goods are viewed in about the same way as in November (table 4). Satisfaction with recent price trends for durable goods and houses accounts to a large extent for the judgment that this is "a good time to buy."

Viewed as a whole, expressed buying intentions for major consumer goods exhibit no clear trend either up or down. Buying plans for new automobiles have been exceptionally frequent ever since May–June 1961. In January–February they dipped temporarily, but in May they were back at the high 1961 level or even slightly above.

Percentage of families expressing intentions to buy a car[1]

	All cars	New cars[2]	Used cars[2]
January to February 1961	13.8	6.3	7.5
May to June 1961	16.4	8.9	7.5
November 1961	18.3	9.5	8.8
January to February 1962	17.1	8.5	8.6
May 1962	17.4	9.7	7.7

[1] Families that reported they would or probably would buy, plus ½ of those who said they might buy during the next 12 months.
[2] Uncertain whether new or used apportioned equally between these categories.

Plans to buy used cars are the same as a year ago, but are somewhat lower than last fall and winter. Plans to buy a house for owner occupancy are less frequent than a year ago and less frequent than in most recent spring surveys. However, expressed buying intentions for the upper income group do not show a decline over the past year. Intentions to make major home improvements remain at peak levels. Plans to purchase home appliances are now slightly higher than a year ago for almost all major appliances, but in most cases comparisons with earlier years are not favorable.

Clearly there is an element of caution in consumer sentiment. Yet it should be emphasized again that people evaluate their own financial situation favorably and are satisfied with buying conditions. Hence, the sidewise movement of the index of consumer attitudes should not be viewed as a signal of an impending deterioration of consumer confidence. Unless the flow of unfavorable economic and political news increases, the state of consumer optimism in May points to a sustained high level of spending, particularly if personal incomes continue to rise gradually.

On the other hand, it is evident that the consumer is not in an exuberant frame of mind. There are no indications in the survey that people are disposed to upgrade their standard of living more rapidly in the period ahead than they did during the past few years. Thus, the impetus to faster economic growth, sought by government and business, is not likely to come from the consumer sector in the near future—unless new stimuli alter the prospects seen by consumers.

TABLE 1.—*Index of consumer attitudes and inclinations to buy*

[Fall 1956=100]

Date of study	Excluding buying intentions (6 questions)	Including buying intentions (8 questions)	Date of study	Excluding buying intentions (6 questions)	Including buying intentions (8 questions)
June 1955	104.2	102.2	May to June 1959	95.1	100.2
October 1955	102.6	102.7	October to November 1959	91.1	90.2
May 1956	99.3	99.1	January to February 1960	96.7	99.3
August 1956	99.8	97.6	May 1960	92.9	91.7
November to December 1956	100.3	102.4	October to November 1960	92.8	93.1
June 1957	94.4	95.1	January to February 1961	92.4	91.7
November to December 1957	86.0	86.7	May to June 1961	94.4	95.0
January to February 1958	82.2	83.0	November 1961	96.4	96.2
May to June 1958	86.5	86.6	January to February 1962	98.7	99.1
October 1958	92.7	91.5	May 1962	96.8	96.3

TABLE 2.—*Consumers' expectations regarding their financial situation a year hence*

[In percent]

Expected change in financial situation	November to December 1956	October 1958	May to June 1959	October to November 1959	January to February 1960	May 1960	October to November 1960	January to February 1961	May to June 1961	November 1961	May 1962
A. All families:											
Better off	32	31	34	33	40	35	31	37	38	33	37
Same	48	46	48	47	40	45	47	42	45	48	47
Uncertain	14	15	12	15	12	13	17	13	10	13	10
Worse off	6	7	5	5	7	6	5	7	6	5	5
Not ascertained	(1)	1	1	(1)	1	1	(1)	1	1	1	1
Total	100	100	100	100	100	100	100	100	100	100	100
B. Families with incomes of $7,500 and over:											
Better off	43	44	49	43	50	43	41	44	47	44	49
Same	44	38	41	40	35	43	43	40	38	43	39
Uncertain	8	12	8	12	9	9	11	8	8	9	7
Worse off	4	5	2	5	5	5	5	7	7	3	4
Not ascertained	1	1	(1)	(1)	1	(1)	(1)	1	(1)	1	1
Total	100	100	100	100	100	100	100	100	100	100	100

[1] Less than ½ of 1 percent.

NOTE.—The question was: "Now looking ahead—do you think that a year from now you people will be better off financially, or worse off, or just about the same as now?"

TABLE 3.—*Business conditions expected during the next 12 months*

[In percent]

Expected business conditions	November to December 1956	May to June 1958	October 1958	May to June 1959	January to February 1960	May 1960	October to November 1960	January to February 1961	May to June 1961	November 1961	January to February 1962	May 1962
A. All families:												
Good times	74	45	60	66	75	64	52	54	61	63	72	65
Good in some ways, bad in others	5	8	6	6	5	7	9	9	8	6	6	5
Uncertain	15	22	22	16	11	17	27	18	14	20	13	12
Bad times	5	23	11	10	7	10	10	17	16	10	8	17
Not ascertained	1	2	1	2	2	2	2	2	1	1	1	1
Total	100	100	100	100	100	100	100	100	100	100	100	100
B. Families with incomes of $7,500 and over:												
Good times	88	50	76	76	83	79	63	56	69	80	82	73
Good in some ways, bad in others	4	10	4	10	5	6	6	9	9	5	5	6
Uncertain	6	17	13	7	6	9	19	12	11	8	7	10
Bad times	1	21	6	4	6	5	9	21	10	6	5	10
Not ascertained	1	2	1	3	(1)	1	3	2	1	1	1	1
Total	100	100	100	100	100	100	100	100	100	100	100	100

[1] Less than ½ of 1 percent.

NOTE.—The question was: "Now turning to business conditions in the country as a whole—do you think that during the next 12 months we'll have good times financially or bad times, or what?"

TABLE 4.—*Opinions about buying conditions for large household goods, cars, and houses*

[In percent]

Opinion	June 1955	November to December 1957	June 1959	October to November 1959	May 1960	October to November 1960	May to June 1961	November 1961	May 1962
Large household goods:									
Good time to buy	55	39	48	43	44	42	45	48	49
Uncertain; depends	27	34	37	36	38	39	38	38	39
Bad time to buy	18	27	15	21	18	19	17	14	12
Total	100	100	100	100	100	100	100	100	100
Cars:									
Good time to buy	50	26	33	32	41	40	44	42	47
Uncertain; depends	27	39	42	34	40	40	42	44	38
Bad time to buy	23	35	25	34	19	20	14	14	15
Total	100	100	100	100	100	100	100	100	100
Houses:									
Good time to buy	(1)	26	42	38	37	35	42	41	45
Uncertain; depends		28	33	31	33	31	28	35	32
Bad time to buy		46	25	31	30	34	30	24	23
Total		100	100	100	100	100	100	100	100

1 Not available.

NOTE.—The questions were: "Now about things people buy for their house—I mean furniture, house furnishings, refrigerator, stove, TV, and things like that. Do you think now is a good time or a bad time to buy such large household items? Why do you say so?"

"Thinking of the automobile market—do you think the next 12 months or so will be a good time or a bad time to buy a car? Why do you say so?"

"Generally speaking, do you think now is a good time or a bad time to buy a house? Why do you say so?"

Chairman PATMAN. Thank you, sir.

Senator Douglas?

Senator DOUGLAS. First, I want to compliment all three of the panelists for these very informative and objective analyses.

Consumer expenditures take about 65 percent of the gross national product, gross private domestic investments about 14 percent, Government purchases somewhere around 21 or 22 percent. We have covered two of these fields today. I take it that all three of the witnesses agree that so far as objective measurements are concerned, there is not likely to be any decrease in personal consumption expenditures or private domestic investment. There may, indeed, be an increase.

In the concluding paragraphs of Mr. Katona's paper, he threw in a new argument which I never heard before; namely, since statesmen, polticians, economists, and journalists have been advocating a tax cut, the public is likely to be greatly aggrieved if it does not come. What you are saying is that, though there is no sound economic reason for these positions on the part of a statesman, politician, economist, or journalist, nevertheless, they will so affect public opinion that you have to conform with their faulty analyses.

This, indeed, is a strange argument which I find very difficult to accept.

Mr. KATONA. May I say, Senator, I did not say there is no sound economic argument. I think we all know one, that the 1962 recovery has been sluggish.

Senator DOUGLAS. That is true.

Mr. KATONA. Second, that the rate of growth of our economy since 1958 is nothing to be proud of. So I would say there are certain arguments. The third argument, that the recession is here or is threatening during the next few weeks, does not exist in my opinion according to our data.

Even then one may argue that preventive medicine is perhaps better than to operate when the appendix is about to burst. I leave that up to your judgment. As to the argument that people believe it, we have lots of evidence over the past few years that people's interpretation of what is going on influence their action.

Senator DOUGLAS. But if the interpretations are faulty, then must you conform to the faulty interpretations or try to change the interpretations and to have statesmen, politicians, economists, and journalists less trigger-happy and more restrained in their prescriptions?

Mr. KATONA. Again the word "faulty" is a value judgment which is hard to evaluate. It is not in line with objective indicators, but very often objective indicators don't prove good predictors because of people's notions and interpretations. So I think it is a real factor.

I am not radical regarding the analysis of psychological factors. I think both aspects are of importance. Ability to buy, which will probably continue to rise, is of tremendous importance. But the psychological notions and reactions to the ongoing discussions which emphasize recession and the need of tax cuts should not be forgotten.

Senator DOUGLAS. It is interesting that the argument for tax cuts now seems to be turning from the claim that it is necessary to prevent a recession, to the argument that it is necessary to speed up the rate of economic growth. In other words, it is turning to a long-time factor.

As I see the situation, the benefit of a tax cut would be to create a deficit which would be met by increased borrowing and the creation of additional monetary purchasing power to buoy up consumers' income to the level of the prices charged by industry. I would like to ask if it would not be a better long-time remedy to try to bring prices down to the level of consumers' income rather than expanding consumers' income to the level of prices?

Mr. KATONA. I do not know of any way to bring prices down.

Senator DOUGLAS. You don't believe in the antitrust policy?

Mr. KATONA. I do.

Chairman PATMAN. Are you seriously insisting that we could roll back prices, Senator?

Senator DOUGLAS. I am saying we should try.

Chairman PATMAN. We tried that during the war.

Senator DOUGLAS. There you had a big expansion of the money supply. If you try to reduce price while expanding the money supply at a rate much faster than the growth in production, the effort is likely to be ineffective.

Mr. KATONA. We have made extensive studies on people's reaction to prices, and people thoroughly dislike inflation and are worried if prices rise out of understandable reason. They also distrust price reductions. What creates consumer confidence is price stability. People get accustomed to prices. After a while they think this is the right price just because it has been in existence for a year or longer. Price stability is perfectly satisfactory in the minds of most American consumers.

Senator DOUGLAS. You see what we are getting into. If you say that an increase in consumer purchasing power is necessary in order to speed up the rate of economic growth—and I agree with this—and then you say we cannot get it through a reduction in prices but only through an expansion in money income to be effected by tax cuts and governmental deficits, you are saying, in effect, that there must be a continuous injection of additional monetary purchasing power into the economy and continuing governmental deficits in order to maintain substantially full employment.

I think we ought to examine that very carefully before we come to that conclusion. This is really the difference between Keynes' 1936 book and his 1929 book on the theory of money. I have always thought the theory of money was basically sound. But the 1936 book, I think, disregarded the fact that the high unemployment in England, which continued ever since 1920, was, in my judgment, primarily due not only to a high interest rate policy of the Bank of England, which was part of it, but also due to the presence of an increasing degree of monopoly, quasi-monopoly, restriction of output, cartels, and so forth, which spread like a fever through British society and in which Keynes, himself, was one of the chief promoters.

If we abandon the effort to get a greater degree of competition in an industry and consequently a greater degree of price reduction, I think we are going to be driven to what you say. But we are going to pay a very heavy price for it. Before we turn to it, I would suggest most seriously that we try the other route.

Mr. KATONA. May I just say, Senator, on the question of continuous injection, I did not advocate a continuous injection. The people strongly believe that the Government can do something. People look to the Government for a new stimulus, for new trust.

Senator DOUGLAS. Is it possible that the Federal Reserve could do something?

Mr. KATONA. May I just say, first, about taxes, I do believe and there is every indication that millions and millions of Americans would consider a tax reduction as something rosy on the horizon and would get more optimistic and would spend more, not only spending the money they save in taxes, but still more, so that there would be an expansion in the next 12, even 24 months.

Whether later one needs further injections, that is beyond us. I argue for giving now a stimulus to the people, new hope and new thoughts that something is being done to improve the situation and to reduce not only unemployment but the threat of unemployment.

Senator DOUGLAS. I will just make two replies, because my time is almost up. The first is that your study of last year indicated that there were as many people opposed to a tax cut as were in favor of it, and you have not yet made your August study this year. So this is surmise on your part and not sound statistical material.

Second, the first lesson that any military commander must learn—he has two lessons—the first is so that his men do not fire prematurely on the enemy, to hold their fire, as Prescott said at Bunker Hill, until you see the whites of their eyes. The second, which even first sergeants have to learn, and lieutenants and generals have to learn, that you should not commit your reserves too quickly. You should have a reserve so that you don't mistake a diversionary attack for a main attack. I have been rereading Churchill's "Finest Hour." When the Nazis broke through the French line near Sedan and Churchill made his first visit to France and talked with General Gamelin he said, "Where is your strategic reserve?" Gamelin replied, "There is none. When the Germans came through, they went all the way."

So I have felt if you face the possibility of a recesion, a tax cut is not the first thing you should do—a reduction in the interest rates is the first step. That has always been classic doctrine until the last 2 or 3 months. If that is not sufficient, and a recession is really on you, then the tax cut.

Senator BUSH. If you faced a recession or you were in a recession, the reduction in interest would come with it, would it not?

Senator DOUGLAS. Yes. I am speaking of a reduction of the interest rate as a preventive measure to stimulate housing. When you stimulate housing, you stimulate building materials, lumber, brick, cement, steel, electrical equipment, and so on. I have taken up more than my time, Mr. Chairman.

Chairman PATMAN. Thank you, Senator Douglas.

Senator Bush?

Senator BUSH. I am glad the Senator did take up more than his time. I think he developed a very interesting line of thought here.

Senator DOUGLAS. The Senator is always a gentleman.

Senator BUSH. I agree with what the Senator said about the tax cut, but I am very dubious about his feeling about interest rates.

Senator DOUGLAS. I have said you would be dubious about that.

Senator BUSH. It seems to me that interest rates are a reflection of the business situation and not a cause of it, you might say, one way or another. If business is good, interest rates are apt to go up. I think history would show that they do not inhibit the expansion of business. Many of our greatest periods of expansion in this country have come when high interest rates prevailed throughout the period. I think particularly of the 1920's, when for that whole decade we had relatively high interest rates. Certainly they did not inhibit a very broad and deep expansion of our economy at that time.

I would like to ask our friends from McGraw-Hill particularly this question: What effect do you think a tax cut at the present time, of the nature that is being discussed, something of the order of $5 to $6 billion, would have on busines confidence generally? I am not talking about the consumer now as Mr. Katona was, but I am talking about the people that are responsible for the management of the great reservoirs of savings of our people and of the great funds that are at the disposal of the companies, large and small, upon which so much depends, especially the direction we are going to go with the national economy.

In other words, these people have the decisions to make, as you pointed out in your testimony. What is your judgment regarding the effect, Mr. Greenwald, of a tax cut now upon business confidence generally?

Mr. GREENWALD. I think it would act as a stimulant.

Senator BUSH. On confidence?

Mr. GREENWALD. Especially on confidence, sir. However, I would like to point out that at this time I don't see any necessity for a tax cut.

Senator BUSH. I gathered that from your testimony. You think while there is no necessity for it, still it would have an increasing effect upon business confidence?

Mr. GREENWALD. I think it would.

Senator BUSH. How do you reconcile those two points of view?

Mr. GREENWALD. I say that I don't think it is necessary at this time, because I think we have a very high level economy. I think our rate of growth, and we can get into the numbers game on the rate of growth in any direction, shape or form you would want to take it. However, if we go back to the end of the war and start from 1947, the rate of growth of the United States has been roughly 3.65 percent per year at a compounded rate. I think this is a good rate of growth. I don't believe that we should have to worry about 4, 5, or 6 percent rate of growth. If you consider where we are today, it seems to me that is a high-level economy.

I think if we were to talk about our strengths rather than our weaknesses, we would probably be better off. I think tax reform would help the confidence of business because this would mean there would be more incentive for them. Businessmen are looking for profits. Profits are important. I think there has been a profit squeeze despite the fact that profits are relatively high. I believe that if businessmen were told that the profit squeeze is going to be eased, that, profits will be better after taxes, then I think there is more incentive for the businessman. This develops confidence.

Senator BUSH. As the Senator from Illinois pointed out, if you have a tax cut of the order of $5 or $6 billion, this would be probably in addition to what other deficits we may face in fiscal 1963. Those estimates are now of the order of $4 billion or maybe more than that, without any thought of a tax cut. So we are thinking in terms of a possible deficit of $10 billion that might occur from a tax cut at a time when, as you point out, things are very good. The economy is high, gross national product is high, national income is high, and the various elements of the economy are strong and looking strong.

Wouldn't you be fearful, or would you be fearful that the financing of this kind of a deficit which, as the Senator pointed out, would largely have to be done by addition to the money supply through financing through the banking system, that this would have an inflationary effect which might injure the very object or retard the very object we are seeking to attain?

Mr. GREENWALD. I would say no in this respect. I think our economy does have excess capacity, as I pointed out. We have to close the excess capacity gap in unemployment and in facilities. The most important thing it seems to me would be to close this gap. The way I would think of tax changes would be along the type of tax reform where business would get some advantage and the consumer would get some advantage.

Senator BUSH. Mr. Ellis, the Du Pont economist, pointed out yesterday that we always have excess capacity in some areas. It is not unusual or undesirable that we have excess capacity. In some areas of the economy we don't have excess capacity. We are running close. We don't run to our full capacity for very long. I just wonder if this talk about excess capacity is not exaggerated from time to time. What is your comment about that?

Mr. GREENWALD. I would say no, sir; I don't think it is, especially when we deal with the manufacturing area. In other areas I can't say because I don't know enough about them. When I talk about capacity, I am talking about what the companies are telling us about capacity, not something that I estimated. This is a direct measure. If a company tells us it is working at 80 percent of capacity and it would like to operate at 95 percent of capacity, I know that that particular company has 15 points of what might be called excess capacity. This margin has to be reduced to the point where it can do its best job and produce its best profitmaking operation.

On the average for all manufacturing, we now arrive at an 84 percent operating rate and a 90 percent preferred rate. So you have a gap of only 6 points. But there are 6 points to eliminate before you would get the most efficient operating rate.

Senator BUSH. On that point, aren't we gradually closing it?

Mr. GREENWALD. We are. We have moved up from the low of the recession. However, you can say in a way that we have not moved up as fast as many of us thought we would. I don't know whether that is significant or not. But, if the businessman makes a plan and he thinks he is going to do so much in sales but doesn't, then you might say that this has some impact on his confidence. However, I don't think it has had much impact up to this time.

Senator BUSH. I think your estimate of the plans of businessmen is very reassuring, indeed. I certainly agree with your own opinion that your whole appraisal of the situation does not warrant consideration of a tax cut at this time.

I have no further comment.

Chairman PATMAN. Senator Proxmire?

Senator PROXMIRE. First, I would like to say that I am very happy to see you again, Mr. Greenwald. You did a marvelous job before our Subcommittee on Statistics. I am happy to see in your statement you say you are considering seriously an exploration of the McGraw-Hill techniques as a public-private project because you are the pioneeer of this technique and you have done excellent work in this area and your firm is considering this seriously.

I would also like to tell you how very grateful I am to you for making the statement you have just made this morning. Just yesterday one of the most distinguished Members of the Senate, Senator Javits, attacked President Kennedy's leadership and said there was a lack of confidence in the country, in the President of the United States and talked about the administration's alleged agonizing uncertainty and undecisiveness. Senator Javits was serious, and I challenged him on the floor of the Senate yesterday to document it, and in my judgment it was not there. You documented exactly the opposite case, and you have done it in spades here this morning.

You point out that the manufacturing industries overall plan to invest $15.3 billion this year. It is down only $110 million, which is not a significant drop. Then you point out that in most cases, when investment plans were lower than earlier, the reasons had nothing to do with the lack of business confidence or the drop in the stock market. You show there are a number of industries which have increased their investment plans.

Altogether I think this is solid documentation that there is no uncertainty that is provoking a lack of business confidence on the part of our business managers.

I think coming from McGraw-Hill, which is an objective organization, an organization which publishes Business Week, as I understand it, and is close to the business community, is an extremely significant assertion on your part.

I would like to ask you: You responded to Senator Bush that we needed a tax cut and that this would particularly be encouraging to the business community.

Mr. GREENWALD. Excuse me.

Senator PROXMIRE. I beg your pardon. You said that a tax cut would stimulate the economy. You did not say we needed one. You said the exact opposite, that it was unnecessary.

You reassert once again that the investment credit proposal of the administration would seem to have an insignificant effect on an increase in investment. You say $300 million increase in investment although it will cost the Government $1 billion to get it. That would be about the most expensive stimulation the Government handed out in a long time.

Then, you say that the comprehensive survey taken earlier this year shows that businessmen anticipated increasing their volume of cash flow composed of retained earnings and depreciation at a faster rate than investment in new plants and equipment. At that time they expected an increased cash flow of 14 percent and investment of only

10.5 percent. Why in the world do they need further tax cuts designed to increase cash flow? They certainly have plenty of cash available. The depreciation improvement which they have received only this year, only a few weeks ago, is going to add additional cash. So they have all the money in the world ready and available for investment. It certainly is not based on this apparently, is it?

Mr. GREENWALD. No, it is not. It is based on incentives and confidence. The incentive to the businessman. I think that is the only point that I would make about why we even should think about a tax cut now.

Senator PROXMIRE. You say an incentive to the businessman. You would agree that the profits were higher now than last year and the year before?

Mr. GREENWALD. In dollars but not in percentages of sales or return on equity.

Senator PROXMIRE. Yes, sir, Mr. Ellis showed that in percentage of investment they were the highest of any year since 1957 with the exception of 1959.

Mr. GREENWALD. If we look at ratios to sales, this is not the case. We did an editorial at McGraw-Hill not too long ago in which we talked about the squeeze on profits. If you take into consideration the long trend, I think we went back to 1946–50, the average profit on sales was 5 percent in 1951–55, 3.6 percent in 1956–60, 3.2 percent and in 1961 the profit percentage 3.1 percent. It came down substantially in those 5-year periods.

Senator PROXMIRE. Let us assume there is a relative squeeze on profits and you make a strong case that profits should be higher. Nevertheless, what would persuade business to invest when they have ample cash reserves to make the investment is an increase in consumer demand under these circumstances, isn't that correct? Even if the after-tax profit picture could be improved why in the world would a business invest if they don't have a specific reason in terms of satisfying a demand?

Mr. GREENWALD. I would agree with that, sir.

Senator PROXMIRE. So more important than a business tax cut under these circumstances with ample cash flow, the action already taken on the part of the administration with regard to depreciation, the investment credit which is likely to be passed this year——

Mr. GREENWALD. I would agree with that because this is the way to close the gap. This is the first step. I think you also have to make the other step, in combination, because in modernization terms industry is pretty far behind. I think we pointed that out in this testimony, too. A large percentage of our plant and equipment is obsolete. If we can improve that part of the economy, and this is what we are aiming at, with Revenue Procedure 62–21 and the tax credit, then I think we have a good chance of improving the situation. I would say this is the kind of thing that the businessman is waiting for. He wants to make a better profit margin. I think the level is not bad at this time, but improved margins are what he is aiming for. It is the profit margin that is being squeezed.

Senator PROXMIRE. Your position is that a tax cut is not necessary at the present time?

Mr. GREENWALD. Absolutely.

Senator PROXMIRE. If there is a tax cut it would be probably more stimulating for business if it were for consumers and individuals rather than corporations?

Mr. GREENWALD. I would like to see both. I think you have to have a combination.

Senator PROXMIRE. What you have said is not much of a case for a further tax cut.

Mr. GREENWALD. I agree. I see no case for a tax cut.

Senator PROXMIRE. I would like to ask Dr. Katona when you break down your statistics they are fascinating in what they tell about what people mean when they say they want a tax cut. On your final page you show that there is no group with incomes of over $3,000 who favor a tax cut. The only group that favors a tax cut are those with incomes under $3,000.

These are family incomes. I have computed the income taxes these people would pay and if there are four people in the family with a standard deduction they would pay about $60 a year maximum. Therefore, I suggest these people are not talking about an income tax cut. When you say should we have a tax cut they're talking about a property tax cut.

These people pay about $200 in property taxes. They pay close to $75 or $100 in sales taxes on the average. On the basis of my experience of talking with the people in my State they are very concerned about high taxes, but they are concerned about the local property and State taxes. The way your question is worded you say a tax cut, not an income tax cut. Therefore it is significant that those who are most conscious of the Federal income tax say no. Those who would be conscious of local taxes say, "Yes, we want a tax cut."

Mr. KATONA. You know, Senator, these are 1961 data and there was no income tax proposal at that time, so we formulated the question that way. It is easily possible that today the opinions are different. According to our knowledge, people mean both taxes. It is not correct to assume that they say no if they think of income taxes. According to the arguments made, mostly they think of income taxes. But any kind of tax cut would be a stimulus. I don't see any way to cut property taxes.

Senator PROXMIRE. I understand. But the question does not specify.

Mr. KATONA. That is right.

Senator PROXMIRE. It would seem a logical conclusion when you say you think taxes should be cut, without specifying an income tax and you get a response on the part of people whose taxes are concentrated in the nonincome tax area, they say, yes, a tax cut. Whereas, the people who pay the Federal income tax predominantly, and that is their principal tax, say no tax cut. Therefore, the action indicated for the Congress if we rely on public opinion would be not to cut Federal income taxes.

Mr. KATONA. I submitted this table primarily because of the lower part. I think the reasons people had in 1961 are still of interest. As to the division of opinion which says good idea or bad idea, the data are a year old and the data are of lesser value. In other words, I strongly emphasize the one point, that overwhelmingly those people who a year ago said a tax cut would be a bad idea had reasons which are erroneous, namely, the reasons that then we can't do what we must do for national defense. That is why I said if a tax cut should be enacted this year, next year or whenever, it is necessary to inform and educate the people.

Senator PROXMIRE. I see. What you said at the very end I think is so important. If you are going to have a tax cut we have to do a far more extensive job of justifying that so that people understand the reason for it and are willing to accept it.

Miss DINGLE. May I add one purely technical point? In the under-$3,000 income group you would have a large number of families that do not pay property taxes directly because you have a large proportion of renters. There are also, of course, a number of retired persons who own their own homes, but you do have a large portion of renters in this income group.

Senator PROXMIRE. That is right. There are also a large number of farmers, believe me, in this category——

Mr. KATONA. There are indeed.

Senator PROXMIRE. Whose taxes are overwhelmingly property taxes and many pay no income tax. In our State they are predominantly owners. Their incomes are less than $2,000 per family. My time is up.

Chairman PATMAN. Congressman Curtis.

Representative CURTIS. I want to get to some specific questions because all of this has been placed in the context of what I regard as begging the question, that a tax cut actually will stimulate the economy in a period of deficit financing. I recognize that the bulk of the economic profession seems to have advanced that theory. However, I suggest that they have not established that as a correct theory. We have never tried it in the United States.

I know of no nation that ever has tried it. I think it is very important to drive that home right in the very beginning. We have had this theory advanced in the Ways and Means Committee hearings and I have asked each one of the witnesses why they thought that dealing, as we are, in economic aggregates, in a period of deficit financing—we are talking of balance between the Government sector and private sector—shifting $5 billion from the Government sector in a tax cut to the private sector and then turning right around and taking $5 billion from the private sector and transferring it back to the governmental sector by selling bonds to the private sector—why does that stimulate an economy? Although I do want to get into the details of this I think it is very proper to ask that question here. This is not a proven theory and I am very disturbed that without even debating it and getting into the reasons, all the witnesses seem—even you, Mr. Greenwald——

Mr. GREENWALD. I did not say that.

Representative CURTIS. To the extent that Mr. Katona, people like yourself, say it is a question of informing and educating the public on this new theory. In my view, I would say propagandizing the public.

Mr. KATONA. May I recapitulate, Mr. Curtis. The points are as follows: The strongest stimulus for the consumers to increase their spending, to improve their standard of living, to satisfy the innumerable wants the American people do have, the strongest stimulus is a rosy outlook—a hope that they get ahead, that there will not be unemployment. A tax cut contributes to the thought of more purchasing power.

Representative CURTIS. But does it? That is the whole point. That is the issue.

Mr. KATONA. By means of a few dollars to the low-income people.

Representative CURTIS. It doesn't go to the poorest. The poorest sectors of our economy are not taxpayers. We are talking about Federal income tax. We are not talking about the lowest income group.

Mr. KATONA. Quite a few people who are poor pay income taxes.

Representative CURTIS. There are a bulk of people who are not in the taxpaying brackets. I mean the income-tax paying brackets. I am happy that the American people have responded in this way and have not bought this "pig in a poke" that this automatically is going to do it. Maybe it does but I think it is about time for our economic professors and those in the profession to come forward and get into details and away from these aggregates. You transfer $5 billion from one place to another. There may be something about the mix. Some of the economists were forthright in saying we won't have the public buy the bonds, not in the beginning, at any rate. We would have the Federal Reserve System or our banking system buy them. That is not tax cutting. We are simply talking about printing more money. Maybe that kind of inflationary pressure would help, but that, too, is an issue that needs to be discussed.

Mr. KATONA. In one respect you point to the most important factor in my opinion; namely, we need more information about the factors influencing consumer confidence. We do not know enough. Our group has done extensive studies over many years. There are great difficulties in a financing these studies. We have over the last few years received practically no Federal money in contrast to previous years, and I fully agree with you it is not established. We do not know enough.

Representative CURTIS. No, we have never tried it. When we are talking about it we need to refer to it as a theory. I respect those who advance the theory, although I honestly disagree with them, because I don't think they have done the homework necessary to back this theory up. One of our witnesses, I won't identify him, said we had an example in 1954. I pointed out in 1954 we cut Federal expenditures. I can begin to see a shifting from the public sector to the private sector. Incidentally, one thing that has not been brought out in these hearings to date is the fact that we have a tax increase that is going to hit all workers including the lower income groups who were not Federal taxpayers beginning in January 1, 1963. This tax increase is going to hit each one of them.

It is an average increase of $24. I am referring to the increase in the social security taxes. It goes from $150—and this is the rate paid by worker, matched by employer—to $174.

Incidentally, in 1954 when we did cut the individual taxes I had thought we had done, incidentally, a politically astute thing and never could quite understand why the Republicans controlling that Congress got no political credit. It was then that I looked into the fact that at the same time we had increased social security taxes and just, by coincidence, almost the same amount we cut the individual income tax. A worker saw in his pay envelope the same take-home pay because the cut he got was almost eaten up by the increase in the social security tax. So many people, as I campaigned in my area, didn't even know they had a tax cut because they were looking at take-home pay.

Mr. KATONA. We also had other tax increases. We had an increase in Federal income taxes over the last few years. If I had a $10,000 income a few years ago and now have $13,000 because of inflation, my real income was unchanged. Nevertheless, because nominally my income rose, I had to pay higher taxes. It is time to reverse this constant drain on incomes.

Representative CURTIS. I personally am very strongly in favor of a tax reform which is actually in the nature of tax cutting. But I do not relate it to any theory of increasing purchasing power. I relate it to what our tax is doing now in the way of dampening incentive in our private sector.

Getting back to incentive and business decision and investment, I think any tax cutting not unrelated to reform but following out this untried theory and unrelated to Federal expenditures cut is going to be discouraging to business. I may be in error, Mr. Greenwald, but that is what I would think the business reaction would be.

In answer to one of the questions by you, Mr. Katona, if Congress didn't do anything in light of all this talk about tax cutting, I think our business people would actually be encouraged that Congress had enough sense not to dabble around in untried theories.

Mr. GREENWALD. I am not talking about a "quickie" tax cut. I have only referred to tax reform.

Representative CURTIS. I think tax reform is always appropriate whatever the state of the economy is. I see my time is up.

Chairman PATMAN. Senator Pell.

Senator PELL. Thank you.

Dr. Katona, I notice in your testimony you refer to the fact that 18 percent of the 55 million American family units own stock. The other day, as I recall, the President of the New York Stock Exchange said that one out of six individual Americans owned a share of stock, which is considerably more. I was wondering how you equated those two figures.

Mr. KATONA. The two statistics are pretty much in agreement. The fact is that partly because of our tax laws in very many families there is joint ownership of stock or both husband and wife own stock. Therefore, I believe, as we have argued for years, that the New York Stock Exchange statistics, speaking of individual ownership, are somewhat misleading. It is not a question to count separately husbands and wives, and even many children of rich families have beneficial ownership of stock which is counted separately by the New York Stock Exchange. The question is to find out what proportion of American families own stock. Whether every member of the family or one owns stock is not important. The 18-percent figure is subject to error. It may be as high as 20 but it cannot be higher according to all data. That would be 1 out of 5.

Senator PELL. Are you including debentures in that or only equities?

Mr. KATONA. No. The fact is that of all kinds of bonds only U.S. Government savings bonds are widely distributed. All other debentures are owned by a very small proportion of people most of whom also own stock. But we include in equities mutual funds.

Senator PELL. Thank you. Mr. Greenwald, I noticed your point and was struck by it, that the economy has not gone down of late. I am struck too by an insertion in the Congressional Record by Senator Sparkman in which he put in a series of articles pointing out that never have profits been higher and the economy apparently more booming though we hear to the contrary. You point out that investment plans have not been particularly changed by the investment credit. You feel they are reasonably satisfactory in the United States. Nevertheless, in comparison with Europe apparently we invest about a third as much of GNP in new facilities as do they. This is true even now while Europe has recovered from the holocaust of the war and they are spending two or three times more of their GNP than we. How do you account for the difference?

Mr. GREENWALD. If you have a high ratio growth in investment relative to GNP countries generally you grow faster. I think this is fine in many areas of the world but I don't think this applies to the United States any more. I think we have a great record of growth in the past and we are the richest Nation in the world.

Senator PELL. My point may be stated better, why is it in Europe they are willing to put more profits into growth than here?

Mr. GREENWALD. I am not sure they are putting profits into growth. This raises another question, the comparability of statistics. Many industries for example in England or France are nationalized directly or indirectly. So these comparisons, often cover more than private industry.

Senator PELL. In general would you agree with the thought that a larger proportion of the product of a plant or business is spent on new equipment abroad than here?

Mr. GREENWALD. Yes, sir, that is true.

Senator PELL. What is the reason for that?

Mr. GREENWALD. This is something I am not certain about. I think you could argue that this is a question of the incentive that I raised earlier. In the United States you need the businessmen to invest, to feel that he has a reason for a larger amount of investment. I have said earlier before the Joint Economic Committee, that we should be investing somewhere around $42 billion by the end of this year. However, we are only going to spend according to my estimate of plant investment in the fourth quarter, based on our surveys something like $39 billion. Investment of $42 billion would give us a larger ratio, although it might not be as high as in Europe. These countries are expanding from almost desolation, so it was necessary for them to have a high volume of capital investment to make up for the losses they had before. It probably also has to do with labor shortages overseas.

Senator PELL. Doctor, as both an economist and psychologist, is the reason for it psychological?

Mr. KATONA. I have just come back from a study trip of the Common Market countries. It is very true that in the first 10 years after World War II, which is roughly 1947 to 1957, because of the previous destruction, they have spent very much more on business investment than we have. Today the trend is downward. The new impetus in the Common Market countries comes from consumers, from an enormous increase in installment credit and automobiles, consumer housing and consumer equipment. On the whole, the Common Market countries are Americanizing rapidly and that will show up in lesser business investments, more resembling our rates, and more consumer tangible investment expenditures as well. So if you look at the trend which foreshadows the future rather than on past facts, the differences will, I believe, diminsh.

Mr. GREENWALD. May I add to that? At McGraw-Hill we have done surveys of oversea investments of U.S. companies. We will have a survey out some time in early September on plans for U.S. companies to invest overseas in 1962, 1963, 1964. My guess would be, as of this moment, that the results may show some decline which would confirm what you have just said. We do know from surveys of the IFO in Germany that increases in investment in Western Germany have gone downhill.

Senator BUSH. On a percentage basis?

Mr. GREENWALD. Yes, sir.

Senator BUSH. But they began from such a low percentage.

Mr. GREENWALD. One year it was plus 23, last year 14, this year it is expected to be 10. They have been building capacity up so fast that maybe they will not be increasing investment next year at all. Again we have to remember that the European Common Market has had a pretty good growth rate since the end of the war, relative to ours. They have built up a lot of capacity. When they get into a situation, and it may be that next year will be the year for them, where they have to go through a recession, then they won't need additional capacity. Business will start cutting back investment. It may be that American companies will be cutting back on their oversea investment next year. So European countries' ratio of investment to GNP in 1963, might be lower than ours. I believe that the trend in this ratio is down in the Common Market.

Senator PELL. Thank you, that is all.

Chairman PATMAN. I would like to ask you about these savings, Mr. Katona, and then I will yield to Mr. Reuss.

I believe you prepared a table for the Federal Reserve Bulletin a couple of years ago, did you not, about savings bonds and ownership of savings bonds? To the best of my recollection there was a figure that 73 percent of the people or families didn't own any savings bonds at all. Is that correct?

Mr. KATONA. Approximately. I don't remember the exact number. Ownership has declined since World War II.

Chairman PATMAN. Then isn't it a fact that according to those figures 7 percent of the remainder owned about 85 percent of the bonds? I am doing this from memory.

Mr. KATONA. I don't know whether it is as much as you say.

Chairman PATMAN. Does that sound unreasonable?

Mr. KATONA. If you ask me, according to my memory, I had the figure in mind that 10 percent owned 60 percent of the value.

Chairman PATMAN. Do you remember, Miss Dingle?

Miss DINGLE. I do not know. They are concentrated. A number of owners may own only one $25 or $50 bond. I think it is necessary to remember that particularly in the distribution of aggregates among groups in the economy there is a large sampling error involved. We also know in consumer surveys in the past in dealing with items like savings bonds we have not picked up data that tie in directly with aggregates from other sources. We have generally underestimated ownership. I personally have felt that one has to interpret pretty broadly any data on distributions among groups collected in past surveys. I guess I would feel that given the problems with the data, we may not be able to distinguish whether it is 7 percent owning 70 percent or 7 percent owning 80 percent.

Chairman PATMAN. You do not remember the figures that I mentioned: 7 percent and 85 percent?

Miss DINGLE. I don't remember. We may have some computations which I would be delighted to look up.

Mr. KATONA. The point is well taken. All assets are highly concentrated.

Chairman PATMAN. Will you put that table in the record with your remarks when you correct your transcript, please?

Mr. KATONA. Yes, sir.

(The information follows:)

As shown in the accompanying table, only 27 percent of all spending units reported owning any savings bonds in the 1959 Survey of Consumer Finances, and the top 25 percent of the owners—about 7 percent of all spending units—accounted for almost 85 percent of the value of the savings bonds reported.

Quartile ranking of savings bond holders, early 1959

Quartiles	Percentage distribution of—		
	Spending units	Savings bond holders	Savings bond aggregate
All spending units	100.0		
No holdings	73.3		
Some holdings	26.7	100.0	100.0
Quartile ranking of holders:			
Highest quartile	6.7	25.0	83.5
Second	6.7	25.0	12.3
Third	6.7	25.0	3.3
Lowest	6.7	25.0	.9

NOTE.—Quartiles are obtained by ranking spending units according to size of holdings of savings bonds; one-quarter of all holders make up each quartile. The highest quartile in early 1959 included holders of savings bonds with face value of $1,500 or more.

Source: 1959 Survey of Consumer Finances, Board of Governors, Federal Reserve System.

SUPPLEMENTARY MATERIAL REGARDING MR. PATMAN'S INQUIRY ABOUT CONCENCENTRATION OF HOLDINGS IN U.S. GOVERNMENT SAVINGS BONDS

Submitted by George Katona, Survey Research Center, University of Michigan

As stated during the hearings of August 8, 1962, survey data that indicate the proportion of aggregate amounts of savings bonds held by the largest holders (see the table for early 1959 submitted by the Board of Governors, Federal Reserve System, on August 14, 1962) are subject to substantial sampling and reporting errors. More reliable are data that show the changes over time in the proportion of families or spending units who hold no bonds, small amounts of bonds, and large amounts of bonds, respectively. The following table shows that a much smaller proportion of American spending units hold savings bonds at present than shortly after World War II. Yet the proportion of spending units having liquid assets has not declined during the last 15 years.

Type and size of liquid asset holdings

[Percentage distribution of spending units]

Type and size of holdings	1946	1951	1956	1960	1962
U.S. savings bonds:					
Zero	37	59	69	70	73
$1 to $499	37	24	18	16	15
$500 to $1,999	20	11	8	8	8
$2,000 and over	6	6	5	6	4
Total	100	100	100	100	100
Savings accounts: [1]					
Zero	61	55	52	47	49
$1 to $499	16	20	20	19	19
$500 to $1,999	16	14	15	16	15
$2,000 and over	7	11	13	18	17
Total	100	100	100	100	100
Checking accounts:					
Zero	66	59	51	43	43
$1 to $499	18	27	31	39	41
$500 to $1,999	14	10	14	14	12
$2,000 and over	2	4	4	4	4
Total	100	100	100	100	100
All these liquid assets:					
Zero	24	28	28	24	27
$1 to $499	29	30	27	27	29
$500 to $1,999	28	23	23	24	21
$2,000 and over	19	19	22	25	23
Total	100	100	100	100	100

[1] Includes savings accounts in banks, savings and loan associations, and credit unions.

Source: Pp. 77 and 78 of 1960 Survey of Consumer Finances, published by Survey Research Center, Ann Arbor, Mich., in 1961. The 1962 data are from the 1962 Survey of Consumer Finances conducted by the Survey Research Center.

Chairman PATMAN. Congressman Reuss.

Representative REUSS. Would the members of the panel comment on my impression that there is not in sight today in this country the same kind of stimulant to consumer demand that was offered by the automobile in the 1920's or by homebuilding and consumer durables in the late 1940's and early 1950's. Does anybody disagree with that observation?

Mr. KATONA. I think I disagree with the conclusion you seem to imply, sir. It has often been stated that we are a wealthy, fat, saturated economy, who have all we need, and there are no needs, no wants.

Representative REUSS. Let me hasten to add I was not implying that. I know that 20 or 25 percent of our people with very low incomes are not really in our market economy at all and that the great mass of the rest of our people could, if given the financial means to do so, consume at a higher level. My question was whether there seemed to be specific commodities now on the horizon of the kind which were at the center of the great buying booms in the two periods previously mentioned.

Mr. KATONA. There is no single commodity, you are right. None of us have all the things we may want. What kind of things would you like to have? If you asked that shortly after World War II people mentioned a few things like homes, automobiles, washing machines. Today people mention a long list of things and matters such as vacation trips or summer homes and innumerable other wants.

Representative REUSS. Don't you find that the list of wants that you get nowadays, as opposed to the list of wants which you got in some earlier period, stresses in a much greater degree, services and intangibles—medical care, recreation, vacations, leisure time activities, nongoods items.

Mr. KATONA. And also education and cultural things.

Representative REUSS. Exactly.

Mr. KATONA. You are right. These are also expensive things.

Representatives REUSS. That is right. I am wondering what effects increased expenditures on services have on the economy which may be different from those we would get from the same amount of spending on goods.

Mr. KATONA. Travel leads to an enormous investment by the private sector, say for motels, and by the public sector for roads.

Representative REUSS. I am not suggesting that a greater demand for medical care is not accompanied by a certain additional demand for hospitals and medical schools. My question is whether a dollar spent on services is likely to produce just as much economic activity as a dollar spent on goods?

Mr. KATONA. We don't know the answer to this question. There is structural change in connection with the correctly stated facts in our economy.

Mr. GREENWALD. We don't really know what new products are coming along. There may be some magic things on the drawing boards of many companies in the United States. We do know that research and development expenditures have gone up tremendously. We know that new products are a key to all of these programs. We know, for example, from our surveys that 14 percent of manufacturers' sales in 1965 are going to be in new products that are not now in existence—14 percent of manufacturers' sales. That is a very significant number.

Representative REUSS. I welcome and recognize what you say. My question, however, was whether there now are in being and ascertained things which look today as exciting as the automobile looked in the 1920's and as the consumer durable goods looked in the early 1950's.

Mr. GREENWALD. We may not have any one good but we may have a combination of 5 or 10 which could give sizable stimulus to the economy. In 1961 the economics department of McGraw-Hill did a long-range forecast through 1975. The Russians criticized this report. They called McGraw-Hill, and myself, since I was responsible for the preparation of the report, the Knight of the Electric Blanket and of the Helicopter. I want to point out that we have many new products coming along because of R. & D. Some day we will have wall-sized television screens and many of us will be driving around in our own helicopters. This might be a significant market of the future.

Miss DINGLE. May I make one comment?

I think there are really two aspects here. I think you have been emphasizing the real investment that is involved in connection with production of goods versus services, which is a complex issue. I think there is another question here and that is the question of what you do to consumer purchasing power and consumer saving versus dissaving, as represented by debt. I think some economists have been surprised in recent years how greatly there has been an increase in debt in connection with services.

Representative CURTIS. Percentagewise to the value of the consumer durables.

Miss DINGLE. If you look at the expansion in consumer debt over recent years, you will find the so-called personal loans have accounted for a larger proportion of the increase and durable goods credit for a smaller proportion as compared with earlier periods. It is a complex question. Personal loans do include some loans that are incurred for purchasing small durable goods, the purpose of which is not specified by the consumer to the lender. But it does also include all of these new areas. It includes the travel credit that many lenders are actively promoting now. It includes educational loans and a number of others. So I would say again it is very difficult to judge how important this is, but the statistics on consumer credit certainly show that we have some new or expanding credit areas in connection with services.

Representative REUSS. Now let me get on to a very interesting point raised by Dr. Katona.

I am struck at the tremendous desire on the part of housewives in the European countries for our whole range of consumer durable goods—dishwashers, dryers, refrigerators, washers, and so on. I wonder if you don't feel that there is a coming boom in Europe in consumer goods, Professor Katona.

Mr. KATONA. You are 100 percent right. Not only a coming boom, but the boom in the last 3 years is largely due to consumers. It has the consequence that the consumers say that they need more income because they want to have all these attractive things. Over the last year wages rose enormously in the Common Market countries because of consumer needs.

You see, traditionally economists have always thought that consumption is a function of income. There is truth in it. There is truth also in the reverse. Income is a function of consumer wants and needs. If people desire many things they work for higher income and wage increases.

Representative REUSS. This brings me to a central question. Couldn't European employers grant most of the new wage demands without inflationary consequences, if the United States furnished a large volume of the desired consumer goods? This would require that the Common Market and the other European countries reduce their present very high tariffs. The export sales we could make as a result would help us to combat unemployment, increase the level of economic activity, and reduce our payments deficit. It would also bring American and European wage patterns close together and so contribute to long-term international payments equilibrium.

Did you follow this rather complex question?

Mr. KATONA. I did, sir. It is a wonderful thought. I don't believe it is very practicable from the European point of view.

Representative REUSS. Isn't it only practicable, but quite necessary from the free world point of view? Must we not look at the elements of our problem—surplus European payments, a U.S. payments deficit, overfull employment in Europe, underemployment here, an ebullient growth rate in Europe, and a lagging growth rate here.

Mr. KATONA. I fully agree with you and all our efforts should be directed toward greater cooperation and mutual tariff reductions between Common Market countries and the United States.

Representative REUSS. I am glad to have your answer. My time is up.

Chairman PATMAN. We have another meeting here at 2 o'clock with Dr. Heller and the other members of the Council of Economic Advisers. Shall we go further?

Representative CURTIS. I personally would like to.

Senator PROXMIRE. I have a couple of questions.

Chairman PATMAN. You may go ahead, Mr. Curtis.

Representative CURTIS. Thank you very much, because I want to get into some of the details and I spent my previous time on the general overall picture. Have any series of statistics been developed on new products and services on the market? I have heard a figure that something like 25 percent of the goods and services on the market today were unknown 5 years ago.

Mr. GREENWALD. It is an estimate that we may have made at McGraw-Hill.

Representative CURTIS. I think there was an estimate.

Mr. GREENWALD. What we do in our surveys is ask the question about expectations for new products and what percentage of sales they account for in a period of 4 years ahead.

Representative CURTIS. That is a sort of ad hoc thing.

Mr. GREENWALD. We check back every year.

Representative CURTIS. Is 25 percent accurate?

Mr. GREENWALD. That is close but not exact. The time period is wrong. When we asked this question the very first time in 1956, the result was that about 10 percent of manufacturers' sales would be in new products 4 years ahead. When we asked it the last two times we got an answer of 14 percent. This would be for a 4-year period. So if you add these two together you come fairly close to 25 percent but for an 8-year period.

Representative CURTIS. I think Monsanto Chemical made the observation (though I may be quoting them wrong) 90 percent of their dollar sales reflected items that were not even manufactured in 1950.

Mr. GREENWALD. May I provide you with a few figures, sir?

Representative CURTIS. Yes, please.

Mr. GREENWALD. I will quote them to you from our survey of business plants for new plant and equipment, 1962–65. These data are on an industry basis. These are the percents that new products will account for of sales in 1965. For iron and steel, 5 percent; nonferrous metals, 9 percent; machinery, 23 percent; electrical machinery, 22 percent; autos, trucks, and parts, 10 percent; transportation equipment, 34 percent; fabricated metals and instruments, 18 percent; the chemical industry, 16 percent; paper and pulp, 10; rubber, 6; stone, clay, and glass, 13; petroleum and coal products, 6; food and beverages, 12; textiles, 13; miscellaneous manufacturing, 9; and all manufacturing, 14 percent.

Representative CURTIS. To me it is in this new product area but we will find the answer whether we are going to have a growing and dynamic economy. I was very pleased to listen to Congressman Reuss develop a theme that I have been trying to develop for some time. It is my belief that our ecnomy is not tired and sluggish. Quite the contrary, we have "growing pains." What we are seeing, among other things, is a shift from manufacturing to distribution and services and, indeed, to new products. When we have this kind of obsolenscence it does relate to capacity and it relates to unemployment because our skills become obsolete. The lessening of and need for unskilled and semiskilled labor as we move forward is very marked. These are the areas I think we have to get into in order to determine whether we have a growing economy rather than GNP. I don't mean by that that GNP is not a valuable indicator. It certainly is, and very important. But it is not a very good one to measure whether our economy is dynamic and growing.

Mr. Greenwald. This is the point I was trying to make before. As a matter of fact, research and development are still expanding rapidly. This is why we are going to get new products. There is quite a bit of this going on. When I cite industry figures, I don't know which products the iron and steel industry has on its drawing board or which product the transportation industry has in mind. Yet there are many new products coming along which industry expects to be in existence and for sale by 1965.

Representative Curtis. Let me go to another area that is collateral and that very few economists have taken note of. I am reading from the HEW indicators in July—on page 27 of the chart 25, "School bond sales." We started in 1957 in the school bonds voted on, in one column, and then the next column is the bond issues passed and the percentage passed; $1.4 billion of total voted in 1957, $1.8 in 1958, $2.26 in 1959, $2.25 in 1960. And here is the figure, 1.2 in 1961. The drop in percentage of passing was even more dramatic. In 1960, it was $1.8 billion and in 1961, $0.8; a drop of $1 billion in school bonds that were voted. I can well understand why we are seeing a tapering off in school construction which doesn't show up on the chart on page 27, educational construction. But it is going to. That might be something that Senator Javits could use to back up his point of what indecisiveness does. I lay a good bit of that to all of this talk of Federal aid to school construction and the indecisiveness of action. This is a very important economic indicator in an area where our economy needs to move forward even more so, in this area of training and education. I have one question I would like to direct to all of you, another indicator that worries me. I made some comments before on it, but I see no one picks this up very much. I am talking now about employment figures. This is from page 9 from our Economic Indicators of July. We have continued to have an increased civilian labor force on this chart since 1955 even during recessions. Civilian labor force constitutes those employed, plus unemployed. This has been growing now at a rate of around a million a year. This is where the question comes to you samplers.

We know that our unemployment statistics are based on sampling and on questioning people. The other is a pretty real figure, I guess, the employment figure. What is there about the fact that the employment continued to increase right on up through 1961, but then looking at the monthly indicators, employment or rather civilian labor force decreased from June 1962, 74 million and June of 1961, 74,286,000. Is this an economic phenomenon? And if so, it is a very serious one.

Or could it be that in the sampling of who are unemployed there is a different standard being set in the questions asked of a person: "Are you looking for work?" Would anyone comment on this? To me this is a very, very serious situation.

Mr. GREENWALD. There is one part of this I know something about. There has been a change in the coverage in April of this year, due to the 1960 Census of Population. The figures for the overlap period are roughly 200,000 different. So if you were to assume that you could now make June 1962 comparable with June 1961, I would assume that it would be 200,000 higher and thus roughly the same and not down. I am only pointing this out.

Representative CURTIS. I appreciate that. I think we need some comment on this. I would issue here a challenge to the administration to tell us whether there is a new economic phenomenon hidden in this or has somebody changed the rules of the game in the Bureau of Labor Statistics in the method of sampling as to who are the unemployed? Because either the unemployed should be a million more than they are, or there is something happening to us in not increasing our civilian labor force.

Mr. GREENWALD. If you also look at the employment figures rather than the unemployment figures, these have been going up.

Representative CURTIS. They have been going up. But in trying to compute whether there is a recession, or about to be, or anything like that, we relate it to unemployment and all of these people are talking about this gap beween potential based upon the unemployed and unused capacity. If somebody is trying to "rig" these figures—and I think that term deserves to be used until we get an explanation of this thing—then it would show more of a gap and it certainly would should a lesser use situation. The one area of great concern to me has always been employment and unemployment—I know the Senator from Illinois knows this—under the last administration as well as this. I kept my finger on this employment and unemployment thing because I think there is one area where we need to do something. I would say, incidentally, it is in the field of training and retraining and dealing with obsolete skills more than anything else where attention should be paid.

Mr. GREENWALD. As you know, I have talked about unemployment at these hearings before. I worry about what this unemployment statistic means. I personally do not believe there is any "rigging" in these figures. I also worked for the Bureau of Labor Statistics many years.

Representative CURTIS. I defended, I might say, this group in the Bureau of Labor Statistics against the charges in the article in Reader's Digest. But when I see no one coming forward pointing out what has happened to a traditional trend of increasing the civilian labor force by around a million a year, and the one area that has not been moving up is in the unemployment area, I think it requires some examination. I said as far as rigging figures is concerned, it needs to be explained what phenomenon has changed this thing other than rigging the figures. I hope they are not rigged.

Mr. KATONA. May I say as an independent observer that the entire statistical profession is convinced that Census Bureau and BLS do an outstanding sampling and statistical job in their unemployment studies. There are questions of definition which have widely been discussed in the literature about who are really unemployed, and so on. But as to sampling and interviewing they do an outstanding job.

Senator PROXMIRE. I would like to suggest the Congressman has been a very good friend of the Bureau of Statistics and has always supported them and has been a champion of their integrity and honesty. I do think that this is so serious and such an excellent point is made that before this afternoon we ought to get an explanation from the Department of any changes that are involved in these figures and a justification to the extent they can make one of why we have this stark and dramatic change. I think the Congressman has made a very legitimate and proper point.

Representative CURTIS. I want to thank the Senator. I am trying to be helpful. I, too, would presume we could rely on the figures. If this is so, we have seen a dramatic change in the development of the civilian labor force.

Senator DOUGLAS. If the Congressman would yield, I also have always had great respect for the BLS and the Census. They are not perfect, of course, but I think they have been kept free from political influence. I think this failure of the civilian labor force to grow is one of the most disconcerting developments. Yes, sir; we had some possible explanations of it which happen to agree with my own ideas and which I, therefore thought, were very fine; namely, that it translates into particularly young people and particularly unskilled people and minority groups who cannot get a job because industry or the economic system does not grow. And who because they do not have a job sort of drift around in a hopeless fashion. I live in a great city, as you do. I see these groups in my own city. My daughter has an apartment just off Central Park in New York on the West Side, just four blocks from her a few days ago they had an outright war between the Puerto Ricans and the Negroes. These young people are largely those who dropped out of school, can't get a job. They are neither at school or at work. They are milling around the streets. They are young and unskilled and members of minority groups. When all three of these disadvantages hit them at once it creates a terrible situation. I think it is much worse this year than last year. I felt for over a year that this was the greatest internal problem in the United States.

Mr. GREENWALD. What you are really saying is that they are not in the labor force.

Senator DOUGLAS. Yes. This is disconcerting. There may be some change in the method of measurement of BLS. And I agree with both my colleagues that it should be explored. I want to suggest it is not merely changes in measurement.

Mr. GREENWALD. If they were in the labor force then they would probably be all unemployed on this basis.

Senator PROXMIRE. Yes. We would have as heavy unemployment now as a year ago which was 7 percent.

Mr. GREENWALD. This is a function of the idea that we are a highly technological economy. We have gone so far ahead technically that we are not going to find jobs for these people unless they are well trained in the future.

Senator DOUGLAS. Unless there is enough demand.

Mr. GREENWALD. Not even then, because unskilled workers cannot take a job in technical fields.

Senator PROXMIRE. I want to apologize for keeping you longer but I would like to take a few more minutes.

Mr. Katona, in your response, and Miss Dingle suggested this, you said that a lot of these people who have incomes of less than $3,000 are not taxpayers, property taxpayers, they are renters. I would like to suggest on the business of the statistics I have just gotten over the phone most of these people are not Federal income-tax payers at all. As a matter of fact, of the returns filed for people with incomes of less than $3,000, there are some 21-million-plus, and more than half of those returns are not taxable. These are for individuals.

If we recognize the fact that there are families involved here, that is more than one individual in each unit with total income of less than $3,000 I would say that probably two out of three of the people in this lowest category pay no Federal income taxes. These are the people who bring out your total answer that there appears to be a fair balance between tax cut as a good idea and a bad idea. If we recognize this factor, and most people are subjective enough in talking about their own taxes, you would have a very substantial advantage on the side of those people who in 1961 felt a tax cut was a bad idea.

Mr. KATONA. I am very grateful to you, Senator. I plead guilty. I have not thought of breaking down our data by taxpayers and non-taxpayers. I learned better and I shall do so in future surveys. I again would like to emphasize that this balance, whatever those data on the top part show, whether there are 40 or 50 percent who say good or bad idea, is not too important. We asked the question in 1961 when it was more an academic question mainly to get some baselines for the 1962 or 1963 inquiries and to ask the question about reasons.

In other words, to find out something, why do people think as they do, or how do they think about deficits and about taxes, and so on. I have submitted this table primarily for the sake of the second part of the table and to counteract notions which appeared in the press that 72 percent of all people, including the low-income people, are against the tax cut, which appeared in newspapers last week from a public poll.

Senator PROXMIRE. Their question was not as good as yours. Their question was if this would increase the debt or the deficit. It was suggestive and it was loaded. I say this although the result supported my own bias.

Mr. KATONA. I would not put great stress on these figures and your point is well taken.

Miss DINGLE. I would say that this makes very clear, as I have been convinced in the past, that it is desirable to put out data insofar as possible with relevant breakdowns of which the income breakdown is probably the most important. I think the age breakdown is also important. I think it makes it possible for people like you and other intelligent users to be able to pick out the groups which may be most important for a given question.

Senator PROXMIRE. I think Dr. Katona's breakdown was really the crucial thing. Briefly, I would like to suggest that there is a price the European countries are paying, too, in addition to all the factors which you emphasized of their enormous unfilled needs and their Americanization attitudes because of the movies and other things from this country developing Americanized demand. They are adopting our standard of desire. This is an explanation, a big explanation or part of the explanation, for the growth of their economy. They have suffered a much greater degree of inflation in those countries than in this country without exception.

In some cases it is worse than others. Isn't that correct?

Mr. KATONA. Very true.

Senator PROXMIRE. Mr. Greenwald, would you agree that higher interest rates now would tend to block some of this rosy picture that you painted in construction and municipal bonds? I should say school construction and hospital construction as well as home and business construction?

Mr. GREENWALD. If you mean we are going to have additional changes——

Senator PROXMIRE. Yes. If the Federal Reserve Board adopts the policy of continued increased interest rates.

Mr. GREENWALD. Yes, sir. I did point out that housing is practically at an alltime peak. Even if you lowered the interest rates I don't believe it would help too much.

Senator PROXMIRE. What do these alltime peaks mean? In terms of family formation we ought to be at an alltime peak every year because we have more people involved.

Mr. GREENWALD. I am not arguing this. I would say in the area of construction you are operating pretty close to capacity relative to some other industries.

Senator PROXMIRE. We had such a long construction recession. We have not yet achieved in a single year as large a number of housing starts as we did in 1950.

Mr. GREENWALD. This is another one of those statistical series for which we have a break in comparability. So we have only the 1959 figure of private housing starts which just fell short of 1.5 million units.

Mr. KATONA. May I say one word about interest rates?

According to our studies of consumer decisionmaking, what they take into account when they decide, there is no doubt that in housing, interest rate matters. In other words, a sizable drop in interest rates would stimulate many people to go ahead with house buying and building plans. In consumer durables, automobiles, et cetera, it does not matter, as Senator Douglas knows best, because interest rates are so high that even a one or two percentage point drop is not significant.

Senator DOUGLAS. In the case of automobile costs it does not matter because they do not know what they are.

Mr. KATONA. It would not matter. Regarding business investment probably it would not matter because risk factors play a greater role. So the impact of reduction in interest rates is restricted to housing, I believe.

Senator PROXMIRE. Which is tremendously important in terms of employment. The other point was that perhaps a new industry along the line that Congressman Reuss is pursuing, Fortune magazine said might have the kind of impact automobiles had in the 1900's, is the space industry. This year we will have a $2 billion increase in spending for man-to-the-moon. They expect to be spending at the rate of $10 to $15 billion a year by 1970. Because so much of this is concentrated in research and development the byproducts of possible industrial expansion could be perfectly enormous for our society.

Mr. KATONA. No doubt that is a necessary observation.

Senator PROXMIRE. Thank you very much, Mr. Chairman.

Senator DOUGLAS. We will meet at 2 o'clock.

(Whereupon, at 12:30 p.m. the committee was recessed, to be reconvened at 2 p.m. the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Wright Patman, chairman of the committee, presiding.)

Chairman PATMAN. The committee will be in order, please.

This afternoon the committee continues hearings on the state of the economy and the question of what changes might be made in Federal policies to achieve maximum employment, production, and purchasing power. We are privileged this afternoon to have the Council of Economic Advisers. The program of the President is, of course, the outcome of a decision process in which advice, recommendations, and considerations of many kinds from many sources, inside and outside the economy, play a part. The professional economic advice of the Council is one element. It is not and should not be the sole consideration in the formulation of Presidential economic policy or of congressional policy. In congressional testimony and in other public statements the Council must protect its advisory relationship to the President. We assume that the committee does not expect the Council to indicate in what respect its advice has or has not been taken by the President nor to what extent particular proposals or omissions of proposals reflect the advice of the Council.

Dr. Heller, this morning we had a witness from McGraw-Hill Publishing Co., Dr. Greenwald, and he testified on one point that would interest you. He said that the survey that McGraw-Hill made in late June indicated that business planned to spend $37.9 million on new plant equipment this year, more than 10 percent over 1961. He also said that McGraw-Hill's checkup survey made in late June indicated, and I quote:

> Our checkup pointed up the fact that business in general had not cut back or canceled plans for investment in new facilities in 1962 as a result of the sharp drop in stock prices in May and June, or the so-called loss of business confidence.
>
> Among the companies indicating investment cutbacks only a few cited economic conditions as the reason. In most cases where investment plans were lower than they were earlier, the reasons given had absolutely nothing to do with a lack of business confidence or the drop in the stock market. Instead technological delays and construction delays were the reasons given.

Dr. Ackley, we want particularly to welcome you back to Washington and to congratulate you and the Council on your membership. We regret Dr. Tobin's leaving, but we are delighted to have you and are looking forward to a long and fruitful association. After hearing from Dr. Heller and other members of the Council, if they have statements, members of the committee will ask questions under the 10-minute rule.

Dr. Heller, I understand that you have a prepared statement, and I understand that you would like to proceed with your prepared statement. That will certainly be all right. You may proceed as you desire.

87869—62——8

STATEMENT OF WALTER W. HELLER, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS; ACCOMPANIED BY GARDNER ACKLEY AND KERMIT GORDON, MEMBERS

Dr. HELLER. Thank you.

Chairman PATMAN. You are recognized, Dr. Heller.

Dr. HELLER. Thank you. We are pleased to appear once again before the Joint Economic Committee. I might say that in accordance with your request we have prepared a statement on economic outlook and policy today. In developing this statement we have tried to be responsive to the questions put by the committee, and I think we have in effect also prepared, at least on a small scale, the kind of midyear economic review that some members of the committee have at times thought desirable for presentation to the committee. As the chairman has indicated, I should like to read this statement on the performance of the economy, the outlook and policy problems.

We are examining the economic outlook today because the current expansion has not been as vigorous as all of us hoped and most of us expected. The expansion has slowed down in 1962 and we must be alert to the danger that the current recovery, like its immediate predecessor, will not carry us to full employment.

Nevertheless, we should recognize the important economic gains that have been scored during the past year and a half. From the first quarter of 1961 to the second quarter of 1962—

Gross national product rose from $501 to $552 billion, a rise of 10.2 percent (or a rise of 8.5 percent after price correction).

Consumption in constant prices increased by more than $250 per family (annual rate).

Corporate profits before taxes have increased by roughly one-fourth.

Labor income increased by nearly 9 percent.

Unemployment (seasonally adjusted) declined by about 1 million persons, with the rate falling from 6.8 to 5.5 percent (and to 5.3 percent in July).

In order to conserve time we have put many of the statistics into a separate statement called "Summary of 1961–62 Economic Expansion and Policies."

Chairman PATMAN. Without objection, you may insert them as a part of your remarks in the record.

(The statement referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
COUNCIL OF ECONOMIC ADVISERS,
Washington, August 6, 1962.

SUMMARY OF 1961–62 ECONOMIC EXPANSION AND POLICIES

A. THE RECORD OF GAINS

Since the beginning of the current expansion taken as of February or the first quarter of 1961:

1. The U.S. gross national product rose from an annual rate of $500.8 billion in the first quarter of 1961 to $552 billion (second quarter, 1962) or 10.2 percent in five quarters. In constant prices, the gain was 8.5 percent.

2. Personal income increased from an annual rate of $404.2 to $440.4 billion (June 1962)—a rise of 9 percent.

3. Corporate profits before taxes increased by a fourth from $39.8 billion (annual rate) to $50.1 billion (first quarter 1962). The level for the first quarter of 1962 was slightly below that of the fourth quarter of 1961.

4. Industrial production expanded by more than 15 percent (June).

5. Labor income increased from $282 billion (annual rate) to $309 billion (June)—or almost 10 percent.

6. Payroll employment in nonagricultural establishments rose by 1.9 million jobs (June).

7. The number of persons unemployed declined by 23 percent (seasonally adjusted) from 5 to 3.8 million persons (July). The unemployment rate dropped from 6.9 to 5.3 percent of the civilian labor force.

8. Prices remained virtually stable. The industrial, as well as total, wholesale price index declined. The total index fell from 101 to 100.1 (June) on a base of 1957–59=100. Consumer prices rose by only 1.3 percent from 103.9 to 105.3 (June)—with most of the increase in the service sector.

B. ELEMENTS IN THE RECOVERY

1. Consumption:

(*a*) Personal consumption expenditures have risen $24 billion (annual rate in five quarters—$10 billion in services, $8 billion in nondurable goods, and $6 billion in durable goods.

(*b*) In constant (1961) prices, per capita consumption increased by nearly $75 (or more than $250 per family) as Americans advanced their living standards.

(*c*) Durable goods purchases in the last two quarters were 5 percent above 1959 and 1960 levels, while disposable personal income was about 10 percent higher.

(*d*) Auto sales have accounted for most of the gains in consumer durable purchases since the first quarter of 1961. Although June sales were somewhat lower than the preceding 3 months, July sales rebounded on a seasonally adjusted basis. The total number of cars sold in the first 7 months of this year is 25 percent greater than in the same period of 1961.

(*e*) The savings rate has stayed near 7 percent during the recovery. It is not high as compared to most postwar years, but it has not shown the decline that marked the first year of previous recoveries.

(*f*) The expansion in consumption occurred at the same time that the consumer was strengthening his liquidity position. During 1961 holdings of liquid assets (cash, bank deposits, savings, loan shares, and government bonds) rose by over $20 billion and consumer debt by only $1½ billion.

2. Investment:

(*a*) Business fixed investment (total of producers' durable equipment and nonresidential construction) rose by $5.4 billion or 12 percent in five quarters.

(*b*) Investment has lagged behind corporate cash flow (consisting of after-tax profits and capital consumption allowances). Cash flow rose by $7½ billion from an annual rate of $47 billion in the first quarter of 1961 to nearly $54½ billion in the first quarter of 1962 (preliminary estimates indicate it was about the same in the second quarter).

(*c*) Improved operating rates have stimulated investment, but excess capacity remains a drag on capital spending. Operating rates have risen about two-thirds of the way back to preferred operating rates, from the low levels that existed in early 1961.

(*d*) Total manufacturing and trade inventories at the end of June 1962 were $4.4 billion, or 4.8 percent, above their level in February 1961. But sales increased faster—by 10.3 percent over the same period. The inventory-sales ratio declined from 1.58 to 1.47 in April and May, but rose to 1.50 in June.

(*e*) Housing has increased sharply over last year. Residential construction expenditures in July were $25.7 billion (annual rate) or 29 percent higher than in February 1961. Housing starts in June were 1.4 million units (annual rate) compared to 1.2 million units in February 1961.

3. Government:

(*a*) Federal receipts (on a national income account basis) rose $13 billion (annual rate) from the first quarter of 1961 to the first quarter of 1962, reflecting higher profits and incomes. Federal receipts are expected to show further rises in the second quarter.

(*b*) Federal purchases of goods and services rose by $6.5 billion, of which $5.3 billion was for national defense. (The rise in five quarters was $7.1 billion of which $5.6 billion was for national defense). *Other Federal* expenditures rose by $2.8 billion.

(*c*) The income-and-product deficit declined from an annual rate of $6.3 billion in the first quarter of 1961 to $2.4 billion in the first quarter of 1962.

(*d*) State and local purchases increased $4.6 billion (annual rate) from the first quarter of 1961 to the second quarter of 1962.

4. Money and credit:

(*a*) The money supply (excluding time deposits) rose by $4.1 billion or 2.9 percent from February 1961 to June 1962. Including time deposits, the increase was $20 billion or nearly 9.4 percent.

(*b*) Bank loans increased $12.2 billion or 10.7 percent from February 1961 to June 1962.

(*c*) Long-term interest rates have been unusually stable for a period of economic expansion. However, in the past month, the average yield on Government bonds has risen somewhat, reaching a level of 4.02 in July compared to 3.81 in February 1961.

5. International:

(*a*) The overall balance-of-payments deficit, as measured by U.S. gold sales and increases in foreign dollar holdings, showed improvement in 1961 and further gains in the first half of 1962. The payments deficit was $1.9 billion (annual rate) during the first quarter compared to $2.5 billion for the entire year 1961 and $3.9 billion for 1960. Latest indications are that the deficit has decreased further and is now running at an annual rate of $1.0 to $1.5 billion.

C. STRONG AND WEAK SPOTS IN THE CURRENT OUTLOOK

1. The economy expanded vigorously during 1961; the pace of advance in 1962 has been considerably slower. There are a number of weak spots in the economic data for May and June. Only a few preliminary figures are available so far for July.

(*a*) Personal income advanced only $2.1 billion from April to June compared to $6.4 billion from February to April.

(*b*) Retail sales declined in both May and June. (Judging by department store sales, sales rose in July.)

(*c*) Unemployment as a percentage of the labor force rose slightly in June over May levels and then declined to 5.3 percent in July; however, this is still considerably higher than at our full employment goal.

(*d*) Inventory accumulation has tapered off markedly. Accumulation of manufacturing and trade inventories in the second quarter of 1962 was less than half the amount in the first quarter ($0.8 billion compared to $1.6 billion). Due to the drop in sales, overall inventory sales ratios rose in June.

2. The prices of common stock have fallen 18 percent from March 15 to August 3, reducing the estimated price-earnings ratio from 19.7 to 16.6 (based on estimated second quarter earnings). Stock prices on August 3 were 58.12 (Standard & Poor's price index) compared to 55.11 on the day before the 1960 elections. The realization that inflation has been brought under control is an important factor in the decline of the stock market. The decline in stock prices is a source of concern in economic policy because of its possible adverse effects on consumer and business expectations. Margin requirements were reduced from 70 to 50 percent July 9.

3. Private long-term interest rates are still generally below those at the trough of the economic cycle in February 1961 and borrowing ease continues.

4. The outlook for continued price stability is favorable.

5. Federal purchases are headed upward, though at a slower rate. State and local spending is expected to continue its upward trend.

6. The Commerce-SEC survey taken in April and May shows investment plans for 1962 at a level 8 percent above 1961. This result was the same as the February survey, and it points to continued moderate increases in plant and equipment outlays for the rest of this year.

D. ADMINISTRATION'S PROGRAM FOR STRENGTHENING THE ECONOMY

1. An 8-percent tax credit, totaling $1¼ billion, on new investment in machinery and equipment has been proposed to the Congress. The administration's

proposal would increase the rate of profit on a typical new 10-year asset to the same extent as a 20-point reduction in the corporate income tax.

2. A comprehensive tax reform bill, involving a net reduction in individual and corporate income taxes, will be outlined later this year for consideration by the next Congress in 1963. The President has recommended that the reduction in the tax rate be made effective as of January 1, 1963. He has also said that, if economic conditions warrant, he will request a tax cut in 1962.

3. Standby authority for temporary income tax reduction has been requested of Congress. This tool could be used quickly and effectively to combat economic recessions.

4. Depreciation guidelines for business have been revised, reducing tax bills on 1962 profits by an estimated $1.5 billion and releasing these investable funds for business use.

5. Taxes have been removed on surface transportation effective November 16, 1962, and have been reduced by 50 percent on air transportation.

6. Extension of temporary unemployment compensation and improvement of our welfare programs have also been requested.

7. The Manpower Development and Training Act was enacted in March 1962. launching a $400 million program. In addition, a bill to aid in employment of our youth is pending before Congress. Money invested in training or retraining of our unemployed can benefit society by a multiple of that investment, quite apart from the immeasurable return to the worker in regaining a sense of purpose and hope.

8. Area Redevelopment Administration was established in 1961 to aid areas of chronic unemployment. The act provides funds to aid commercial and industrial development, technical assistance in community planning, and retraining of unemployed workers. To date 700 communities have participated and over 10,000 people ade in training programs.

9. A bill has passed the Senate authorizing $750 million immediately for additional Federal, State, and local public works in areas of heavy unemployment and $750 million of stand-by authority for the future. A bill now in the Rules Committee of the House provides $900 million immediately for additional public works but does not provide standby authority as requested by the administration.

10. Pending before Congress is a bill to provide $500 million in aid to urban areas for the development of mass transportation.

11. The President's trade expansion program (passed the House) will stimulate the foreign market for American production and improve the competitive position of the United States in relation to the European Common Market. The bill allows the President to reduce tariffs 50 percent generally and to abolish them on certain goods. Government aid is to be provided for U.S. workers and industries affected by the change in tariff regulations.

12. A Consumers' Advisory Council has been established to advise the Government on issues of broad economic policy, governmental programs protecting consumer needs, and the flow of consumer research.

13. Many other measures such as aid to education now pending before Congress would provide additional stimulus to the economy.

NOTE.—All figures are seasonally adjusted or based on seasonally adjusted data except prices and interest rates.

Dr. HELLER. If advances could be maintained at this pace, on the average, we would achieve full employment—full utilization of our resources consistent with our interim goal of 4 percent unemployment—sometime late in 1963. But obviously we are still all concerned by evidence that the next 5 quarters are not likely to yield equally strong advances. Gross national product (in constant prices), after rising at a rate of 9 percent per year from the first to fourth quarter of 1961, has been rising at a rate of only about 3¼ percent per year in the first half of 1962. Personal income increases averaged $2.6 billion (annual rate) per month during the 10 months of recovery in 1961, but have been averaging only $1.6 billion since December. After rapid gains during 1961, corporate profits seem to have changed little in the past 2 quarters. On the other hand, the first half of 1962 has witnessed a more rapid improvement in employment and a more rapid decline in unemployment than we experienced last year.

In early 1961 we were in the position of having to recover not from one but from two recessions—for the recession of 1960 came on top of the incomplete recovery from the recession of 1957–58. There can be no doubt that impressive gains in employment and output have been made in the past year and a half. But the economy has not yet regained the reasonably full utilization of its labor and capital which it last experienced in early 1957. It is in this context that we must reexamine the means for achieving the goals of the Employment Act of 1946: "maximum employment, production, and purchasing power."

The postwar era taken as a whole has, to be sure, witnessed remarkable progress in the achievement of these goals. The worst rates of unemployment in the postwar era were about 7½ percent of the labor force, much better than the best performance of the economy in the 1931–40 decade, when the unemployment rate remained consistently above 14 percent, about twice as much as the highest postwar figure. But the record of the past 5 years—while a great improvement over the prewar era—has not matched that of the first postwar decade. From 1946 until mid-1957, full utilization of resources was the normal state of the American economy. Unemployment significantly exceeded 4 percent of the civilian labor force only about one-third of the time, principally during and immediately after the two brief recessions of 1948–49 and 1953–54. Since late 1957, unemployment has fallen below 5 percent of the labor force only briefly. It reached a peak of 7 percent in the recession of 1960–61, and has averaged 6 percent for the 5-year period. Nor has the plant and equipment capacity of American industry been fully utilized. According to one widely used measure—and I might say we are aware of the limitations of measures of capacity, particularly after reading the excellent report of this committee on the subject—manufacturing operating rates in the past 5 years have averaged 6 percentage points lower in relation to capacity than in the previous decade and have consistently remained well below the peak efficiency rates preferred by businessmen. After dropping to 77 percent at the beginning of 1961, the average operating rate rose to an estimated 87 percent in the second quarter of 1962, still several points short of preferred levels.

Our capacity to produce has continued to expand since mid-1955 by roughly 3½ percent per year, reflecting (1) a growing labor force, and (2) higher productivity stemming from improved and expanded equipment and plant, greater skill of workers and management, and technological innovations. But our actual production has grown less rapidly; at an annual rate of 2.7 percent from mid-1955 to date. Actual gross national product has not kept pace with the economy's potential: beginning with 1958, unused potential output has amounted annually to an estimated $25 to $50 billion (1961 prices). The gap between potential and actual output has narrowed from over $50 billion early in 1961 to roughly $30 billion today. But idle resources have continued to be the Nation's outstanding extravagance and inefficiency.

It is important to improve this record of recent years. Our leadership of the free world, the opportunities for our youth, the security of our aged, the mobility of our surplus farm population, the prospects for meeting growing public needs, the rejuvenation of our chronically depressed regions, the capacity of our economy to adapt smoothly to the expansion of our international trade, all of these are linked to the goal of maximum employment. As President Kennedy said in his Economic Report for 1962:

> A full employment economy provides opportunities for useful and satisfying work. It rewards enterprise with profit. It generates saving for the future and transforms it into productive investment. It opens doors for the unskilled and underprivileged and closes them against want and frustration. The conquest of unemployment is not the sole end of economic policy, but it is surely an indispensable beginning.

DEVELOPMENTS IN THE FIRST HALF OF 1962

At the end of 1961, the rise of GNP in three quarters of recovery had exceeded the upswing from the low point of GNP in the comparable periods of the preceding two recoveries. While certain factors were weaker than in 1954–55 and 1958–59, others were stronger, leading to an expectation that the economy would continue upward at a relatively strong pace in 1962.

Nevertheless, on the basis of past experience, the growth during 1962 was projected to be more modest than in the recovery quarters of 1961. What I am saying is that the $570 billion estimate of GNP that was used as the underpinning to the budget projections actually represented a slower rate of recovery in 1962 than in 1961. The shift from inventory liquidation to restocking that follows a recession normally yields large gains in the early stages of recovery. Some slowdown in the rate of advance must be expected as the expansion continues. But the change of pace was sharper than anticipated—in the three quarters of recovery in 1961 GNP advanced at an annual rate of nearly $13 billion per quarter; its increases in 1962 were only $6.4 billion in the first quarter and $7.0 billion in the second. Apart from statistical adjustments resulting from the revision of 1961 date, actual GNP in the second quarter, at $552 billion, ran at least $10 billion below projections.

This disappointing outcome is virtually all traceable to investment in plant and equipment and inventories. In relation to income, consumer buying has held up relatively well; housing is now close to its predicted flight path after an erratic dip in the first quarter; exports are slightly above expectations; and Government purchases have behaved about as expected.

Although business fixed investment began to rise more promptly in this expansion than in earlier recoveries, its performance since the turn of the year has been disappointing. As against an expected increase of roughly 14 percent in 1962 over 1961, it now appears that the gain for the year will be closer to 3 percent. That figure of 8 percent is roughly consonant with the 10-percent figure you mentioned, Mr. Chairman.

I am sorry that we do not have a revised estimate at the present time.

This weakness of investment has sometimes been attributed to a "profits squeeze." In fact, corporate profits have increased, as already noted, by one-fourth over the period since the first quarter of 1961, although in the aggregate further profit gains do not appear to have occurred so far in 1962. In the logic of our private enterprise system an adequate level of profits is essential to economic progress. Profits should be higher than they are today, and they will be higher when our productive capacity is more fully utilized. It can be estimated that if the economy were operating at a 4-percent unemployment level, corporate profits after taxes would be a healthy $30 billion—compared to a $25.6 billion annual rate in the first quarter of 1962.

Corporate profits after taxes reached a peak of $22.8 billion in the inflationary year of 1950, a peak which they did not surpass until 1955, and which even today they surpass by only a modest margin despite the considerable growth in corporate sales and in the total investment in corporate assets since 1950.

Still, we cannot look at corporate profits in isolation. Since 1950, corporate depreciation and other capital consumption allowances have risen from $9.4 billion in 1950 to $28.7 billion (annual rate) in the first quarter of 1962. Together, corporate profits after taxes plus corporate capital consumption allowances—often called "corporate cash flow"—have risen from $32.2 billion in 1950 to $54.3 billion in the first quarter of 1962.

A comparison of business fixed investment with corporate cash flow can only be approximate since noncorporate investment is included in the investment figures, but it gives some indication of business attitudes toward investment in relation to the flow of depreciation and after-tax profits. Most of the time from 1951 to 1957, business fixed investment exceeded corporate cash flow; since mid-1958, the reverse has been true continuously, and the distance has widened in the current expansion; cash flow has grown about $7 billion (annual rate) above the $47 billion level of the first quarter of 1961; business fixed investment has meanwhile advanced $5.4 billion from its $44.7 billion rate in the trough quarter. Although investment for modernization and cost-cutting is rising moderately—and surveys suggest that about 70 percent of plant and equipment investment is for these purposes—the gains in profits during 1961 did not generate enthusiasm for a major expansion of plant and equipment. The overall willingness of business firms to invest has not kept pace with their overall ability to invest out of internal funds.

Inventory investment in the second quarter is estimated at the relatively low annual rate of $3.4 billion. The working down of steel inventories was a factor in recent months, but even apart from steel, the general pattern of inventories reflects a cautious policy by business firms. Inventories were growing less rapidly than sales through most of 1961 and into the spring of 1962. Inventory-sales ratios which were declining from levels already relatively low by past standards would typically have heralded a speedup in inventory accumulation, but this has not occurred in 1962.

Business conservatism toward capital goods and inventories appears to be grounded in the experience of the past 5 years. The American economy since 1957 has had continuously slack labor markets, buyers' markets for materials, and persistent excess capacity. It has proved difficult for businessmen to work up much enthusiasm for buying or building ahead of minimal needs with that history still fresh in their memories. The Nation's businessmen have had their share of disappointments in the past 5 years. They saw markets contract in 1957 just as they were adding new plant capacity and new labor to meet expected growth in demand. Much of the expanded capacity had to remain on the sidelines when the 1958–60 expansion fell short of full use of the Nation's great productive strength. To be caught long on capital and labor and short on markets tends to breed caution the next time around.

We do not have the stimulus of large backlogs of demand that marked the early postwar years. We do not have—and do not want—the stimulus to buying that inflationary expectations can provide. Against this background, it is difficult for private demand to carry the economy to full employment under existing tax rates.

During a period of recovery, an appreciable share of the growth in business and personal incomes is drained off into Federal taxes. I might say that this was a concern which we, as you may recall, expressed in our initial testimony before this committee in March of 1961. The fact is that the automatic stabilizers do cushion a downward movement, but at the same time exert a very considerable drag on a recovery. This tends to hamper the growth in both consumer and producer demand upon which continued expansion depends. During the five quarters of the current expansion, Federal taxes (net of transfers) have taken $12 billion of the $51 billion increase in total incomes, but Federal purchases have taken only $7 billion of the $51 billion increase in total output. The difference between the $12 billion of added taxes (net of transfers) and the $7 billion of added purchases is a measure of the drag on the recovery exercised by the Federal budget. If tax receipts had grown less rapidly, or expenditures more rapidly, total demand would have grown faster, and the expansion of output and income would have been greater. The automatic stabilizing effects to the Federal budget, which help to cushion a recession, also tend to retard a recovery.

If the economy were at full employment today, we estimate that total income and total output would be about $30 billion higher than at present. But Federal tax receipts would be about $9 billion above present levels, and private saving would be $5 or $6 billion higher than today. Thus, taxes and savings would be drawing $14 or $15 billion from the economy, which would have to be offset by additional investment and Government expenditures for full employment to be maintained. This means that, at present levels of Government expenditure, our present tax system bars the way to full employment unless we are able to raise private investment about $14 or $15 billion above present levels. I will come back to this point later.

PROSPECTS FOR THE MONTHS AHEAD

The most recent evidence on economic activity, though mixed, offers cause for concern. After a slow start in January–February, and then a brisk pickup in March and April, the 1962 economic expansion slackened in May and June. Those measures of overall activity which primarily reflect the results of the execution of past decisions to hire, buy, and produce—for example, the overall measures of income, employment, production, and construction—kept setting new records almost every month.

However, as previously indicated, the pace of advance was not satisfactory. And any appraisal of the outlook must also recognize the recent softness of many indicators which record current decisions and which point toward future economic decisions. For example, the movements of orders and contracts are likely to foreshadow changes in production and shipments. New orders for durable goods have been moving downward since January and in June were 7 percent below their January peak. Machinery and equipment orders are lower than in January, although they recovered some lost ground in May and held almost even in June. Housing starts and building permits have shown considerable strength in recent months, even though the latest figures are considerably below the high points of the present expansion. Commercial and industrial construction contracts are another area of recent strength on which the latest returns point downward. The factory workweek frequently indicates the needs of manufacturing firms for additional labor. It has declined during both May and June. The stock market is one of the many factors which help mold and reflect economic expectations and attitudes toward spending, but the full implications of the slide in the market from March to June will not be clear for many months.

As we look ahead, we see mixed evidence on the various components of expenditure.

CONSUMPTION

Consumers have raised their spending in pace with gains in their incomes during the current expansion, and there is little evidence to suggest a marked departure from that pattern in the months ahead. A rather sharp and widespread decline in retail sales during June was worrisome, but preliminary data for July indicate a strengthening in department store sales, new auto sales, and total retail sales, after allowing for seasonal changes. Past experience and current surveys indicate only a limited possibility that consumers will spark a renewed advance in the economy. (I believe you reviewed some of those current surveys this morning.) Such a spark would probably have to arise from the volatile area of durable goods purchases. In the current expansion, autos have supplied most of the strength in that sector, and it would be surprising if demand for 1963 autos were to top the brisk activity in 1962 models.

HOUSING

With the aid of rising incomes, readily available mortgage credit, and lower interest rates, homebuilding has done very well. The sharp rise in starts this spring carried housing activity to high levels. But, following a sharp decline in starts for June, total housing outlays fell in July. Permits come first in the chronological sequence of permit-start-construction activity. The recent data on permits point neither to a continued slide in starts below the June level nor to a resurgence to the high levels of April and May.

PLANT AND EQUIPMENT

Surveys of business intentions point to continued modest increases in fixed investment during the remainder of 1962. The recent Mc-

Graw-Hill survey found no evidence of cutbacks in late June after the stock market decline. Recent softness in orders for equipment raises some doubts about the outlook for plant and equipment investment but the evidence is not conclusive. At the same time, the recently announced reform of depreciation guidelines and the pending tax credit for investment serve as sources of future buoyancy in this sector.

INVENTORIES

In the postwar period, every recession has been dominated by inventory cutbacks. But today, given the conservative inventory-sales ratios already prevailing, it would be surprising if large-scale inventory liquidation were initiated. Reduction in stocks of steel has been an important factor holding down inventory investment in recent months. With that adjustment apparently nearing completion, inventory investment might revive this fall or winter. On the other hand, new orders and unfilled orders are important determinants of inventory policy, and strong incentives to build stocks probably would arise only in response to a reversal in recent trends in such orders.

GOVERNMENT

Purchase of goods and services by the Federal Government are expected to increase at a moderate rate in the next few quarters, giving some support to the private economy. The upward trend of State and local outlays will surely continue.

These prospects for various components are difficult to add up. They do not sum up to a crisis in the economy, nor do they offer any assurance of spontaneous resumption of brisk advances in the private economy. A continued period of modest upward movements or leveling off is one reasonable possibility. We experienced this in 1956–57, with gains in output just large enough to prevent a significant rise in unemployment. But we cannot rule out the alternative possibility that the recent slowdown in the expansion represents advance warning of an economic decline. A more explicit verdict would not do justice to the perplexing and inconclusive crosscurrents in the evidence before us—nor to the obvious limitations of the science of economic forecasting.

But even in the face of much greater uncertainty than usual about the pace of further advance and the possibility and timing of an economic downturn, this much is clear: The U.S. economy is still operating considerably short of its potential and action on the important economic measures recommended by the President is needed to strengthen its performance.

POLICY ACTIONS

Pending proposals: The slowdown in the rate of expansion in 1962, combined with the current uncertainties in the economic outlook, underscore again the importance of action on the President's recommendations in the Economic Report last January for—

> a defense-in-depth against future recessions * * * a three-part program for sustained prosperity which will (1) provide standby power, subject to congressional veto, for temporary income tax reductions, (2) set up a standby program

of public capital improvements, and (3) strengthen the unemployment insurance system.

These three measures, or reasonable alternatives—providing up to $10 billion of temporary income tax reduction (at annual rates), $2 billion of public works acceleration, and stronger unemployment compensation—would, as the President said in January—

enable Federal fiscal policy to respond firmly, flexibly, and swiftly to oncoming recessions.

By enacting the foregoing proposals or the related measures that now lie before it, the Congress could provide a significant economic stimulus at the present time.

As the President noted in his statement on June 7:

* * * I have asked the Congress to provide standby tax reduction authority to make certain, as recommended by the eminent Commission on Money and Credit, that this tool could be used instantly and effectively should a new recession threaten to engulf us. The House Ways and Means Committee has been busy with other important measures, but there is surely more cause now than ever before for making such authority available.

The public works acceleration legislation which has passed the Senate and is pending in the House will provide for additional Federal, State, and local public works in areas of heavy unemployment. (The Senate bill also includes provision for additional standby authority permitting the extension of the program should conditions warrant.)

The temporary extension of the period of unemployment compensation benefits earlier authorized by the Congress has now lapsed, and its renewal has been requested. Such a program alleviates in some measure the hardship of those most directly and immediately affected by continued excessive unemployment. Moreover, the resulting addition to consumer purchasing power strengthens consumer buying.

Other measures now pending before the Congress can also provide immediate as well as sustained support for further economic expansion:

The investment tax credit, part of the 1962 revenue bill, promises further significant incentive to business investment, in addition to the encouragement already provided by the new depreciation guidelines.

The proposed Trade Expansion Act of 1962 will contribute to the administration's program to expand our exports—a potential source of increased demand for the output of our farms and factories, important for this reason as well as for its contribution to improving our balance-of-payments situation.

The proposed Youth Employment Opportunities Act, aimed especially at the severe unemployment and underemployment of our young people out of school, would make inroads on a particularly unfortunate byproduct of slack in our economy.

TAX REDUCTION

Beyond these important and timely measures now pending before the Congress, a program to improve the rate of utilization of our resources and the rate of growth of our economy must include the even more fundamental measures of tax reduction and tax reform. On June 7, President Kennedy stated:

> * * * our tax structure, as presently weighted, exerts too heavy a drain on a prospering economy * * *. A comprehensive tax reform bill * * * will be offered for action by the next Congress, making effective as of January 1 of next year an across-the-board reduction in personal and corporate income tax rates which will not be wholly offset by other reforms. In other words, it is a net tax reduction.

The President has also indicated the possibility of asking for earlier action on tax reduction if economic developments should require it.

Apart from the announced intention to recommend both individual and corporate income tax reduction effective January 1, 1963, unless adverse economic developments require earlier action, no decision has been made on the size, composition, and timing of a recommended tax reduction. But the basic case for easing the net tax drain on the economy, as well as the broad principles which should guide tax reduction, are reasonably clear in the light of our unsatisfactory economic experience of the past 5 years.

A reduction in net tax liabilities of both consumers and business spurs the economy's advance toward full resource utilization in three important ways:

First, it increases the disposable income of consumers. The statistical record indicates that consumers consistently spend from 92 to 94 percent of their total disposable income. And past experience also confirms that increases in such incomes are very largely and very quickly translated into higher consumer spending. As the private income released by tax reduction is spent, markets strengthen, production rises, new jobs are created, and incomes and profits rise accordingly. This generates added cycles of private spending and leads to further increases in output and employment. This process alone—the so-called "multiplier effect"—translates the original personal tax reduction into an increase in gross national product considerably larger than the reduction itself.

Second, by bolstering sales and pushing production closer to capacity, tax reduction stimulates investment in inventories and in plant and equipment, the so-called accelerator effect. This further expands gross national product, raises profits, and reduces the deterrent effect of excess capacity that since 1957 has plagued the economy and curbed expansionary investment.

Third, by reducing the Government's share of business earnings, tax reduction improves profit margins and increases the supply of internal funds available for investment. This strengthens both the incentives and the financial ability of businessmen to undertake the risks involved in new investment.

Decisions on size, composition, and timing of tax cuts will need to give appropriate weight to the following economic considerations:

1. The longer-term need for reducing the excess of Federal revenues over Federal expenditures that would be realized at full employment, a need that depends on:

(*a*) The current size of the full employment surplus, estimated at $7 to $8 billion on a national-income-accounts basis;

(*b*) Its prospective size in light of projected growth in Federal expenditures and Federal revenues as the economy expands;

(*c*) The amount of surplus at full employment that is needed to curb inflationary pressures while maintaining a high level of investment.

2. Any short-term need that may exist for overcoming temporary deficiencies in consumer and investment demand.

3. The necessity of combining individual and corporate income tax reduction in the manner best suited to stimulating both consumption and investment, to support both markets and incentives.

4. The appropriate relationship to the projected reform of the tax structure, a reform designed to improve equity and remove the artificial tax barriers or concessions that divert resources from their most efficient uses and thus impair our rate of economic growth.

5. The invigorating effect of tax reduction on the economy and the resulting "feedback" of revenues to the Federal Treasury which limits the net budgetary cost of the reduction and, over time, may even wipe out its initial addition to a budget deficit.

6. The monetary policy being pursued—for example, if monetary policy becomes more restrictive for balance-of-payments reasons, a larger tax reduction would be needed to yield a given economic stimulus.

MONETARY POLICY

As the last point indicates, fiscal policy and monetary policy are tightly interwoven, indeed are in part substitutes for one another. A given stimulus to the economy can be achieved by a relatively easier fiscal policy coupled with a relatively tighter monetary policy, or vice versa, but the effects on the balance of payments and on the investment-consumption balance in the economy may be rather different in the two cases.

During this economic recovery, the task of monetary policy has been especially difficult. There has been a compelling need for general monetary ease, as part of expansionary economic policy for full employment and adequate utilization of our resources. It has been especially vital to maintain reasonably low long-term interest rates and a plentiful supply of investment funds in order to stimulate private investment and quicken the tempo of growth in potential output. Yet, concurrent with these objectives, it has been necessary to discourage large flows of capital out of this country that could complicate the task of restoring a healthy balance of payments and confidence in the dollar.

The problem of capital outflow is tied primarily to our level of short-term interest rates relative to those of other countries, and it has therefore been necessary to prevent short-term rates from falling too low. At the same time, the monetary and debt authorities have tried to shield long-term rates, so critical to economic expansion, from the restrictive impact at the short end of the maturity spectrum.

Since February 20, 1961, the Federal Reserve has conducted its open-market operations in all maturity sectors of the U.S. Government securities market. On balance, the Federal Reserve has actually sold short-term U.S. Government securities in the open market since that date, but it has bought longer term securities, primarily 1 to 5 years, in amounts much larger than the sale of short-term securities. Most of the purchases of long-term securities took place in 1961, Since then, such purchases have been more limited. The Treasury Department has also adapted debt management policies in part to these same objectives, primarily through concentrating new cash offerings of securities in the short-term area, but also by buying long-term securities for the Treasury investment accounts to the extent that such purchases were consistent with the objectives of these funds.

The action that the Federal Reserve took, effective January 1 this year, in raising the maximum interest rate payable on commercial bank time deposits to as high as 4 percent, has increased the total flow of funds through financial institutions. This has put pressure upon these institutions to find investment outlets and has helped to reduce yields on both mortgages and muncipal bonds. Actually at this point of time, 17 months after the beginning of economic recovery, long-term private interest rates are generally below their levels at the cyclical trough in February 1961. This does not say they are low enough.

What it says is that as far as the statistical record is concerned, they are below the trough levels in February 1961. They are also below the levels at the corresponding stage of the 1958–59 recovery, despite the postwar peak in interest rates that intervened. The reduction in long-term rates has had to overcome two psychological barriers, rather stubborn ones—first, some persistence of inflationary psychology in the financial community despite the lack of tangible inflation; and, second, vivid memories of the experience of 1958–59, when economic recovery was accompanied by sharp increases in long-term rates (as I recall, the sharpest in a hundred years in comparable phases of the business cycle).

The total of demand and time deposits and currency has been increasing since February 1961, by more than 7 percent per year, and the availability of bank reserves has been generally favorable to the expansion of bank credit. Banks have been going more heavily into municipal bonds and mortgages. Very little of the expansion of bank loans and investments over the past year has been in U.S. Government securities. In relation to economic activity, liquidity in the economy is not much changed from its postwar low.

A special word is in order on the relation of monetary policy to the balance-of-payments situation. We have, from the beginning, taken a number of determined and effective measures to improve our balance of payments and maintain confidence in the dollar. In dealing with the balance of payments, however, it would be self-defeating to adopt policies that would undermine the vigor of the economy; for example, through restrictive monetary-fiscal policies. Confidence in the dollar is dependent upon a strong, growing American economy.

Further, a revival of vigorous growth here will make the United States a more attractive outlet for long-term investment funds, both domestic and foreign. As a result, monetary and debt-management policy must continue to aim at providing ample credit and liquidity to support needed recovery and growth, consistent with the requirements of balance-of-payments policy.

Finally, as monetary and fiscal policies are brought into coordinated focus, these points stand out:

1. At a time when the Federal budget was becoming progressively less expansionary in its net impact on the economy during the 1961–62

recovery, monetary policy remained easy, partly through conscious effort of the monetary authorities, partly because expansionary forces have not been as strong as expected, and partly because 1961–62 may mark the end of a rising trend—related to inflationary expectations—in interest rates.

2. Balance of payments and gold outflow considerations currently demand a more restrictive monetary policy than would be desirable from the standpoint of the domestic economy. To this extent, fiscal policy must be more expansionary than would otherwise be necessary in order to promote domestic economic expansion and narrow the excessive gap between our economic performance and our economic potential. Indeed, closing this gap can play an important role in building longrun confidence in the dollar. As the steps currently being taken to eliminate the balance-of-payments deficit and strengthen our international monetary position achieve their objective, the curbs on our freedom to use monetary policy to meet the needs of the domestic economy will be progressively reduced.

3. Any move toward sizable tax reductions must, of course, be accompanied by a willingness to move toward higher interest rates if this should prove to be necessary (a) to discourage any adverse capital flows that might develop, or (b) to offset any inflationary pressures that might ensue if the rebound toward full employment should prove to be unexpectedly rapid. With a gap of approximately $30 billion between actual and potential output, the prospect of inflation from excess demand is surely remote.

4. If budget deficits are incurred, the method of financing them must be carefully adapted to the prevailing economic circumstances. A careful balance must be struck between bank and nonbank financing, a balance which will not thwart or nullify the expansionary effect of budget measures in an economy with excessive unemployment and excess capacity, but will prudently shift Federal debts into nonbank hands as the economy comes close to or reaches full employment.

Summing up, let me say that relative monetary ease has facilitiated economic expansion in the recovery of 1961–62; that even greater ease would have been possible in the absence of international payments pressures; that those pressures throw an additional burden on fiscal measures as part of a coordinated economic policy for full employment and faster growth; and that care must be exercised not to overcompensate for such international monetary pressures by premature or excessive tightening of credit and interest rate.

CONCLUSION

We would be dangerously complacent if we focused only on such impressive advances in our economic well-being in recent years as:

The rise of over $50 billion in gross national product since the first quarter of 1961, and the accompanying rise in employment, personal income, and profits.

The shrinkage of our balance-of-payments deficit from $3.9 billion in 1960 to $2.5 billion in 1961, and the prospect of further shrinkage to $1.5 billion or less this year.

The 4 years of stability in our wholesale price level since 1958.

The continued growth in our economic potential at rates exceeding prewar averages.

But when we look ahead, instead of backward, it is the size of the job yet to be done that demands attention and commands action: the continued hardship, inequity, and waste of unemployment; the excessive amounts of unused industrial capacity; the unsatisfactory pace of economic expansion in 1962; and the remaining gap in our balance of payments. My statement today has put its emphasis on this unfinished business of economic policy. The uncertainties of current economic developments and prospects underscore the urgency of that unfinished business. They also intensify the need for action on those economic measures that the President has already put before Congress, and the need for forethought on the tax adjustments which are needed to remove barriers to the expansion and full utilization of the great potential of the American economy.

Chairman PATMAN. Thank you very much, Dr. Heller. I assume you are speaking for the Council?

Dr. HELLER. I am, Mr. Chairman.

Chairman PATMAN. Dr. Heller, when you were before the committee in January presenting the President's economic report for 1962, I believe you then projected a GNP for the year of $570 billion. You mentioned that in your statement, I know. Is that correct?

Dr. HELLER. That is correct.

Chairman PATMAN. What amount of investment in plant and equipment did you project for 1962 at that time, do you recall, Dr. Heller?

Dr. HELLER. We projected a 14-percent increase in the investment in plant and equipment over 1961; that is, a total of about $39 billion for 1962.

Chairman PATMAN. Do you recall your projection of Federal expenditures?

Dr. HELLER. May I put those in terms of the rise that we expected from 1 year to the next?

Chairman PATMAN. Yes, sir. Also construction expenditures and consumer durables. Rather than delaying the hearing, Dr. Heller, I will ask you if you have the question to put the answer in the record if you will, please.

Dr. HELLER. Thank you, Mr. Chairman.

(The figures referred to follow:)

An increase of $8 billion from 1961 to 1962 was expected in Federal expenditures on an income-and-product basis with about $5½ billion of the increase occurring in purchases of goods and services. Data in the first half of 1962 are consistent with those projections.

It was anticipated that residential construction in 1962 would run $3 billion above the 1961 average—or $1 billion above the fourth quarter of 1961. Despite the weak first quarter results, the average for 1962 is likely to be within $1 billion of the projected level.

No explicit projections of public construction or nonresidential building were made.

A $5 billion rise in 1962 over 1961 was expected in consumer durable expenditures—slightly more than half in autos and the rest in other durables. The second quarter of 1962 showed a level of $3½ billion above 1961, with nearly all of the gains coming from autos.

Chairman PATMAN. What figure did you project for money supply on the average for the year 1962?

Dr. HELLER. I do not believe we made an explicit projection for the money supply.

Chairman PATMAN. What is the money supply now for the latest date for which you have any data?

Dr. HELLER. The total money supply is $145 billion, consisting of $30 billion of currency outside of banks, $115 of private demand deposits.

Chairman PATMAN. Is the GNP figure of $552 billion correct for the second quarter of 1962?

Dr. HELLER. That is the preliminary estimate of the Department of Commerce; yes, sir.

Chairman PATMAN. May I point out that between the fourth quarter of the last year and the second quarter of this year GNP increased by 2½ percent, but your money supply grew in the same period on a seasonally adjusted basis by only 0.9 percent. Is that correct the way you understand it?

Dr. HELLER. From the trough of the recession until the middle of this year GNP rose to the second quarter by about 8½ percent on a price corrected basis and the money supply grew about 9 percent.

Senator PROXMIRE. I think Chairman Patman is talking about time deposits.

Dr. HELLER. Thank you, Senator. I am including time deposits in this 9-percent figure.

Chairman PATMAN. I might point out also in the second quarter of 1961 the money supply amounted to 27.8 percent of GNP. In the second quarter of this year it equals only 26.4 percent of GNP. This volume of money relative to the size of the economy requiring money is now the lowest since 1929. In trying to find out why the predictions you gave us last January were wrong, have you considered whether or not your projections were sabotaged by the monetary authorities?

Dr. HELLER. We try to look at all of the factors in the situation.

Chairman PATMAN. That is one of them, I believe you will admit.

Dr. HELLER. I think it is fair to say that the level of interest rates is one of the important factors influencing construction activity and plant and equipment investment. If the level of interest rates could have been lower and the money supply greater, the conditions for investment would have been more favorable.

Chairman PATMAN. Dr. Heller, I might also point out from the fourth quarter of 1960, just before President Kennedy took office, to the second quarter of the present year the gross national product increased 9.6 percent. Within the same period the money supply increased at only about one-third of that rate or a total of 3.3 percent. This brings up a question. When I first came to Congress, Dr. Heller, about 34 years ago, I was one of the group advocating the payment of the adjusted compensation certificates to three and a half million veterans of World War I, commonly known as the bonus. We finally secured its passage under Mr. Hoover and overrode his veto to get half of it paid by loans with interest, but that was not satisfactory to us. Then we commenced a campaign to pay it off in cash, and we succeeded after passing it several times in the House and Senate, and almost over the President's veto in 1935, only lacking eight votes, but in 1936 we passed it over the President's veto, with provision for payment to veterans of over $2 billion. We expected that to add a lot of purchasing power and help the country because it would go into every nook and corner of America, as you know. Each veteran had an average certificate of $1,015. And yet, when payment was made it did not seem to have much of an effect and we were puzzled about it. But I soon discovered that when the money was paid, the monetary authorities for the first time in history doubled the reserve requirements of banks, which absolutely nullified the payment of that money and retarded the country.

The reason I bring that up now is that it occurs to me that we have a comparable situation. We have a situation where we want to do something to increase purchasing power among our people and the monetary authorities are, in effect, threatening to veto it through monetary policy; and they can do it. I can certify to that because I was a witness to it in 1936. They did it then. And they have the power to do it now. Have you thought about that prospective trouble?

Dr. HELLER. Mr. Chairman, as I tried to indicate in my statement, I think you are 100 percent correct in saying that the interrelationship of fiscal policy and monetary policy has to be kept in the forefront of our policy thinking. It is perfectly true that it is possible to nullify expansionary monetary policy by restrictive fiscal policy or vice versa.

It is a source of concern to us that in response to balance-of-payments pressures monetary policy has not been as easy—particularly in the last few months—as would be required by the domestic economic situation alone. I think that we must be extremely vigilant to make sure that any tightening on the monetary front is really a necessary response to the balance of payments and the gold outflow situation.

Chairman PATMAN. I think you will have to assess carefully what the monetary policy may do. You cannot guard against it because you do not have the power to guard against it. In effect, the Federal Reserve Board members have 14-year terms. I do not think President Kennedy has selected even one.

Dr. HELLER. One.

Chairman PATMAN. He has selected one. One out of six. Of course, the Open Market Committee is the most powerful group on earth. By law, it is composed of 12 members. Seven members of the Federal Reserve Board and five presidents of Federal Reserve banks. But in effect and in practice the 12 presidents of Federal Reserve banks come into this Open Market Committee, and they advise with them. Their views are sought and obtained at the meetings of the Open Market Committee and for all practical purposes they are full participants. So these 12 presidents of Federal Reserve banks are selected by representatives of the banks and the banks want higher and higher interest rates all the time.

I feel that we are in a little danger trying to bring this country back to full employment with a situation like that, where the monetary authorities have the power to veto what you do. I hope Congress gives some consideration to this question in the interest of full recovery and employment.

Senator Bush?

Senator BUSH. Mr. Chairman, during the previous 8 years I heard a great deal about the tight-money policy of the previous administration. I always contended in discussing that it was not a tight-money policy, but rather a sound-money policy. I am rather sympathetic with the attitude of this administration in respect to monetary policy so far. You would not define it as a tight-money policy, would you, Dr. Heller?

Dr. HELLER. I would not. But a sound-money policy sometimes is a tight-money policy and at other times is an easy-money policy.

Senator BUSH. If you look at the statistics that are being piled up here in this hearing, it seems as though housing was going ahead apace this year, and that is influenced by the rates of money, I suppose, to some degree. But certainly the interest rates have not seemed to inhibit the increase in housing construction which is going ahead at a very good rate. A million and a half starts this year, I believe. Also consumers' credit has been expanding considerably. That does not seem to have been inhibited by interest rates. Is that not so?

Dr. HELLER. These things are relative in the sense that if interest rates were still lower I presume that housing starts would be still higher. But a rate of 1.4 or 1.5 million starts, which it looks like at the present time, is a very substantial advance over the trough of 1961, and indeed a very respectable showing in terms of the history of the 1950's. That does not say we would not want more.

Senator BUSH. I would like to say that I congratulate the administration for its attitude on this question of monetary policy. I think it has been very satisfactory so far, and I hope it would not be dislodged by any of the loud requests for lower interest rates artificially produced by the Government. Have we ever had a temporary tax cut of the type that is being discussed now for the purposes that are being discussed now?

Dr. HELLER. No, we have not.

Senator BUSH. I have not been able to recall that has ever been tried before.

Dr. HELLER. No.

Senator BUSH. So this would be an experiment, then? We are not able to forecast in the light of what may have happened before, but it would be a new adventure if we were to embark upon a temporary tax cut for the purpose of spurring the economy, especially in the face of expected deficits, is that true?

Dr. HELLER. That is correct, Senator. There have been extensive discussions of this possibility in the whole postwar period, but it has never been undertaken, even though we seemed at one time in 1958 to be close to it. But there was a certain Easter recess after which people in Congress seemed to back away from it.

Senator BUSH. Thought better.

Dr. HELLER. Anyway they reconsidered it.

Senator BUSH. Dr. Heller, a few years ago I read a book by Professor Galbraith which is a very interesting book on the economy, "The Affluent Society." In that book he advocated a different approach to the tax situation. He said he thought if we were going to go ahead and expand that we were going to have to very greatly broaden our base of taxation. He advocated an addition to the tax, that we should not be entirely dependent upon the income tax to the extent that we are, which is probably heavier than any other country today, I understand.

He talked about some sort of a tax, I think he called it a production tax. It was a tax upon the production of goods, generally speaking. Is that correct? Do you recall?

Dr. HELLER. Essentially the Galbraith position was to change somewhat the balance between private and public goods and make public goods less expensive and private goods more expensive. But I believe that he was directing this particular comment on consumption taxes primarily to the State and local level. He was suggesting that State and local governments should not be quite as bashful about using taxes that would be a direct burden on private consumption.

Senator BUSH. You did not gather he was directing that toward the Federal Government tax system?

Dr. HELLER. That was not my impression though I stand subject to correction.

Senator BUSH. It was my impression, but I have not read that book for about 3 years, so I would not want to argue that point with you.

Dr. HELLER. I have not read it for 19 months.

Senator BUSH. You have not had much time in that period.

Mr. Chairman, I have no further comments.

Chairman PATMAN. Senator Douglas?

Senator DOUGLAS. Dr. Heller, you know I have a very high opinion of you.

Dr. HELLER. That is an ominous opening statement.

Senator DOUGLAS. It is very sincere, I assure you. When you estimated last January when you appeared before us that the gross national product would be $570 billion for calendar 1962, I asked you if you were not a little optimistic and you replied no, you thought this estimate was well taken. Then I asked you this question which appears at the top of page 11 of the hearings:

> Suppose you do not reach these goals—one must always have plans ready in case the program of attack does not succeed.
>
> Dr. HELLER. That is right.
>
> Senator DOUGLAS. Do you have any plans that you want to reveal or do you think it is wise not to discuss them?
>
> Dr. HELLER. I do not want to suggest, Senator, that we have some hidden weapons or secret weapons that are in reserve for this purpose. Weapons are available that I think are familiar to this committee and to all of us. For example, monetary ease. If the recovery is not as vigorous throughout 1962 and 1963, as anticipated, one of the weapons would be monetary ease.

Senator DOUGLAS. The first part of this question is this: Is it not apparent that we are going to fall very far short of $570 billion as GNP for calendar 1962? The average for the first half is a little less than 549. To reach 570 you would have to have an average of 590 for the second half. An average of 590, which would mean you would have to go well over 600 in the final quarter. Are not we going to fall very far short of 570 and should not we frankly admit that now?

Dr. HELLER. We are certainly going to fall substantially short of $570 billion for the year. When I said earlier in response to your question that we have not formulated a new estimate, it is not to deny that we are going to fall substantially short of the $570 billion projection.

Senator DOUGLAS. You said if we do fall short the weapon should be monetary ease. Have we in practice had this monetary ease?

Dr. HELLER. Senator, we have in part, although, as I noted in my statement, we have been inhibited with respect to short-term interest rates by balance-of-payments considerations. Most of our present long-term interest rates, however, are below those at the time of the trough in 1961, and in case after case——

Senator DOUGLAS. You expect them to be that just through the normal cyclical process, interest rates fall in a period of recession and rise during a period of advance.

Dr. HELLER. If I may interrupt, that is what makes the comparison with 1959–60 relevant. Every one of the major interest rates today is below its level at the corresponding point in the recovery of 1959–60. The reason for that in part is that the recovery this time has not been as strong as expected and the monetary ease that has been continued is, therefore, greater than it would have been if the recovery had been more vigorous. In a sense we have used continued monetary ease.

Senator DOUGLAS. I want to concentrate our attention upon the developments in May, June, and July of this year when, as you said, economic conditions began to turn down, and when according to all the classical principles, monetary ease should have been observed. On page 29 of your very excellent Economic Indicators, the first column gives the rate on 3-month Treasury bills on what is known as the short-time rate. In May that was 2.694. At the end of June it was 2.719. On July 21, it was 2.983.

I have a release just issued by the Federal Reserve Board a few hours ago. It shows a slight fall, but it is still 2.874 as of August 4. This is an increase since the average in May of 28 points, or over 10 percent. So the short-term rate has gone up 10 percent. It is notorious that this has been done by the Federal Reserve selling short-time Government bonds in the market which has depressed the price and raised the yield and consequently raised the short-time rate upon which the Reserve in the past has always placed such great emphasis. My figures are correct, are they not?

Dr. HELLER. Yes, indeed, they are. I was just going to add the very latest figure which is 2.802.

Senator DOUGLAS. When was that?

Dr. HELLER. That is the figure for the week of August 11.

Senator DOUGLAS. Have we reached August 11 yet?

Dr. HELLER. No.

Senator DOUGLAS. Is not this forecasting on a large scale?

Dr. HELLER. These figures are reported as of the beginning of the week of the new issue, but they are reported as of the date at the end of the week, so we have it already.

Senator DOUGLAS. Even so that is an increase of 21 points, or around 8 percent?

Dr. HELLER. No, I believe that is an increase of 11 points, or 4 percent.

Senator DOUGLAS. Has not the policy of the Federal Reserve in the last 3 months been to violate the historic principle that when recession threatens—and I agree with you that it is not here, and the testimony this morning was pretty clear that there was no clear evidence that it was coming—Has not the action of the Federal Reserve in raising interest rates flown in the face of the doctrine that the first thing you should do when storm signals begin to go up is to reduce interest rates?

Dr. HELLER. Let me make a few comments on that. In January the 3-month Treasury bills was 2.746; now it is 2.802.

Senator DOUGLAS. That is when you were prophesying we would have a GNP of $570 billion. Everything was fine at that time.

Dr. HELLER. There had been a fall in the interim period and then a rise. Of much greater concern than the short-term rate—which is the essential one for stemming outflows of funds to foreign countries, funds that further aggravate our balance-of-payments and gold situation—of much greater concern for economic expansion is the long-term rate. There I would certainly share your concern about the rise.

Senator DOUGLAS. Let us get that into the record. In May that was 3.09, was it not? No, pardon me. It was 3.88, was it not?

Dr. HELLER. Yes, that is the figure.

Senator DOUGLAS. July 14, it was 4.03, which is an increase of 15 points and approximately under 4 percent.

Dr. HELLER. Yes, and the latest figure was 4.04 for the week of August 4.

Senator DOUGLAS. So that is slightly higher. You have had an increase both in the short-time rate and long-time rate. You yourself argued, and I thought very cogently, that the first thing you should do if it actually fell short of the prediction was to get a decrease in the interest rate.

I know you do not have control over the interest rate, but we are trying to find out whether the monetary policy has really been correct.

Dr. HELLER. As I indicated a moment ago, we have been concerned by the fact that the short-term rate increase has been matched by a rise of a similar number of basis points in the long-term rate, because it is the long-term rate that is most important for economic expansion.

Senator DOUGLAS. I have always held with that in the past. The excuse is the one that you gave, namely, it is necessary in order to prevent the outward flow of gold. I want to read the comparative short-time rates for the European countries.

Switzerland is supposed to be the rater and I think it is. The Swiss short-time rate is 2 percent. The Dutch, who are very thrifty have a short-time rate as of June of 2.32, or 2⅓ percent. Germany, which has been held up to us as an example, has a short-time rate of 2.38. The only countries with higher short-time rates are France, which I do not think is a great deal of an international investor; Canada, which has just gotten into difficulties, and, therefore, is raising its rate to protect itself; and Great Britain which is the other gold exchange country. I want to suggest that these comparative rates indicate that the Federal Reserve has taken fright too quickly and is using an excuse which is really not tenable.

My time is up and with that I will stop.

Chairman PATMAN. Congressman Curtis?

Representative CURTIS. Thank you, Mr. Chairman.

Following your statement, Dr. Heller, you are basing the basic theory on what has been referred to as the gap theory that you advanced, I think it was a year ago.

Dr. HELLER. March 6, 1961.

Representative CURTIS. Let me ask this in reference to that. Incidentally, I might state that this is a theory with which many disagree and it is important to know there is this disagreement. Accepting the "gap theory" just for the sake of discussion here, it strikes me that really things are much worse off than you indicate because one of the two bases of the gap theory is unemployment figures, is that right?

Dr. HELLER. Yes.

Representative CURTIS. The unused labor force?

Dr. HELLER. Unused labor force and unused industrial capacity.

Representative CURTIS. I want to direct attention to the unused labor force because it really should not be the unemployment figure as much as it should be the percentage of the population from 14 to 65 or 14 up, which goes to make up the potential civilian labor force, am I not correct?

Dr. HELLER. Yes.

Representative CURTIS. The thing that disturbs me is that in our indicators—the ones I have here are from July, 1962—beginning in 1955, that our civilian labor force has continued to rise since World War II and it has risen during recessions along with the upturns, averaging almost around a million a year.

We see that the civilian employment has been rising, but in June—and this is the last month that I have a comparison—in June of 1962, the civilian labor force was less than June 1961. Sixty-four million in June 1962, 74.286 million in June 1961, which is not only not an increase but is a decline. If you threw that into your gap theory, I suspect your gap is widening because you would really be adding a million more people on to the unemployed rolls.

Dr. HELLER. May I comment on that comparison, Congressman Curtis?

Representative CURTIS. Yes.

Dr. HELLER. There is so much month-to-month variability in the size of the labor force that it is safest to use quarterly averages when making comparisons. During the second quarter of this year, the civilian labor force was 60,000 higher than a year earlier. Over this same period, the Armed Forces were increased by some 350,000 persons. In order to take account of this, our comparisons should be based on the total labor force, which includes the Armed Forces. The over-the-year increase is thus 410,000. Next, since April of this year, labor force estimates have been constructed using information from the 1960 Census of Population. Previously, estimating weights from the 1950 census were utilized. This change has reduced estimates of the labor force by about 210,000. Correcting for this, we find an over-the-year increase of 620,000.

This is a sizable increase, but it is still smaller than was expected on the basis of population growth and trends in labor force participation. I think there are two reasons for this shortfall. First, the retirement rate has increased, partly in response to liberalized social security benefits. Second, and more important, has been the continued slackness in the labor market. Total employment has increased by over 1¼ million in the past year, but about half of this increase has been due to recovery in manufacturing and to the rehiring of previously laid-off workers. The expansion in new job opportunities has been rather modest. In particular, employment gains in services and trade, while substantial, have been much smaller than in earlier expansion periods. This has a particular relevance for labor force growth, since these industries absorb a high proportion of the women who enter the labor market. We would expect that at full employment, when more new job opportunities were being created, workers would enter the labor force to fill these jobs.

Representative CURTIS. We have had that in previous recessions, and we do not have a similar decline. In fact, reading the figures from 1955, which I have in front of me, each year there has been a net increase. I was trying to see which is the smallest. Probably about from 1956 to 1957 where the increase was a little less than 400,000. It seems to me that is the figure, if you are going to use the gap theory.

Just to restate it, I think you have misconstrued what is going on here in our economy through dealing in economic aggregates. When we identify who the unemployed are, they are centered in the unskilled, semiskilled, who through the rapid technological growth and through meaningful growth in our society cannot find jobs unless they get trained for the skills that are in demand. This is something that is inherent in a growing economy and should not be looked upon as a gap. It should be looked upon rather as something that must be met.

The same thing, I would say, applies to industrial capacity. Again, when we grow rapidly we create more obsolescence; of what was capacity in 1960, though physically still in existence, it is not economic capacity in 1962.

At any rate, I wanted to go on to another thing because this one base of your syllogism is the gap theory. The other is the theory of deficit financing. I am talking about your recommendations that in a period of already deficit financing we have a tax cut to stimulate the economy which would create further deficits, and also at the same time increase rather than decrease Federal expenditures. Your second suggestion was a $900 million public works superimposed on the present expenditures in the budget. Am I not correct in describing that as a theory of deficit financing?

Dr. HELLER. I want to make one small correction. The President's proposal in the public works area was a $600 million proposal.

Representative CURTIS. I thought it was $900 million.

Dr. HELLER. That was the figure that came out of the House Public Works Committee.

Representative CURTIS. At least it is the theory of deficit financing. Throughout your paper and your discussion here of the status of our economy, you are one of the few witnesses that has not referred to the important factor of business confidence. You recommend two new and untried theories, the gap theory and the theory of deficit financing, which certainly are not held to be sound by the business leaders in the private sector.

Certainly a recommendation and pursuit of theories such as these, even if they were true, is not going to help business confidence, is it?

Dr. HELLER. Mr. Curtis, we thought that in testifying as to the importance of profits and investment stimulants and stronger markets that we were in effect testifying on the factors which above all others create business confidence.

Representative CURTIS. Do not you feel that Government policy is a very important factor in business confidence?

Dr. HELLER. Indeed it is.

Representative CURTIS. And that is what we are talking about here, Government policy. These are your policy recommendations. In fact, you worded them as such in your prepared statement.

Dr. HELLER. The policies for increasing markets, for stimulating investment through depreciation guideline revision and investment credits.

Representative CURTIS. Those are the collaterals. But you advanced three basic recommendations, two of which are the ones I have mentioned. One was tax cutting, the second was increased public works, and the third was what?

Dr. HELLER. The unemployment compensation provisions.

Representative CURTIS. Yes.

Incidentally, all three of those, or at least two of the three, are almost academic in August of 1962 in the tail end of this session of this Congress.

Dr. HELLER. I think we should distinguish between the short-run stimulants for inadequate cyclical recovery, on the one hand, and the longer run bolstering of markets, and profits, and investment incentives, on the other. Perhaps in our testimony we did not make clear enough the distinction between these two in our thinking. The President's three-ply program for sustained prosperity was designed to meet the problem of dips in economic activity, temporary inadequacies in the level of economic activity. But coupled with that there has to be a longer term program for removing the tax overburden, for stimulating consumer spending, and for stimulating business incentives.

Representative CURTIS. Under this when would you ever balance the budget, or better still, when, looking backward in our history, would you have ever balanced the budget since World War II? Following your gap theory?

Dr. HELLER. The budget has been balanced. There was essentially no gap except in very short periods from 1946 to about 1955.

Representative CURTIS. We had the Korean war in there.

Dr. HELLER. During that period we had a substantial number of budget surpluses both on the conventional administrative budget and even a larger number on the cash budget.

Representative CURTIS. In retrospect, you would approve of those balanced budgets?

Dr. HELLER. Those surpluses were extremely important and necessary and a desirable factor in moderating inflation and in stimulating investment.

Representative CURTIS. Then the key question is this: 1962, which is predicated to beat all records in gross national product, which is the way you have been measuring your gap, in spite of the fact that it is that way, and 1961 broke all records in gross national product, you do not feel that is a year when you need to have a balanced budget?

Dr. HELLER. Because of the fact that the economy is still operating very substanitally below its tremendous potential, a fact which would, I am sure, be recognized by a very great majority of private, business, and labor economists, as well as the great majority of Government economists.

Representative CURTIS. I have been listening to them and interrogating them to find why they felt that way. They do not all look at it that way, fortunately. Those who hold your view, I honestly think, are not looking at the indicators that really measure economic growth.

Chairman PATMAN. Congressman Reuss?

Representative REUSS. Mr. Chairman, Chairman Heller and members of the Council, I want to commend you for responding once again to the mandate of the 1946 Employment Act, directing the Council to send up not only an annual report but supplementary reports at such times as they may be advisable. You did so last year, and I thought your decision most appropriate. I thoroughly agree that a new report is advisable at this time, and I am delighted you have given us this very comprehensive document.

I want to discuss with you the monetary policy which appears to be in effect today. In the last 8 weeks, at a time when there has been justifiable concern about the economy, the Federal Reserve Board has markedly decreased the free reserves in the banking system, and this has resulted in an increase in both short-term and long-term interest rates, has it not?

Dr. HELLER. Yes, it has.

Representative REUSS. The Treasury has also within the last few days issued a long-term bond with a maximum legal permissible coupon of 4¼ percent. That is also a fact, is it not?

Dr. HELLER. Yes.

Representative REUSS. If it were not for so-called balance of payments considerations, it would be indefensible, would it not, to tighten the supply and increase the cost of money at this time?

Dr. HELLER. In the light of economic conditions today and economic prospects, yes.

Representative REUSS. So let us look at the validity of the balance of payments argument for doing this. You would agree, would you not, that one, speculation, and two, the needs of trade, are a very important cause of the movement between countries of short-term capital funds?

Dr. HELLER. Yes.

Representative REUSS. Would you say that these causes are more important than, or at least equally important as, differentials in interest rates?

Dr. HELLER. The answer to that question varies from period to period. At one time, as in late 1960, when there was a speculative run, no feasible amount of change in interest rates could have stemmed the flow. At other times, however, a very substantial part of the short-run flow is responsive to interest rates.

Representative REUSS. In the last 8 weeks were interest rate differentials between the major trading nations such as to have justified an apparent attempt to raise U.S. interest rates?

Dr. HELLER. As Senator Douglas pointed out, in some countries, yes, and in some countries, no.

Representative REUSS. Weren't Canada and the United Kingdom the only major countries with interest rates higher than ours?

Dr. HELLER. Canada raised its short-term rate to about 5 percent, and the U.K. had come down to just under 4 percent. Nevertheless there was still an incentive even with the differential for funds to move out in response to these interest rates.

Representative REUSS. Were the interest rate differentials, after adjusting for exchange risks and forward cover, such in the last 8 weeks as to require a different policy on the part of this country?

Dr. HELLER. I lack an intimate detailed knowledge of these movements, but I am under the impression that there were some pressures on the dollar to which this was at least in part a response. While I am not qualified to give you a very detailed answer on the movements of forward cover and interest rates, I do know that there was an incentive to move funds overseas, particularly to the United Kingdom.

Representative REUSS. Does the Council of Economic Advisers make an independent judgment as to whether a given interest rate differential is a major risk for our balance of payments, or do you accept the judgment of the Federal Reserve System? If your answer is that you make an independent judgment, have you made one in the last 8 weeks, and does it accord with that of the Federal Reserve? And if it does not, have you let them know?

Dr. HELLER. I would put our situation this way: We make a judgment based on information that is supplied by the Treasury and by the Federal Reserve. But as far as the policy implications are concerned, we, of course, form our own counsel, and discuss these matters with the Treasury, with the Federal Reserve Board, and with the President in periodic meetings.

Representative REUSS. Of course, if frail man should err in this, the consequences could be most serious, could they not? If we raised our interest rate structure when it was not necessary for balance-of-payments reasons, we would have injured our domestic growth prospects, needlessly.

And if domestic stagnation results in a large involuntary deficit, perhaps made even larger by a tax designed to undo the effects of tight money, we might in fact increase our balance-of-payments problems. Foreign central banks could become more alarmed with such a large budget deficit than from seeing modest quantities of short-term capital move around.

Dr. HELLER. I think that any tightening that goes beyond what is required for progress and stabilization on the balance-of-payments and gold front is a heavy price to pay, and an unnecessary price to pay, particularly when it hits long-term rates. We are concerned, and have been concerned, with the recent tightening to which both you and Senator Douglas have referred, with the question whether it meets felt and actual needs, with the question of whether it might not be nullified by rising interest rates in some of the other countries, and with the question of whether it would not be possible to differentiate a little bit more between the rise in short-term rates and that in long-term rates. These concerns of ours have been expressed in our discussions within the administration and with the Federal Reserve Board.

Representative REUSS. Putting to one side the question of whether we have in fact gone astray in the last 8 weeks in raising interest rates, would you agree that interest rates higher than those we have today are likely to harm our domestic situation and are of doubtful value for our balance-of-payments situation?

Dr. HELLER. I feel that, given the present economic outlook, this is a time to be very careful that interest rates not be raised one basis point more, or credit tightened one dollar more, than is absolutely required by the international payment situation. I think that this requires continued vigilance in the current economic situation.

Representative REUSS. Thank you.

Chairman PATMAN. Senator Javits?

Senator JAVITS. Mr. Chairman, would you turn to your statement. I call your attention to the sentence which reads:

The most recent evidence on economic activity, though mixed, offers cause for concern.

I ask you, concern about what?

Dr. HELLER. Concern about the full utilization of resources in the economy and about the pace of further expansion.

Senator JAVITS. Does it offer concern that we may be heading into another recession?

Dr. HELLER. When we tried to sum up our view on the outlook we said that we cannot rule out the alternative possibility that the recent slowdown in the expansion represents advanced warning of an economic decline. That is one alternative that has to be taken into account in the formulation of policy and in the watching of the indicators.

Senator JAVITS. When you use the word "decline," is that the same meaning as my word "recession" or is it a different meaning?

Dr. HELLER. In a sense, "recession" means a receding from the previous levels achieved in the economy; and I suppose in this case "decline" is a euphemism for "recession."

Senator JAVITS. It is a fact, is it not, that you have omitted one factor which is a sign of danger, and that is the diminution of inventory accumulation in the second quarter of 1962. Is not that correct?

Dr. HELLER. We specifically covered the $3.4 million rate of inventory accumulation in our statement.

Senator JAVITS. Except it is not at that particular point, is that correct? That is an additional factor.

Dr. HELLER. That is an additional factor and we pointed to it.

Senator JAVITS. Now, may I ask you this question? Is there a connection between your statement that a program to improve the rate of utilization of our resources and the rate of growth of our economy must include the even more fundamental measures of tax reduction and tax reform—is there a connection between that statement and the statement that we have just been discussing that there is cause for concern? In other words, is tax reduction a measure which is designed to relieve us, if we can be relieved, of this case for concern?

Dr. HELLER. If further developments in the economy, Senator, confirm the rather more pessimistic possibilities, the two are very much related. But our statement to which you refer has both a short- and long-run orientation. I think we are confronting, as the 5 years of unsatisfactory economic performance indicate, a longer term problem of inadequate expansion and continued underutilization of our resources which calls for tax reduction and tax reform, in any event. As we noted in the list of considerations concerning the size, timing, and composition of tax reduction there is also a shorter term question of the need that may exist for overcoming temporary deficiencies in consumer demand.

Senator JAVITS. As a matter of fact, you say no decision has been made on the size, composition, and timing of a recommended tax reduction. I call that an agonizing indecisiveness on the part of the President. One of my colleagues took a special exception to that—Senator Proxmire of Wisconsin. What do you call it?

Dr. HELLER. Senator, I am not as good a phrasemaker; but I would like to point out that the President has, after all, taken a decision which I believe represents a decisiveness with respect to tax reduction that has not been seen for many many years. He has said that he will propose a tax reduction effective January 1, 1963. In other words, there is a decision not only to cut taxes, but explicitly to cut corporate and individual income taxes by an across-the-board reduction—and, indeed, a net reduction in the sense that the reduction in rates would not be offset by restoring the base.

Senator JAVITS. Then, are not you giving us the very narrow choice as to whether we shall give the President the power to reduce or whether we shall reduce ourselves. Is not that the choice you are giving us? What you want is the power for the President to reduce. I say we should reduce ourselves. So the choice is do we give the President the power to reduce or do we reduce ourselves?

Dr. HELLER. I think that observation directs itself to a somewhat different problem; namely, the standby tax-cutting authority. The President's request was for authority to cut up to 5 points from the individual income tax rates for a period of 6 months. There, I think, your comment is more directly applicable than to the other point of a more permanent tax cut to take effect on January 1, 1963, which the President is going to propose.

Senator JAVITS. It is fair to say, is it not, that the decision to cut taxes has already been made in the sense that either we will cut them now, or the President is going to recommend some other scheme for cutting them as of January 1.

Dr. HELLER. In that sense, yes, it is.

Senator JAVITS. The decision is made in that regard, is it not, really?

Dr. HELLER. Yes, it is.

Senator JAVITS. Mr. Chairman, may I reserve the balance of my time so I can vote?

Chairman PATMAN. Dr. Heller, I would like to know about the basic premise on which you are proceeding. Is our problem that the rate of savings is too low or the rate of consumption too low?

Dr. HELLER. I think we have to look at two aspects of that. One is the aspect of the question that relates to an underemployed economy where there is a fair amount of slack, in which the primary problem is that the level of total demand is too low.

Chairman PATMAN. How is that related to the present situation?

Dr. HELLER. The level both of consumer demand and investment demand are too low to make full use of the labor, machinery, plant, and equipment that are available in the economy. Our problem at the present time is not an inadequate level of savings.

Chairman PATMAN. But isn't the fundamental problem the fact that consumption is too low?

Dr. HELLER. Consumption and investment demand are too low.

Chairman PATMAN. The personal income tax cut which the President has mentioned has been described as "across the board." Does that mean you reduce each tax rate by the same number of percentage points?

Dr. HELLER. In saying that he would recommend an across-the-board reduction in rates, Mr. Chairman, it leaves the question open whether it simply means a reduction in every bracket or a percentage point bracket in every bracket or a percentage reduction in liabilities.

I would say that statement of the President does not rule out any of several alternative ways of accomplishing the objective. I believe what he is saying, in effect, is that he wants to see reductions from top to bottom.

Chairman PATMAN. If we increase the exemption, say, from $600 to about $900, or $1,000, income tax payers in each category would get the benefit of it, would they not?

Dr. HELLER. That would apply a tax reduction to all taxpayers.

Chairman PATMAN. Even the 91-percent bracket would be benefited to the same extent.

Dr. HELLER. Taxpayers in the 91-percent bracket would get 91 percent of $300, if the exemption were raised to $900.

Chairman PATMAN. So that would have an across-the-board effect, too, wouldn't it?

Dr. HELLER. I believe the President spoke of across-the-board reductions in rates.

Chairman PATMAN. I believe he did. If we had an across-the-board tax cut, that would increase disposable income of families in the high income brackets a great deal more than those at the low level of the scale; if you felt that our basic problem is one of an inadequate rate of savings, I could understand that kind of proposal. But if you think that the problem is underconsumption, as you have stated, then I should think you would want to make the largest cuts in the low-income group to keep things even. In other words, an across-the-board cut would tilt the income distribution in favor of the high income families.

Do you have any estimates of the different income classes as to how much of the family income goes into consumption and how much goes into savings, Dr. Heller?

Dr. HELLER. I do not believe we have those at hand. Those are difficult to come by. We will try to find what there is available and present it for the record.

Chairman PATMAN. Will you please insert the information in connection with the revision of your remarks when you get your transcript?

Dr. HELLER. I would be happy to.

(The information is as follows:)

Data on consumption expenditure or saving by income bracket are not available for any year subsequent to 1955. The following data for 1950 are based upon a BLS-Wharton School study and show current saving as a percentage of after-tax money income. The unit is the urban family.

Annual after-tax money income	Saving as percent of after-tax income	Annual after-tax money income	Saving as percent of after-tax income
Under $1,000	−81.7	$5,000 to $5,999	6.5
$1,000 to $1,999	−6.2	$6,000 to $7,499	10.0
$2,000 to $2,999	−1.7	$7,500 to $9,999	16.3
$3,000 to $3,999	2.4	$10,000 and over	30.7
$4,000 to $4,999	4.5		

Source: Friend and Schor, "Who Saves," Review of Economics and Statistics, May 1959, p. 232.

Data on consumption expenditure by income bracket for 1955 are available from a study by Life magazine, but the income concept is before taxes, and consumption expenditure does not include gifts and contributions, educational expenditures, or expenditures away from home on vacation. Since average income by bracket is not known, percentages could not be calculated. The unit in this case is the household, not the family.

Annual household income before taxes	Average consumption of goods and services	Annual household income before taxes	Average consumption of goods and services
Under $2,000	$1,933	$5,000 to $6,999	$5,016
$2,000 to $2,999	2,924	$7,000 to $9,999	6,063
$3,000 to $3,999	3,839	$10,000 or more	7,946
$4,000 to $4,999	4,363		

Source: Life Study of Consumer Expenditures, conducted for Life by Alfred Politz Research, Inc., New York, 1957, vol. 1, p. 17.

Chairman PATMAN. Have you had any estimates made to show a given amount of stimulus, how much reduction of taxes would be involved and how it would be distributed under each of the alternative methods: raising the exemption, making the cut in the first income tax bracket, and making the cut across the board?

Dr. HELLER. We have made some comparisons to see what kinds of reductions would be involved for any given loss of revenue. For that purpose we have prepared a table of five different tax proposals all of which would reduce total tax liability by approximately $6 billion. It is not intended as anything more than an example. It does not suggest that $6 billion is the figure we are talking about. This table could be used to construct comparison for any other level of tax reduction.

[This table is inserted into the record below.]

Chairman PATMAN. If we had an across-the-board cut in taxes, which would change the income distribution in favor of the top bracket income receivers, wouldn't we have a worse fiscal structure after the period of deficit is over? In other words, wouldn't you, in the long run, increase the troubles which the tax cut is intended to cure?

Dr. HELLER. It is extremely hard to answer a question like that, Mr. Chairman, without having a more or less explicit proposal concerning the relationship of proposed rates in the high brackets and the low brackets.

Chairman PATMAN. I will ask you about one other issue that was raised in your testimony. You stated that during this economic recovery, there has been a compelling need for general monetary ease.

I repeat that. You say there has been a compelling need for general monetary ease as part of an expansionary economic program for full employment and adequate utilization of our resources.

What can the President and the present administration do about monetary ease at this time under present laws and practices?

Dr. HELLER. As several members of the committee have pointed out, the administration's possibilities for creating ease are limited since the primary instrument of monetary management and policy is the Federal Reserve Board.

Chairman PATMAN. Over which you have no control.

Dr. HELLER. Over which there is no legal control, as such. There is an informal administrative coordination and cooperation in which the administration tries to develop, in concert with the chairman of the Federal Reserve Board, an approach to our economic policy problems.

This is a matter of persuasion and cooperation rather than a matter of dictation.

Senator PROXMIRE. I would like at this time to read a letter which Chairman Patman has just received from Ewan Clague on the business of the interrogation by Congressman Curtis and myself this morning, and our concern over the statistic "Open Employment" on page 9 of the Economic Indicators, showing that the total labor force, including Armed Forces, between June 1961 and June 1962 remained almost stationary. You have already been questioned on this, I believe, Dr. Heller.

Dr. HELLER. Yes, sir.

Senator PROXMIRE. And responded to it. But the fact that this was the first time in many years, and some concern was expressed that there may be a statistical error or some statistical mistake, I would like to read this letter.

(The letter referred to follows:)

U.S. DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, D.C., August 8, 1962.

The Honorable WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR CHAIRMAN PATMAN: Since mid-1961, the over-the-year growth in the labor force has appeared to be slowing down. Evidence of this is provided by the monthly survey of the labor force, conducted by the Bureau of the Census for the Bureau of Labor Statistics. On the average during the first half of 1962, the proportion of the population in the labor force in almost every age group was slightly below that for the comparable period of the year 1961. The only significant exceptions were men and women 18 to 19 years of age and women 45 to 64 years of age. Somewhat the same picture is seen in comparing the second half of 1961 with the same period in 1960.

There is no reason to believe that these declines are due to the operation of the survey. There was no change in the sample areas included in the monthly survey, in the methods of interviewing, or in the quality-control methods used by the supervisory staff. No revisions in the concepts and definitions of the labor force, employment, and unemployment have been made.

The only new element in the statistics is the introduction of data from the 1960 Census of Population into the estimation procedure to replace those from the 1950 census. This change was made in April 1962 when the census material became available. The effect was to reduce employment and the civilian labor force by about 200,000; no changes occurred in the percent distributions within age groups or in labor force or unemployment rates by age. The revision and its effects were fully described in the monthly report on the labor force for April 1962. In each subsequent month, our statements about year-over-year labor force growth always make allowance for this revision.

I am enclosing a copy of the monthly report on the labor force for April 1962 which contains a statement on the revision in the estimation procedure due to the 1960 census figures.

Sincerely yours,

EWAN CLAGUE,
Commissioner of Labor Statistics.

87869 O—62——10

NEWS from U. S. DEPARTMENT OF LA
Arthur J. Goldberg, Secretary

USDL - 5210

FOR RELEASE: 12 Noon, Tuesday
May 15, 1962

U. S. DEPARTMENT OF LABOR
BES, Tel. 961 - 2916
BLS, Tel. 961 - 2634

THE EMPLOYMENT SITUATION: APRIL 1962

NOTE: Beginning with the figures for April 1962 information from the 1960 Census of Population replaces that from the 1950 Census in the estimation procedures for the labor force survey. The monthly and annual changes in the labor force data quoted in this release are based on the old April figures, which are comparable with previously published data. The differences between the old and new data are small (see page S-1 in attached Monthly Report on the Labor Force).

Factory employment and hours of work showed continued strong improvement in April, Secretary of Labor Arthur J. Goldberg announced today.

With most manufacturing industries reporting better-than-seasonal developments during the month, jobs in this sector rose by 80,000 instead of showing the small decline usual at this time of year. Construction employment expanded sharply during the month after the usual spring pickup had been delayed by bad weather in March. Trade employment continued to show better-than-seasonal improvement for the fourth consecutive month. Altogether, nonfarm payroll employment at 54.7 million was up 675,000 from March to April, or a quarter of a million more than seasonally.

With the gains of the past few months, manufacturing employment has returned to within 200,000 of the level in May 1960, the prerecession peak in general business activity, while trade is now significantly above that level.

THE EMPLOYMENT SITUATION
May 15, 1962
Page 2

The factory workweek continued to improve in April, and at 40.4 hours was at a level which has not been exceeded for this month since 1953. Overtime hours in manufacturing edged up to 2.7 hours, the highest level for April since data became available in 1956.

As announced on May 9, unemployment declined seasonally by 400,000 in April, and at 3.9 million was 1.0 million lower than a year earlier. The seasonally adjusted rate of unemployment of 5.5 percent was virtually unchanged from the preceding 2 months but was well below the 6.9 percent of a year earlier. State insured unemployment declined by 400,000 in mid-April to 1.9 million.

Total employment moved seasonally higher by 700,000 to 66.8 million in April. Nonagricultural employment (including the self-employed, unpaid family workers, and domestics) rose by 450,000 to a record for April of 61.9 million, an increase over the year of 1.2 million.

Agricultural employment increased by 250,000 from March and was virtually the same as a year earlier in April at 5.0 million.

The number of workers on part time for economic reasons declined by 100,000, somewhat more than seasonal, to 2.2 million in April, some 800,000 less than at the same time in 1961.

The total labor force, including the Armed Forces, rose about seasonally again in April to 73.7 million, and was 650,000 higher than a year earlier.

Characteristics of the Unemployed

Age and Sex. Nearly all of the April decline in unemployment was among adult men, reflecting the spring pickup in outdoor activity. While the unemployment rate for this group has shown mainly seasonal improvement since January, both their number and rate of unemployment were substantially under April 1961 levels. Joblessness among women and teenagers was unchanged over the month.

THE EMPLOYMENT SITUATION
May 15, 1962
Page 3

Duration of Unemployment. The reduction in unemployment in April was primarily among those who had been out of work from 1 to 3 months (5 to 14 weeks) about in line with seasonal expectations, as was the lack of change in the number of long-term unemployed (of 15 or more weeks duration). Workers who had been seeking work for 27 weeks or more numbered 700,000 in April, unchanged from March, but 300,000 less than the recession high in July 1961. However, the number in this group was still 300,000 higher than before the recession.

New Workers. Among the unemployed in April were 450,000 persons seeking their first jobs, some 80 percent of whom were teenagers. Inexperienced workers have found it increasingly difficult to find jobs in recent years. This April, they accounted for 12 percent of total unemployment compared with 7 percent at the trough of the 1958 recession.

EMPLOYMENT AND UNEMPLOYMENT SUMMARY

(In thousands)

	Apr. 1962	Mar. 1962	Apr. 1961
Labor force statistics[1]			
Total labor force, including Armed Forces	73,654	73,582	73,216
Civilian labor force	70,769	70,697	70,696
Employed - total	66,824	66,316	65,734
Agriculture	4,961	4,782	5,000
Nonagricultural industries	61,863	61,533	60,734
14-19 years, both sexes	4,089	4,062	3,871
20 years and over, males	37,716	37,455	37,235
20 years and over, females	20,058	20,016	19,627
Unemployed - total	3,946	4,382	4,962
14-19 years, both sexes	748	718	778
20 years and over, males	2,115	2,458	2,773
20 years and over, females	1,084	1,205	1,411
Seasonally adjusted unemployment rate	5.5	5.5	6.9
Long-term unemployed: 15 weeks or more	1,483	1,485	2,128
27 weeks or more	719	734	923
Nonagricultural workers on part-time for economic reasons - total	2,221	2,336	2,978
Usually work full-time	1,050	1,110	1,466
Usually work part-time	1,171	1,226	1,512
Payroll employment statistics[2]			
Employees on nonagricultural payrolls - total	54,699	54,025	53,171
Manufacturing	16,598	16,518	15,904
Durable goods	9,396	9,333	8,836
Nondurable goods	7,202	7,185	7,068
Mining	644	640	657
Contract construction	2,563	2,323	2,619
Transportation and public utilities	3,909	3,881	3,870
Wholesale and retail trade	11,406	11,214	11,162
Finance, insurance, and real estate	2,773	2,755	2,724
Service and miscellaneous	7,670	7,572	7,448
Government	9,136	9,122	8,787
Average weekly hours of production workers in manufacturing industries: Gross	40.4	40.3	39.3
Overtime	2.7	2.6	2.1
Unemployment insurance statistics (State Programs)			
Initial claims, week ending:			
March 17 / April 15	261	270	364
March 24 / April 22	253	255	328
28 / March 31 / April 29	244	244	312
April 7 / May 6	252	308	330

Insured unemployment, week ending:	Apr. 1962 Regular	Apr. 1962 TEC[3]	Mar. 1962 Regular	Mar. 1962 TEC[3]	Apr. 1961 Regular	Apr. 1961 TEC[3]
14 / March 17 / April 15	1,872	234	2,271	310	2,838	415
21 / March 24 / April 22	1,803	210	2,149	306	2,724	608
March 31 / April 29	1,727	178	2,035	300	2,610	653

1/ Calendar week ending nearest 15th of month.
2/ Payroll period ending nearest 15th of month.
3/ Temporary Extended Unemployment Compensation Programs, beginning April 1961.

April 1962

monthly report on THE LABOR FORCE

employment • unemployment • hours and earnings

UNITED STATES DEPARTMENT OF LABOR

Arthur J. Goldberg, *Secretary*

Issued May 1962

U.S. DEPARTMENT OF LABOR

Arthur J. Goldberg, Secretary

Bureau of Labor Statistics

Ewan Clague, Commissioner

with the cooperation of the

Bureau of Employment Security

Robert C. Goodwin, Administrator

This report combines The Monthly Report on the Labor Force previously issued by the Bureau of the Census and the Employment, Hours, and Earnings release previously issued by the Bureau of Labor Statistics. In addition, statistics and analysis relating to insured unemployment have been provided by the Bureau of Employment Security.

The Bureau of the Census collects and tabulates for the Bureau of Labor Statistics the labor force data based on household interviews, shown in this report. A description of the manner in which the various statistics are collected and what they represent is provided in the Explanatory Notes.

The Monthly Report on the Labor Force is prepared in the Bureau of Labor Statistics, Division of Manpower and Employment Statistics, Harold Goldstein, Chief.

THE MONTHLY REPORT ON THE LABOR FORCE; APRIL 1962

Note: Beginning with the figures for April 1962, information from the 1960 Census of Population replaces that from the 1950 Census in the estimation procedures for the labor force survey. The monthly and annual changes in the labor force data quoted in this release are based on the old April figures, which are comparable with previously published data. The differences between the old and new data are small (see page S-1).

Factory employment and hours of work showed continued strong improvement in April.

With most manufacturing industries reporting better-than-seasonal developments during the month, jobs in this sector rose by 80,000 instead of showing the small decline usual at this time of year. Construction employment expanded sharply during the month after the usual spring pickup had been delayed by bad weather in March. Trade employment continued to show better-than-seasonal improvement for the fourth consecutive month. Altogether, nonfarm payroll employment at 54.7 million was up 675,000 from March to April, or a quarter of a million more than seasonally.

With the gains of the past few months, manufacturing employment has returned to within 200,000 of the level in May 1960, the prerecession peak in general business activity, while trade is now significantly above that level.

The factory workweek continued to improve in April, and at 40.4 hours was at a level which has not been exceeded for this month since 1953. Overtime hours in manufacturing edged up to 2.7 hours, the highest level for April since data became available in 1956.

As announced on May 9, unemployment declined seasonally by 400,000 in April, and at 3.9 million was 1.0 million lower than a year earlier. The seasonally adjusted rate of unemployment of 5.5 percent was virtually unchanged from the preceding 2 months but was well below the 6.9 percent of a year earlier. State insured unemployment declined by 400,000 in mid-April to 1.9 million.

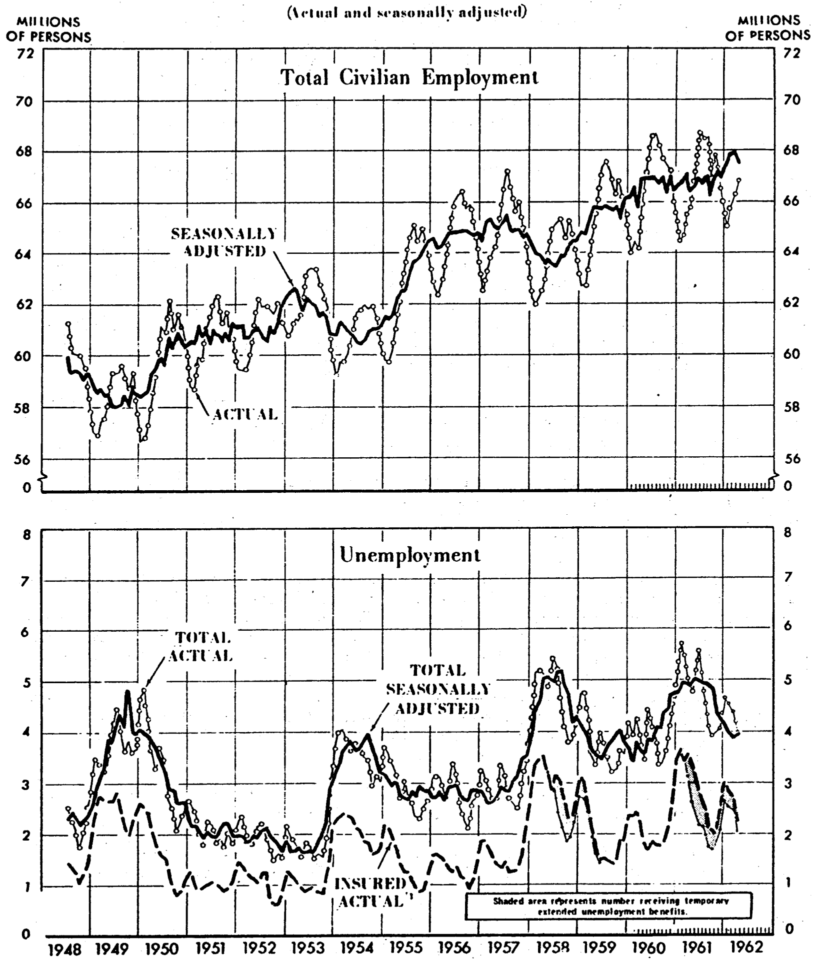
Total employment moved seasonally higher by 700,000 to 66.8 million in April. Nonagricultural employment (including the self-employed, unpaid family workers, and domestics) rose by 450,000 to a record for April of 61.9 million, an increase over the year of 1.2 million.

Agricultural employment increased by 250,000 from March and was virtually the same as a year earlier in April at 5.0 million.

The number of workers on part time for economic reasons declined by 100,000, somewhat more than seasonal, to 2.2 million in April, some 800,000 less than at the same time in 1961.

The total labor force, including the Armed Forces, rose about seasonally again in April to 73.7 million, and was 650,000 higher than a year earlier.

TRENDS IN EMPLOYMENT AND UNEMPLOYMENT
July 1948 to date
(Actual and seasonally adjusted)



[1] Insured under following programs: State unemployment insurance, unemployment compensation for Federal employees, veterans, ex-servicemen, railroad workers (RRB) and temporary programs.

Beginning in January 1960, data include Alaska and Hawaii

Nonfarm Payroll Employment

Nonfarm payroll employment rose sharply by 675,000 to an April record of 54.7 million. The total was 1.5 million higher than the depressed level of a year ago and 530,000 higher (seasonally adjusted) than before the beginning of the business downturn in May 1960. Better-than-seasonal gains were widespread in manufacturing industries, while construction employment regained its previous month's loss. Smaller increases, which were also better than seasonal, occurred in trade, transportation and public utilities, and State and local government.

Employment in manufacturing rose by 80,000 to 16.6 million; it usually declines in April. The gains were spread among virtually every manufacturing industry, in both consumer and producer goods. Employment in transportation equipment, which usually shows a seasonal decline in April, held its employment level as automobile sales reached their highest point since September 1955. The fabricated metals, electrical equipment, and machinery industries increased significantly on a seasonally adjusted basis, as did primary metals and the stone, clay, and glass industries. In the soft-goods manufacturing industries, the greatest strength was shown in apparel where jobs in April were cut substantially less than in the same month in previous years.

The largest part of the April job increase was seasonal and occurred in other than manufacturing industries. The increase of 240,000 in construction brought seasonally adjusted employment up to the level of February 1962 and December 1961 after weather affected declines in January and March 1962. The job pickup in transportation and public utilities is the third consecutive monthly increase whereas there had been virtually no improvement during the last half of 1961 and a decline at the turn of the year. Trade has picked up 100,000 workers (seasonally adjusted) since January, and has now risen significantly beyond its May 1960 level for the first time.

Half of the 1.6 million jobs gained during the recovery period from February 1961 have been in manufacturing, concentrated in the five durable goods industries which accounted for the major part of the recession loss. These industries (primary metals, fabricated metals, electrical equipment, transportation equipment, and machinery) have increased an average of 10 percent over their recession lows, although machinery has shown much less of a gain than the others. In nondurable goods employment, the increases averaged only 2-1/2 percent during the upswing, but these industries suffered far less loss during the recession. Electrical equipment alone among the major manufacturing industries has risen substantially beyond prerecession levels after allowance for seasonal change. (See Table A.)

The other half of the 1.6 million job increase since February 1961 was in trade, service, government, and finance. Among these, only trade shows any decline during the recession, and this decline was small. On the other hand, employment in service and government continued steadily upward without interruption during the recession, as it had in these industries throughout the postwar period.

In other nonmanufacturing industries, mining and construction are the only ones showing losses (totaling 75,000) since the latest recession low.

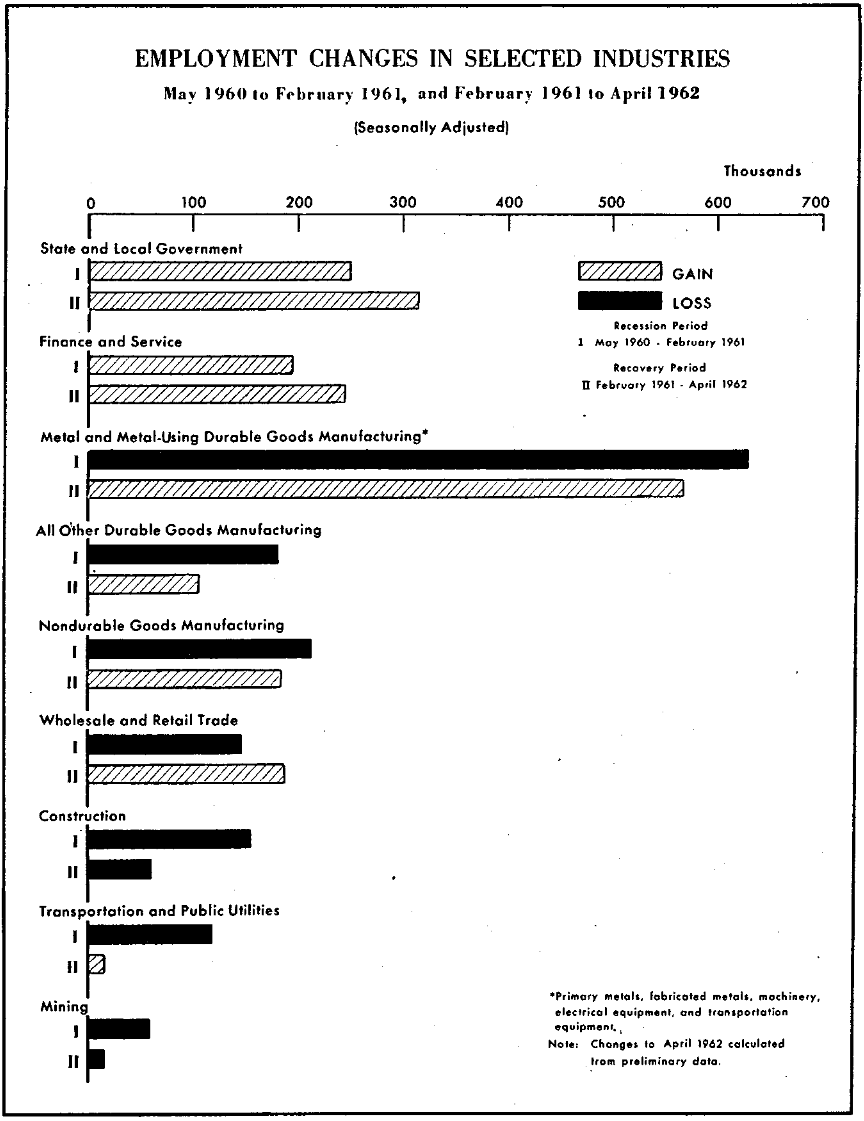
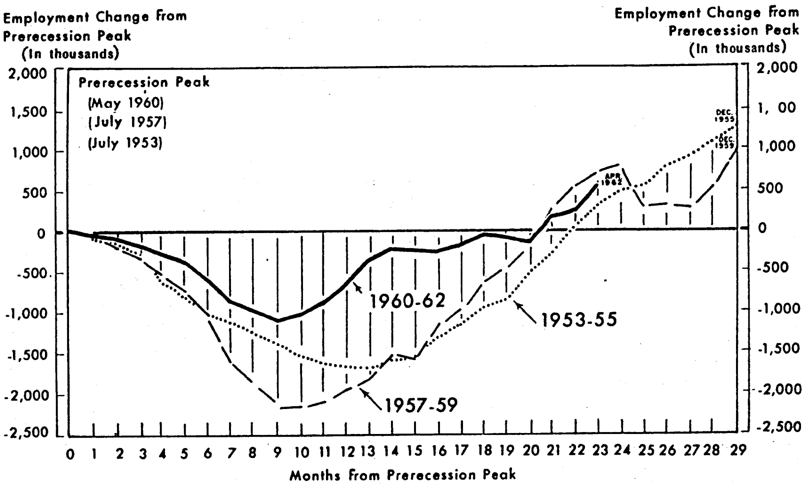

EMPLOYMENT CHANGES IN SELECTED INDUSTRIES
May 1960 to February 1961, and February 1961 to April 1962
(Seasonally Adjusted)
Thousands
0
100
200
300
400
500
600
700
State and Local Government
Finance and Service
Metal and Metal-Using Durable Goods Manufacturing*
All Other Durable Goods Manufacturing
Nondurable Goods Manufacturing
Wholesale and Retail Trade
Construction
Transportation and Public Utilities
Mining
I
II
GAIN
LOSS
Recession Period
I May 1960 - February 1961
Recovery Period
II February 1961 - April 1962
*Primary metals, fabricated metals, machinery, electrical equipment, and transportation equipment.
Note: Changes to April 1962 calculated from preliminary data.

Table A. Employment Changes in Nonfarm Industries in Post-World War II Business Cycles (Seasonally adjusted, in thousands)

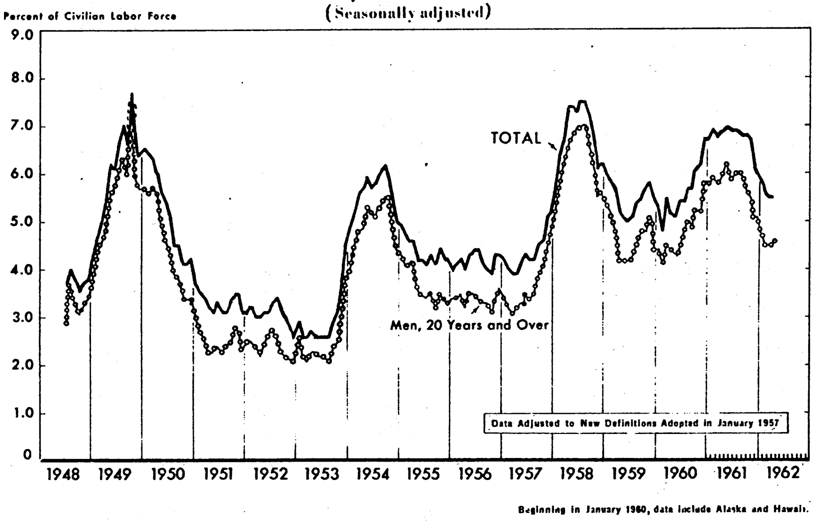
	Pre-recession level	Change to trough	Change from trough After 14 months
1960-62	May 1960	Feb. 1961	April 1962 1/
Total nonfarm industries..........	54,584	-1,099	+1,627
Manufacturing..................	16,985	-1,023	+852
Durable goods................	9,608	-811	+669
Nondurable goods.............	7,377	-212	+183
Manufacturing workweek (hours)...	40.1	-0.8	+1.5
Construction, transportation, and mining....................	7,686	-332	-55
Trade..........................	11,442	-146	+186
Finance and service............	9,996	+195	+245
Government.....................	8,475	+207	+399
1957-59	July 1957	April 1958	June 1959
Total nonfarm industries..........	53,077	-2,176	+2,878
Manufacturing..................	17,240	-1,478	+1,234
Durable goods................	9,902	-1,197	+962
Nondurable goods.............	7,338	-281	+272
Manufacturing workweek (hours)..	39.9	-1.3	+1.9
Construction, transportation, and mining....................	8,008	-555	+330
Trade..........................	10,922	-318	+548
Finance and service............	9,255	+17	+425
Government.....................	7,652	+158	+341
1953-55	July 1953	Aug. 1954	Oct. 1955
Total nonfarm industries..........	50,449	-1,711	+2,617
Manufacturing..................	17,782	-1,764	+1,098
Durable goods................	10,275	-1,391	+832
Nondurable goods.............	7,507	-373	+266
Manufacturing workweek (hours)..	40.7	-1.0	+1.2
Construction, transportation, and mining....................	7,764	-332	+371
Trade..........................	10,265	-53	+454
Finance and service............	8,037	+244	+487
Government.....................	6,601	+194	+207
1948-50 2/	Nov. 1948	Oct. 1949	Dec. 1950
Total nonfarm industries..........	45,138	-2,289	+3,961
Manufacturing..................	15,534	-1,587	+2,157
Durable goods................	8,311	-1,374	+1,850
Nondurable goods.............	7,223	-213	+307
Manufacturing workweek (hours)..	39.8	-0.3	+1.4
Construction, transportation, and mining....................	7,408	-778	+937
Trade..........................	9,339	-104	+299
Finance and service............	7,088	+81	+244
Government.....................	5,769	+99	+324

1/ Preliminary
2/ Both job losses and gains during the 1948-50 cycle were exaggerated by nationwide strikes in coal and steel and the subsequent return of the workers on strike.

CHANGES IN NONFARM PAYROLL EMPLOYMENT IN 3 POSTWAR BUSINESS CYCLES
(Seasonally adjusted)

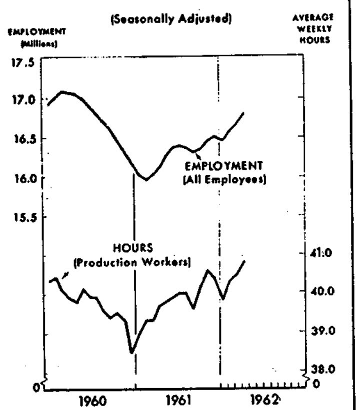


UNEMPLOYMENT RATE
July 1948 to date
(Seasonally adjusted)



Increases in the number of nonproduction workers have contributed to the gains in manufacturing employment in recent months. The employment of these workers, who perform the clerical, administrative, sales, and professional work in manufacturing, tended to remain fairly steady at 4.2 million during the period of recession (when hundreds of thousands of production workers were being laid off) and during the early period of recovery. Since the fall of 1961, however, there has been a resumption of growth in their employment; since September nonproduction workers have contributed about one-sixth of the gain in manufacturing employment on a seasonally adjusted basis.

FACTORY EMPLOYMENT AND HOURS OF WORK



Hours and Earnings

The factory workweek, at 40.4 hours, has not been exceeded in any April since 1953. Better-than-seasonal workweek developments were registered by every major industry except lumber, which reported no change after reaching a very high level in March. Notable gains in the durables sector were registered in fabricated metals, electrical equipment, transportation equipment, and furniture. In the soft-goods sector, apparel and textiles shows the most significant improvement.

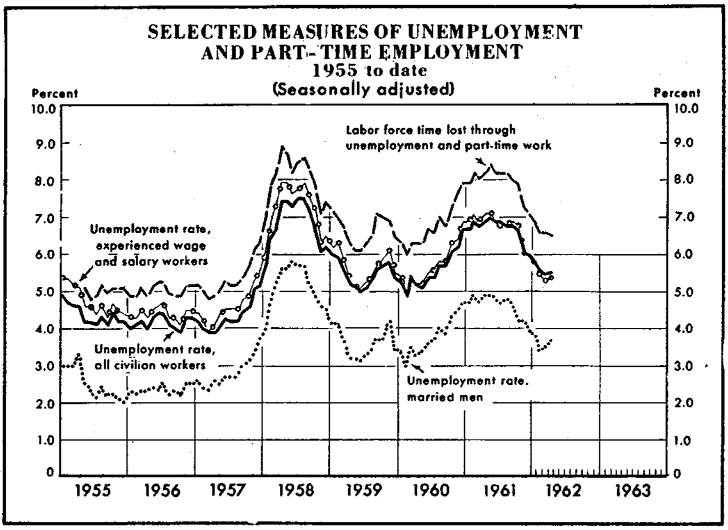
Overtime hours averaged 2.7 in April compared to 2.6 in March, and 2.5 in February. A year ago, factory employees worked 2.1 hours overtime.

At $96.56, weekly earnings of manufacturing production workers increased 65 cents from March to April, regaining the all-time high level of December 1961. Compared to a year ago, weekly earnings are $5.78 or 6-1/2 percent higher. Hourly earnings at $2.39 are 1 cent higher than last month and 8 cents higher than April 1961.

Total Employment

Total employment continued its regular spring expansion with a seasonal increase of 700,000 to an April record of 66.8 million. Total nonagricultural employment (including the self-employed, unpaid family workers and domestics) rose seasonally by 450,000 between March and April, and at 61.9 million, was also at a record high for April.

Agricultural employment rose by 250,000 over the month to 5.0 million. This increase was less than usual for April. Agricultural employment was at the same level as a year ago, but the number of farm workers in April 1961 was held down by adverse weather.



Explanatory notes to chart:

Labor force time lost represents the man-hours lost by the unemployed and those on part time for economic reasons, as a percent of total man-hours potentially available to the civilian labor force.

Man-hours lost are computed by assuming the unemployed lost 37.5 hours a week, and that those on part time for economic reasons lost the difference between 37.5 and the time they actually worked.

Man-hours potentially available (the base for the rate) are obtained by adding:

(1) Man-hours actually worked
(2) Man-hours that could have been worked by employed persons with a job but not at work, assuming a 37.5 hour workweek
(3) Man-hours lost.

Unemployment rate, experienced wage and salary workers, is based on unemployment and labor force figures that exclude those who never worked, self-employed and unpaid family workers. All wage and salary workers are represented, including those in agriculture, domestic service, government, and all other nonfarm industries.

Unemployment rate, all civilian workers, is the standard seasonally adjusted rate of unemployment.

Unemployment rate, married men, represents the number of unemployed married men as a percent of all married men in the civilian labor force (employed plus unemployed). These figures exclude married men living apart from their wives. The rates for 1955 and 1956 are based on pre-1957 definitions of unemployment and employment.

NOTE: For a more detailed discussion of the time-lost measure, see Technical Note on "Some Alternative Indexes of Unemployment" in the Monthly Labor Review, February 1962, pp. 167 ff.

Full- and Part-time Employment. The number of nonfarm workers on full-time schedules rose seasonally in April by 550,000 to 50.8 million, with virtually all of the increase occurring among men. The 35.2 million men with full-time jobs this April also accounted for nearly all the 1.3 million increase in full-time work since April a year ago; however, relatively few women had been cut back from full- to part-time work during the recession.

The number of nonfarm workers on part time for economic reasons dropped by 100,000 after increasing in both February and March. At 2.2 million in April, the number of such part-time workers was at about its January level and about 800,000 below its year ago level. The over-the-year decline was almost evenly divided between persons who had been cut back from full-time to part-time work and persons usually working part time because full-time work was not available. (See Table B.)

Characteristics of the Unemployed

Age and Sex. Mainly because of the spring pickup in outdoor activities, the number of unemployed adult men fell seasonally in April by 350,000, accounting for four-fifths of the decline in total unemployment. After seasonal adjustment, however, their unemployment rate remained virtually unchanged over the month at 4.6 percent. Following a substantial decline between August 1961 and January 1962, the unemployment rate for adult men has shown no further improvement. Nevertheless, at 2.1 million this April, the number of unemployed adult men was 650,000 less than in April 1961 and their unemployment rate was well below the 6.0 percent of a year ago.

No significant changes have occurred recently in unemployment among women and teenagers. However, in both number and rate, unemployment among adult women was considerably below the high levels of a year ago. At 750,000, the number of unemployed 14 to 19 year-olds accounted for less than one-fifth of total unemployment, but their rate of unemployment was two and one-half times greater than the overall rate. There was no change in the number of unemployed teenagers over the year.

Duration of Unemployment. Virtually all of the reduction in unemployment was among persons who had been jobless for less than 15 weeks. Their number fell seasonally in April by 400,000 to 2.5 million with persons out of work for more than 4 weeks accounting for most of the decline. The number of persons unemployed for more than 15 weeks was unchanged at 1.5 million, but no seasonal change was expected.

Among those looking for work for 15 weeks or longer were 700,000 persons who had been looking for work for over 26 weeks, about the same number as in March. The number of very long-term unemployed was 200,000 below its year-ago level. While there has been virtually no change in the number of very long-term unemployed since the beginning of the year, this group was increasing steadily throughout the first half of 1961, reaching a recession high of about 1 million in July, several months after the trough in economic activity. After 14 months of recovery the number of very long-term jobless is 300,000 higher than its pre-recession levels. Although this pattern of lagging recovery also followed the 1958 trough in business activity, very long-term unemployment is currently some 450,000 higher than in the months prior to the 1957-58 recession.

87869 O—62——11

Industry of Last Job. Unemployment rates in durable and nondurable goods manufacturing, mining, and construction were below their year-ago level this April, and in durable goods manufacturing they were also below the level in April 1960 before the recession began. In transportation, trade, and finance and service, unemployment rates while down over the year, were above those of April 1960. In every major industry group, unemployment rates were still well above those registered under the high employment conditions of April 1957.

New Workers. Among the unemployed in April were 450,000 persons looking for their first jobs, about the same number as a year ago. Virtually all of these inexperienced unemployed were under 25 years of age and four-fifths of them were between 14 and 19 years of age. Over the past 4 years, the total number of 14-24 year-olds in the population has increased by 17 percent. Partly because of the tendency for young people to remain in school longer, the number of 14-24 year-olds in the labor force has increased by only 12 percent. In contrast, the number of unemployed young people seeking their first job has increased by 30 percent, two and one-half times greater than the rate of their labor force increase. All of this increase in the inexperienced unemployed has been among teenagers; there has even been a slight decline in the number of unemployed new workers 20 years of age and over.

In April 1958, the trough of the 1958 recession, new workers accounted for 7 percent of the total unemployed. This April, they accounted for 12 percent. The increase in the number of unemployed new workers has been greatest at the two extremes in terms of duration of unemployment. Both the very short-term unemployed (1 to 4 weeks) and the very long-term unemployed (27 weeks or more) have increased by 50 percent over the past 4 years. In April 1962, nearly half of the inexperienced unemployed had been looking for work for less than a month, but 1 out of every 6 had been searching for his first job for over half a year.

Insured Unemployment

The number of insured jobless under State programs dropped by nearly one-fifth (400,000) to 1.9 million between March and April. Preliminary data indicate that the number of persons exhausting their regular State benefits edged down from 170,000 in March to an estimated 165,000 in April.

In addition to the insured unemployed under the regular State programs, some 234,000 persons who had exhausted their State benefit rights were insured under the Temporary Extended Unemployment Compensation program (TEC) in April. In March the total was 310,000. The sharp over-the-month decline was due to the "phase-out" provision of the TEC Act. Under this provision, eligibility for TEC benefits after March 31 is limited to qualified claimants who had been in compensable status under the TEC program on or before that date.

All but three States reported a decline in insured unemployment under the regular State programs over the month. The reductions amounted to 25,000 or more in five States--California (51,000), New York (43,000), Pennsylvania (34,000), Michigan (26,000), and Illinois (25,000). A large part of these declines reflected continuing seasonal expansions in outdoor work, and a pre-Easter pickup in trade. California also noted recalls in food processing and in fabricated metals plants, while Michigan reported increased activity in the auto industry.

The national rate of insured unemployment (not seasonally adjusted) was 4.6 percent in April compared with 5.6 percent in March and 7.0 percent a year ago. Five States--Alaska, Arkansas, Maine, North Dakota, and West Virginia--had rates in excess of 7.0 percent this April. However, the rates in all of these States except Maine were below those for March. In Maine, the start of a new benefit year on April 1 caused the rate to rise. Among the larger industrial States, the rates were between 5.0 and 6.0 percent in California, Massachusetts, Michigan, New Jersey, and Pennsylvania, and below 4.0 percent in Illinois, Indiana, Texas, and Wisconsin.

Labor Force

The labor force (including the Armed Forces) rose seasonally over the month by 300,000 to 73.7 million, despite the small increase in agricultural employment. About 650,000 workers have been added to the labor force since April 1961 and over 1.5 million workers since April 1960.

Table B. Nonfarm Workers on Full-time and Part-time Schedules
(Thousands of persons)

Work schedules	April 1962	March 1962	April 1961
Total nonfarm employment......	61,863	61,533	60,734
With a job but not at work....	1,822	1,929	1,811
At work:			
On full-time schedules 1/...	50,807	50,250	49,553
On part-time schedules......	9,234	9,356	9,370
Economic reasons..........	2,221	2,336	2,978
Usually full time.......	1,050	1,110	1,466
Usually part time.......	1,171	1,226	1,512
Other reasons............	7,013	7,020	6,392

1/ Includes those who (a) actually worked 35 hours or more during the survey week, and those who (b) usually work full time but worked 1-34 hours during the survey week because of noneconomic reasons (bad weather, illness, holidays, etc.).

Revision in Estimation Procedure

Beginning with the figures for April 1962, information from the 1960 Census of Population replaces that from the 1950 Census in the estimation procedures for the labor force sample survey. The effects of the change are shown in the tables on the following pages presenting data on population and employment status on both the old and the new basis for April. Most of the differences between the old and the new labor force estimates are small and well within the normal range of sampling error.

Population information from the decennial census is used in two stages of the estimation procedure for the sample survey in order to improve the reliability of the results. Since labor force activity is highly correlated with such characteristics as age, color, urban-rural residence, and sex, the sampling variability of the estimates can be reduced if the sample population is brought into line with the known distributions of the total population by these characteristics. (See U. S. Bureau of the Census, Current Population Reports, "Concepts and Methods Used in the Current Employment and Unemployment Statistics Prepared by the Bureau of the Census," Series P. 23, No. 5, for detailed explanation.)

The first stage in the estimation process takes into account differences between the color and urban-rural residence distribution of the population in the sample counties and that of the total population in each of the four major regions of the country at the time of the census. These adjustment ratios remain constant until another census is taken or until changes are made in the counties in the sample.

The second stage adjustment takes account of current differences between the distribution of the sample population by age, color, and sex and that of the Nation as a whole. Each month, the Census Bureau prepares current independent estimates of the noninstitutional population by age, color, and sex by carrying forward the most recent census data to take account of the subsequent aging of the population, mortality, and migration between the United States and other countries. These are used as controls for the sample results for the month. In effect, the sample returns determine the percentage of the population within each age-color-sex group which is employed, unemployed, etc. The absolute numbers are derived by applying these percentages to the independent population figures.

The timing of the change-over to the 1960 Census material was determined by the date of completion of the tabulations of the necessary Census information for all counties. These results became available in time for the processing of the April 1962 survey. In order to measure the effect of the change to 1960 Census data, the survey results were also tabulated using 1950 data. Since the new population figures show a somewhat different age distribution than the old, the age distribution of the labor force and the employed will differ slightly. However, there is no effect on percent distributions within age groups, or on labor force or unemployment rates by age. The effect on comparability with data prior to April 1962 is so minor that no revisions of earlier statistics will be made. Users who wish to make allowances can do so on the basis of the data shown in the following tables.

Civilian Noninstitutional Population and Labor Force, by Age and Sex, April 1962
On New and Old Basis

(Thousands of persons 14 years of age and over)

Age and Sex	Civilian Noninstitutional Population			Civilian Labor Force		
	New[1]	Old[2]	Net difference	New[1]	Old[2]	Net difference
Total............	126,702	126,756	-54	70,769	70,979	-210
Male..............	60,193	60,121	72	46,717	46,790	-73
14 to 17 years........	6,260	6,412	-152	1,614	1,651	-37
14 and 15 years..	3,552	3,661	-109	591	608	-17
16 and 17 years..	2,708	2,751	-43	1,023	1,043	-20
18 to 24 years........	7,201	7,329	-128	5,566	5,665	-99
18 and 19 years..	2,376	2,423	-47	1,500	1,531	-31
20 to 24 years..	4,825	4,906	-81	4,066	4,134	-68
25 to 34 years........	10,170	10,280	-110	9,867	9,972	-105
25 to 29 years..	4,866	4,916	-50	4,715	4,764	-49
30 to 34 years..	5,304	5,364	-60	5,152	5,208	-56
35 to 44 years........	11,388	11,280	108	11,118	11,013	105
35 to 39 years..	5,775	5,719	56	5,647	5,591	56
40 to 44 years..	5,613	5,561	52	5,471	5,422	49
45 to 54 years........	10,118	10,175	-57	9,649	9,705	-56
45 to 49 years..	5,313	5,306	7	5,110	5,104	6
50 to 54 years..	4,805	4,869	-64	4,539	4,601	-62
55 to 64 years........	7,587	7,565	22	6,558	6,539	19
55 to 59 years..	4,158	4,121	37	3,798	3,765	33
60 to 64 years..	3,429	3,444	-15	2,760	2,774	-14
65 years and over.....	7,468	7,080	388	2,345	2,244	101
65 to 69 years..	2,838	2,744	94	1,255	1,216	39
70 years and over	4,630	4,336	294	1,090	1,028	62
Female.............	66,510	66,635	-125	24,052	24,189	-137
14 to 17 years........	6,138	6,221	-83	957	964	-7
14 and 15 years..	3,448	3,512	-64	360	364	-4
16 and 17 years..	2,690	2,709	-19	597	600	-3
18 to 24 years........	8,617	8,662	-45	3,974	3,999	-25
18 and 19 years..	2,753	2,780	-27	1,301	1,312	-11
20 to 24 years..	5,864	5,882	-18	2,673	2,687	-14
25 to 34 years........	11,300	11,314	-14	4,051	4,054	-3
25 to 29 years..	5,458	5,469	-11	1,885	1,892	-7
30 to 34 years..	5,842	5,845	-3	2,166	2,162	4
35 to 44 years........	12,399	12,355	44	5,579	5,551	28
35 to 39 years..	6,317	6,300	17	2,656	2,646	10
40 to 44 years..	6,082	6,055	27	2,923	2,905	18
45 to 54 years........	10,648	10,903	-255	5,327	5,455	-128
45 to 49 years..	5,611	5,704	-93	2,809	2,855	-46
50 to 54 years..	5,037	5,199	-162	2,518	2,600	-82
55 to 64 years........	8,201	8,312	-111	3,222	3,260	-38
55 to 59 years..	4,408	4,451	-43	1,987	2,004	-17
60 to 64 years..	3,793	3,861	-68	1,235	1,256	-21
65 years and over.....	9,207	8,868	339	942	907	35
65 to 69 years..	3,315	3,221	94	566	547	19
70 years and over	5,892	5,647	245	376	360	16

[1] 1960 Population Census data used in estimation procedure.
[2] 1950 Population Census data used in estimation procedure. April 1962 on old basis shown for comparative purposes only.

Employment and Unemployment, by Age and Sex, April 1962
On New and Old Basis

(Thousands of persons 14 years of age and over)

Age and Sex	Employment				Unemployment	
	Agricultural		Nonagricultural			
	New[1]	Old[2]	New[1]	Old[2]	New[1]	
Total.............	4,961	5,048	61,863	61,979	3,946	3,952
Male..................	4,258	4,329	39,925	39,925	2,534	2,535
14 to 19 years........	486	504	2,209	2,251	420	427
20 to 24 years........	307	318	3,397	3,445	363	371
25 to 34 years........	583	600	8,844	8,929	440	443
35 to 44 years........	748	755	9,899	9,796	471	462
45 to 54 years........	842	865	8,380	8,412	427	427
55 to 64 years........	756	765	5,505	5,478	297	295
65 years and over.....	538	520	1,690	1,614	117	110
Female.................	703	719	21,938	22,054	1,411	1,416
14 to 19 years........	51	52	1,880	1,893	328	331
20 to 24 years........	25	25	2,454	2,467	194	195
25 to 34 years........	110	112	3,667	3,668	273	273
35 to 44 years........	161	164	5,134	5,110	282	278
45 to 54 years........	159	166	4,943	5,058	225	232
55 to 64 years........	158	161	2,990	3,024	74	74
65 years and over.....	39	39	867	834	36	33

[1] 1960 Population Census data used in estimation procedure.
[2] 1950 Population Census data used in estimation procedure. April 1962 on old basis shown for comparative purposes only.

Table 1. Employment status of the noninstitutional population, by sex

(Thousands of persons 14 years of age and over)

Employment status	Total: Apr. 1962[1]	Total: Mar. 1962	Total: Apr. 1961	Male: Apr. 1962[1]	Male: Mar. 1962	Male: Apr. 1961	Female: Apr. 1962[1]	Female: Mar. 1962	Female: Apr. 1961
Total noninstitutional population	129,587	129,471	127,337	63,044	62,896	61,905	66,544	66,576	65,431
Total labor force including Armed Forces	73,654	73,582	73,216	49,568	49,436	49,299	24,086	24,146	23,916
Civilian labor force	70,769	70,697	70,696	46,717	46,585	46,812	24,052	24,112	23,884
Employed	66,824	66,316	65,734	44,183	43,697	43,542	22,641	22,619	22,192
Agriculture	4,961	4,782	5,000	4,258	4,144	4,298	703	638	701
Nonagricultural industries	61,863	61,533	60,734	39,925	39,553	39,244	21,938	21,980	21,490
Unemployed	3,946	4,382	4,962	2,534	2,888	3,270	1,411	1,493	1,692
Not in labor force	55,933	55,889	54,121	13,475	13,459	12,606	42,457	42,430	41,515
	Total: Apr. 1962	Total: Mar. 1962	Total: Apr. 1961	Male: Apr. 1962	Male: Mar. 1962	Male: Apr. 1961	Female: Apr. 1962	Female: Mar. 1962	Female: Apr. 1961
Unemployment rate[2]									
Actual	5.6	6.2	7.0	5.4	6.2	7.0	5.9	6.2	7.1
Seasonally adjusted	5.5	5.5	6.9	5.3	5.1	6.8	6.0	6.1	7.2

[1]April 1962 figures are not strictly comparable with those for previous periods because of the introduction of 1960 Census data into the estimation procedure. The change primarily affected the labor force and employment totals, which were reduced by about 200,000. The unemployment totals were virtually unchanged. For more detailed information see page S-1.

[2]Percent of civilian labor force unemployed.

Table 2. Employment status of the noninstitutional population, by age and sex, April 1962[1]

(Thousands of persons 14 years of age and over)

Age and sex	Total labor force including Armed Forces: Number	Total labor force including Armed Forces: Percent of noninstitutional population	Civilian labor force: Total	Civilian labor force: Employed: Agriculture	Civilian labor force: Employed: Nonagricultural industries	Civilian labor force: Unemployed: Number	Civilian labor force: Unemployed: Percent of labor force	Not in labor force
Total	73,654	56.8	70,769	4,961	61,863	3,946	5.6	55,933
Male	49,568	78.6	46,717	4,258	39,925	2,534	5.4	13,475
14 to 19 years	3,590	39.4	3,114	486	2,209	420	13.5	5,522
20 to 24 years	5,084	87.0	4,066	307	3,397	363	8.9	759
25 to 34 years	10,689	97.2	9,867	583	8,844	440	4.5	304
35 to 44 years	11,558	97.7	11,118	748	9,899	471	4.2	271
45 to 54 years	9,739	95.4	9,649	842	8,380	427	4.4	468
55 to 64 years	6,563	86.4	6,558	756	5,505	297	4.5	1,029
65 years and over	2,345	31.4	2,345	538	1,690	117	5.0	5,124
Female	24,086	36.2	24,052	703	21,938	1,411	5.9	42,457
14 to 19 years	2,265	25.5	2,258	51	1,880	328	14.5	6,632
20 to 24 years	2,685	45.7	2,673	25	2,454	194	7.2	3,191
25 to 34 years	4,059	35.9	4,051	110	3,667	273	6.7	7,250
35 to 44 years	5,584	45.0	5,579	161	5,134	282	5.1	6,821
45 to 54 years	5,329	50.0	5,327	159	4,943	225	4.2	5,321
55 to 64 years	3,222	39.3	3,222	158	2,990	74	2.3	4,979
65 years and over	942	10.2	942	39	867	36	3.8	8,264

[1]Not completely comparable with data for previous periods. (See footnote 1, table 1.)

NOTE: Total noninstitutional population may be obtained by summing total labor force and not in labor force; civilian noninstitutional population by summing civilian labor force and not in labor force.

Table 3. Employees on payrolls of nonagricultural establishments, actual and seasonally adjusted, by industry

(In thousands)

Industry	Actual					Seasonally adjusted		
	Apr. 1962	Mar. 1962	Feb. 1962	Apr. 1962 change from— Mar. 1962	Apr. 1962 change from— Apr. 1961	Apr. 1962	Mar. 1962	Feb. 1962
Total	54,699	54,025	53,823	674	1,528	55,112	54,871	54,773
Mining	644	640	642	4	-13	652	654	653
Contract construction	2,563	2,323	2,282	240	-56	2,706	2,643	2,694
Manufacturing	16,598	16,518	16,452	80	694	16,814	16,676	16,572
Durable goods	9,396	9,333	9,287	63	560	9,466	9,380	9,312
Ordnance and accessories	210.1	209.6	207.0	.5	14.1	210	210	207
Lumber and wood products	587.4	573.6	576.7	13.8	6.3	607	611	612
Furniture and fixtures	376.9	375.5	374.1	1.4	17.4	382	379	375
Stone, clay, and glass products	565.5	547.4	543.4	18.1	9.9	571	563	563
Primary metal industries	1,223.0	1,220.2	1,213.4	2.8	123.9	1,225	1,216	1,211
Fabricated metal products	1,110.5	1,101.0	1,096.1	9.5	65.8	1,124	1,108	1,097
Machinery	1,455.1	1,446.6	1,434.1	8.5	47.8	1,442	1,430	1,421
Electrical equipment	1,504.7	1,500.2	1,494.6	4.5	103.6	1,528	1,512	1,495
Transportation equipment	1,626.2	1,628.1	1,625.2	-1.9	143.8	1,631	1,610	1,595
Instruments and related products	353.8	355.3	351.9	-1.5	13.6	355	355	352
Miscellaneous manufacturing	382.3	375.6	370.7	6.7	13.6	391	386	384
Nondurable goods	7,202	7,185	7,165	17	134	7,348	7,296	7,260
Food and kindred products	1,691.3	1,672.4	1,673.4	18.9	-5.9	1,780	1,777	1,776
Tobacco manufactures	76.9	81.3	86.4	-4.4	-1.8	88	90	89
Textile-mill products	884.6	881.6	880.0	3.0	13.3	891	886	884
Apparel and related products	1,230.5	1,240.4	1,227.5	-9.9	52.0	1,257	1,227	1,206
Paper and allied products	596.2	593.9	590.2	2.3	15.1	600	599	595
Printing and publishing	932.7	930.1	926.6	2.6	11.4	936	931	929
Chemicals and allied products	851.8	842.5	838.4	9.3	20.9	844	841	841
Petroleum and related products	197.9	197.1	197.6	.8	-6.1	199	199	200
Rubber and plastic products	383.1	381.7	381.3	1.4	31.5	387	384	381
Leather and leather products	357.2	363.5	363.5	-6.3	3.7	366	362	359
Transportation and public utilities	3,909	3,881	3,863	28	39	3,941	3,928	3,914
Wholesale and retail trade	11,406	11,214	11,188	192	244	11,482	11,451	11,447
Wholesale trade	3,026	3,021	3,021	5	71	3,060	3,048	3,036
Retail trade	8,380	8,193	8,167	187	173	8,422	8,403	8,411
Finance, insurance, and real estate	2,773	2,755	2,749	18	49	2,781	2,777	2,774
Service and miscellaneous	7,670	7,572	7,545	98	222	7,655	7,680	7,675
Government	9,136	9,122	9,102	14	349	9,081	9,062	9,044
Federal	2,298	2,294	2,289	4	65	2,317	2,322	2,312
State and local	6,838	6,828	6,813	10	284	6,764	6,740	6,732

NOTE: Data for the 2 most recent months are preliminary.

Table 4. Production workers on manufacturing payrolls, actual and seasonally adjusted, by major industry group

(In thousands)

Major industry group	Actual: Apr. 1962	Actual: Mar. 1962	Actual: Feb. 1962	Apr. 1962 change from: Mar. 1962	Apr. 1962 change from: Apr. 1961	Seasonally adjusted: Apr. 1962	Seasonally adjusted: Mar. 1962	Seasonally adjusted: Feb. 1962
Manufacturing	12,315	12,241	12,187	74	603	12,518	12,388	12,300
Durable goods	6,918	6,857	6,820	61	492	6,987	6,904	6,846
Ordnance and accessories	97.3	96.4	96.4	.9	6.4	97	96	96
Lumber and wood products	523.3	510.1	512.9	13.2	9.8	543	547	547
Furniture and fixtures	312.5	311.0	309.7	1.5	15.9	318	314	311
Stone, clay, and glass products	454.5	436.6	432.4	17.9	10.3	460	452	451
Primary metal industries	992.8	990.9	983.5	1.9	120.2	997	989	983
Fabricated metal products	851.5	842.2	836.7	9.3	61.9	865	848	839
Machinery	1,014.3	1,007.3	997.4	7.0	42.5	1,001	991	984
Electrical equipment	1,019.4	1,016.5	1,012.7	2.9	88.8	1,040	1,028	1,013
Transportation equipment	1,120.9	1,119.5	1,118.6	1.4	115.0	1,126	1,102	1,089
Instruments and related products	225.1	226.5	224.9	-1.4	8.4	226	227	225
Miscellaneous manufacturing	306.2	299.9	294.6	6.3	13.0	314	310	308
Nondurable goods	5,397	5,384	5,367	13	111	5,531	5,484	5,454
Food and kindred products	1,103.6	1,087.1	1,088.3	16.5	-10.5	1,186	1,183	1,181
Tobacco manufactures	65.3	69.9	75.1	-4.6	-2.7	75	78	77
Textile-mill products	796.6	794.2	792.9	2.4	11.7	803	799	798
Apparel and related products	1,094.7	1,104.7	1,093.1	-10.0	48.9	1,120	1,091	1,072
Paper and allied products	473.4	470.8	467.8	2.6	11.3	477	476	473
Printing and publishing	597.2	595.6	593.2	1.6	5.0	599	597	596
Chemicals and allied products	525.7	517.4	512.5	8.3	17.0	517	514	515
Petroleum and related products	128.0	127.2	127.4	.8	-3.0	129	129	129
Rubber and plastic products	297.1	295.0	294.9	2.1	29.3	300	297	295
Leather and leather products	315.6	321.9	322.0	-6.3	4.4	325	320	318

NOTE: Data for the 2 most recent months are preliminary.

Table 5. Employed persons, by hours worked or reason for not working

April 1962[1]

(Thousands of persons 14 years of age and over)

Hours worked	Total	Agriculture	Nonagricultural industries	Reason for not working	Total	Agriculture	Nonagricultural industries
Total employed	66,824	4,961	61,863	With a job but not at work	1,994	172	1,822
At work	64,830	4,789	60,041				
1-34 hours	12,597	1,591	11,007	Bad weather	104	52	52
1-14 hours	4,269	475	3,794	Industrial dispute	40	-	40
15-34 hours	8,328	1,116	7,213	Vacation	428	16	413
35-40 hours	30,858	685	30,172	Illness	949	66	883
41 hours and over	21,375	2,511	18,863	All other	474	39	435
Average hours	40.4	45.2	40.0				

[1] Not completely comparable with data for previous periods. (See footnote 1, table 1.)

NOTE: Excludes persons on layoff of less than 30 days (93,000), and persons scheduled to start new wage and salary jobs within 30 days (111,000).

Table 6. Gross hours and earnings of production workers on manufacturing payrolls, by major industry group

Major industry group	Average weekly earnings			Average weekly hours			Average hourly earnings		
	Apr. 1962	Mar. 1962	Apr. 1961	Apr. 1962	Mar. 1962	Apr. 1961	Apr. 1962	Mar. 1962	Apr. 1961
Manufacturing......	$96.56	$95.91	$90.78	40.4	40.3	39.3	$2.39	$2.38	$2.31
Durable goods..............	$104.96	$104.30	$98.31	41.0	40.9	39.8	$2.56	$2.55	$2.47
Ordnance and accessories.........	117.03	117.03	112.06	41.5	41.5	40.6	2.82	2.82	2.76
Lumber and wood products.........	76.05	75.07	74.88	39.0	39.1	38.8	1.95	1.92	1.93
Furniture and fixtures...........	78.36	78.76	73.14	40.6	40.6	38.7	1.93	1.94	1.89
Stone, clay, and glass products..	97.75	95.68	93.03	40.9	40.2	40.1	2.39	2.38	2.32
Primary metal industries.........	123.41	123.41	111.25	41.0	41.0	38.9	3.01	3.01	2.86
Fabricated metal products........	104.90	103.48	99.45	41.3	40.9	40.1	2.54	2.53	2.48
Machinery........................	113.67	112.98	106.49	42.1	42.0	40.8	2.70	2.69	2.61
Electrical equipment.............	96.63	96.39	93.13	40.6	40.5	39.8	2.38	2.38	2.34
Transportation equipment.........	119.39	118.40	110.95	41.6	41.4	40.2	2.87	2.86	2.76
Instruments and related products.	98.90	98.17	95.51	40.7	40.4	40.3	2.43	2.43	2.37
Miscellaneous manufacturing......	78.60	79.00	75.27	39.9	40.1	39.0	1.97	1.97	1.93
Nondurable goods...........	85.75	85.54	81.27	39.7	39.6	38.7	2.16	2.16	2.10
Food and kindred products........	91.76	90.68	87.20	40.6	40.3	40.0	2.26	2.25	2.18
Tobacco manufactures.............	74.69	72.20	71.05	38.3	37.8	38.2	1.95	1.91	1.86
Textile-mill products............	68.54	68.54	63.18	40.8	40.8	39.0	1.68	1.68	1.62
Apparel and related products.....	61.46	61.49	56.51	36.8	36.6	35.1	1.67	1.68	1.61
Paper and allied products........	100.67	100.91	97.90	42.3	42.4	42.2	2.38	2.38	2.32
Printing and publishing..........	107.52	107.80	104.01	38.4	38.5	38.1	2.80	2.80	2.73
Chemicals and allied products....	109.10	108.05	104.24	41.8	41.4	41.2	2.61	2.61	2.53
Petroleum and related products...	125.14	123.62	124.42	41.3	40.8	41.2	3.03	3.03	3.02
Rubber and plastic products......	98.90	98.25	93.69	40.7	40.6	39.7	2.43	2.42	2.36
Leather and leather products.....	64.53	65.53	59.95	37.3	38.1	35.9	1.73	1.72	1.67

NOTE: Data for the 2 most recent months are preliminary.

Table 7. Average weekly hours, seasonally adjusted, of production workers on manufacturing payrolls

Subdivision	Apr. 1962	Mar. 1962	Feb. 1962	Apr. 1961
Manufacturing......	40.8	40.5	40.3	39.7
Durable goods..............	41.2	41.1	40.9	40.0
Nondurable goods...........	40.3	40.0	39.5	39.3

NOTE: Data for the 2 most recent months are preliminary.

Table 8. Average weekly overtime hours of production workers on manufacturing payrolls

Subdivision	Apr. 1962	Mar. 1962	Feb. 1962	Apr. 1961
Manufacturing......	2.7	2.6	2.5	2.1
Durable goods..............	2.7	2.6	2.5	2.0
Nondurable goods...........	2.7	2.6	2.5	2.2

NOTE: Data for the 2 most recent months are preliminary.

Table 9. Persons employed part time in nonagricultural industries, by reason for part-time work

(Thousands of persons 14 years of age and over)

Usual status and reason working part time	Apr. 1962[1]	Mar. 1962	Apr. 1961
Employed 1-34 hours.......	11,007	11,219	11,272
Usually work full time at present job.........	2,821	2,973	3,369
Worked part time for:			
Economic reasons....	1,050	1,110	1,466
Other reasons.......	1,772	1,863	1,903
Usually work part time at present job.........	8,184	8,246	7,904
Worked part time for:			
Economic reasons....	1,171	1,226	1,512
Other reasons.......	7,013	7,020	6,392

[1] Not completely comparable with data for previous periods. (See footnote 1, table 1.)

Table 10. Employed persons, by type of industry, class of worker, and sex

April 1962[1]

(Thousands of persons 14 years of age and over)

Class of worker	Total	Male	Female	Class of worker	Total	Male	Female
Total employed	66,824	44,183	22,641	Nonagricultural industries	61,863	39,925	21,938
				Wage and salary workers	54,750	34,879	19,871
Agriculture	4,961	4,258	703	In private households	2,586	294	2,292
Wage and salary workers	1,467	1,343	124	Government workers	8,629	5,141	3,488
Self-employed workers	2,763	2,619	144	Other	43,535	29,444	14,091
Unpaid family workers	731	297	434	Self-employed workers	6,464	4,966	1,498
				Unpaid family workers	649	80	568

[1] Not completely comparable with data for previous periods. (See footnote 1, table 1.)

Table 11. Selected unemployment data

(Persons 14 years of age and over)

Item	April 1962[1] Number (thousands)	April 1962[1] Percent distribution	Apr. 1961 Number (thousands)
DURATION			
Total unemployed	3,946	100.0	4,962
Less than 5 weeks	1,527	38.7	1,600
5 to 14 weeks	936	23.7	1,234
15 to 26 weeks	764	19.4	1,205
27 weeks and over	719	18.2	923
Average duration (weeks)	16.9	-	17.5
	Rate[2]	Percent distribution	Rate[2]
AGE AND SEX			
Total unemployed	5.6	100.0	7.0
Male	5.4	64.2	7.0
14 to 24 years	10.9	19.8	14.5
25 years and over	4.4	44.4	5.6
Female	5.9	35.8	7.1
14 to 24 years	10.6	13.2	12.3
25 years and over	4.7	22.5	5.7
MARITAL STATUS AND SEX			
Male	5.4	64.2	7.0
Single	11.1	21.6	14.2
Married, wife present	3.9	35.9	5.1
Other marital status	10.3	6.7	10.9
Female	5.9	35.8	7.1
Single	7.5	10.2	8.0
Married, husband present	5.1	17.7	6.5
Other marital status	6.1	7.9	7.5
COLOR AND SEX			
White	4.8	76.3	6.3
Male	4.7	49.9	6.3
Female	5.0	26.3	6.4
Nonwhite	12.1	23.7	13.0
Male	12.1	14.3	13.5
Female	12.0	9.5	12.1

Item	April 1962[1] Rate[2]	April 1962[1] Percent distribution	Apr. 1961 Rate[2]
INDUSTRY			
Total unemployed[3]	5.6	100.0	7.0
Experienced wage and salary workers	5.6	85.2	7.3
Agriculture	9.1	3.7	10.5
Nonagricultural industries	5.5	81.5	7.2
Mining, forestry, fisheries	8.8	1.5	14.2
Construction	14.1	13.6	17.9
Manufacturing	5.5	25.0	8.3
Durable goods	5.4	13.7	9.6
Nondurable goods	5.6	11.3	6.7
Transportation and public utilities	4.7	5.3	5.4
Wholesale and retail trade	6.4	17.6	7.4
Finance, insurance, and real estate	3.0	2.1	4.2
Service industries	4.0	14.1	4.7
Public administration	2.6	2.3	2.3
OCCUPATION			
Total unemployed	5.6	100.0	7.0
Professional, technical, and kindred workers	1.5	3.2	1.7
Farmers and farm managers	.4	.3	.1
Managers, officials, and proprietors, except farm	1.5	2.9	2.2
Clerical and kindred workers	3.8	10.1	4.6
Sales workers	3.4	3.9	4.3
Craftsmen, foremen, and kindred workers	5.6	13.0	7.7
Operatives and kindred workers	7.4	23.8	10.3
Private household workers	5.3	3.3	6.3
Service workers, except private household	6.7	11.4	7.3
Farm laborers and foremen	5.4	2.7	6.9
Laborers, except farm and mine	13.8	13.7	17.4
No previous work experience	-	11.8	-

[1] Not completely comparable with data for previous periods. (See footnote 1, table 1.)
[2] Percent of civilian labor force in each category who were unemployed.
[3] Includes self-employed, unpaid family workers, and persons without previous work experience, not shown separately.

Table 12. The long-term unemployed, by selected characteristics

	Unemployed 15 weeks or more				Unemployed 27 weeks or more			
	April 1962[1]		April 1961		April 1962[1]		April 1961	
	Percent distribution	Percent of unemployed in each group	Percent distribution	Percent of unemployed in each group	Percent distribution	Percent of unemployed in each group	Percent distribution	Percent of unemployed in each group
AGE AND SEX								
Total	100.0	37.6	100.0	42.9	100.0	18.2	100.0	18.6
Male	69.9	40.9	73.8	48.0	71.6	20.3	70.4	19.9
14 to 19 years	7.4	26.2	7.9	34.0	9.2	16.0	8.6	15.9
20 to 24 years	9.4	38.6	11.6	45.5	9.7	19.3	9.9	16.8
25 to 44 years	25.5	41.5	27.9	50.7	22.8	18.0	23.4	18.4
45 years and over	27.5	48.5	26.3	52.8	29.8	25.4	28.6	24.9
Female	30.1	31.7	26.2	33.0	28.4	14.5	29.6	16.1
14 to 19 years	5.1	23.2	2.9	21.7	4.2	9.1	2.7	8.9
20 to 24 years	3.4	26.3	4.4	29.7	2.2	8.2	5.2	15.2
25 to 44 years	12.3	33.0	10.3	35.8	12.7	16.4	11.1	16.6
45 years and over	9.2	40.6	8.7	38.3	9.3	20.0	10.6	20.4
COLOR								
Total	100.0	37.6	100.0	42.9	100.0	18.2	100.0	18.6
White	73.1	36.0	78.4	42.0	71.6	17.1	77.4	18.0
Nonwhite	26.9	42.6	21.6	46.4	28.4	21.8	22.6	21.1
OCCUPATION								
Total	100.0	37.6	100.0	42.9	100.0	18.2	100.0	18.6
Professional, technical, and kindred workers	2.4	27.6	2.0	30.4	1.8	10.2	2.4	15.9
Farmers and farm managers	.2	(2)	-	-	.1	(2)	-	-
Managers, officials, and proprietors, except farm	2.5	32.2	2.4	30.5	3.5	21.7	3.6	20.1
Clerical and kindred workers	8.4	31.5	6.3	28.4	10.2	18.4	7.3	14.1
Sales workers	3.2	31.6	3.9	42.1	4.5	21.1	3.3	15.2
Craftsmen, foremen, and kindred workers	15.0	43.2	17.1	51.7	10.0	14.0	13.6	17.8
Operatives and kindred workers	24.5	38.6	29.5	47.9	23.5	18.0	28.9	20.3
Private household workers	2.6	30.2	1.9	26.8	2.2	12.4	2.1	12.4
Service workers, except private household	11.1	36.6	8.3	35.5	12.1	19.4	7.9	14.7
Farm laborers and foremen	2.5	34.3	2.7	38.4	3.5	23.1	2.2	13.2
Laborers, except farm and mine	18.0	49.4	18.1	56.4	17.4	23.1	18.0	24.3
No previous work experience	9.5	30.2	7.8	33.9	11.1	17.1	11.0	20.7
INDUSTRY								
Total	100.0	37.6	100.0	42.9	100.0	18.2	100.0	18.6
Experienced wage and salary workers	88.1	38.9	89.8	44.2	86.2	18.4	85.8	18.3
Agriculture	3.6	37.0	3.2	40.1	4.2	20.5	2.5	13.4
Mining, forestry, fisheries	2.1	(2)	2.8	(2)	2.1	(2)	2.9	(2)
Construction	16.9	46.5	17.1	53.2	9.9	13.2	10.1	13.7
Manufacturing	25.5	38.4	33.7	48.4	27.3	20.0	37.2	23.1
Durable goods	13.9	38.1	23.8	53.4	17.5	23.3	26.0	25.3
Nondurable goods	11.6	38.7	9.9	39.5	9.7	15.8	11.2	19.3
Transportation and public utilities	5.6	39.7	5.1	43.9	6.4	22.0	4.7	17.5
Wholesale and retail trade	18.0	38.4	13.8	36.9	18.5	19.2	12.4	14.3
Service and finance, insurance, and real estate	13.4	31.1	12.1	33.2	15.5	17.4	14.0	16.6
Public administration	3.0	(2)	2.0	(2)	2.4	(2)	2.1	(2)
Self-employed and unpaid family workers	2.4	30.2	2.5	34.9	2.6	16.4	3.3	19.7
No previous work experience	9.5	30.2	7.8	33.9	11.1	17.1	11.0	20.7

[1] Not completely comparable with data for previous periods. (See footnote 1, table 1.)
[2] Percent not shown where base is less than 100,000.

Table 13. Insured unemployment under State programs

(Week ending nearest the 15th of the month)

State	Regular programs								Temporary program[1]	
	Number (in thousands)					Rate (percent of average covered employment)			Number (in thousands)	
	April 1962	March 1962	April 1961	April 1962 change from[2]		April 1962	March 1962	April 1961	April 1962	March 1962
				March 1962	April 1961					
Total	1871.5	2271.1	2837.5	-399.6	-966.0	4.6	5.6	7.0	234.3	310.5
Alabama	26.3	28.3	39.0	-2.0	-12.8	5.1	5.4	7.4	3.8	5.1
Alaska	5.7	6.1	6.2	-.4	-.5	17.4	18.2	18.9	.5	.7
Arizona	9.5	11.8	13.2	-2.3	-3.7	3.9	4.9	5.7	.9	1.4
Arkansas	21.3	21.8	29.0	-.6	-7.7	7.7	8.0	10.7	1.8	3.0
California	224.8	276.1	287.2	-51.3	-62.4	5.8	7.2	7.5	27.1	34.3
Colorado	10.6	13.8	14.3	-3.2	-3.7	2.9	3.9	4.1	.7	1.1
Connecticut	27.9	34.2	45.9	-6.3	-18.0	3.7	4.5	6.0	3.9	6.0
Delaware	4.2	8.1	6.6	-3.9	-2.4	3.4	6.6	5.3	.6	.8
District of Columbia	5.5	7.1	6.8	-1.6	-1.3	2.1	2.7	2.6	.7	.9
Florida	30.0	33.8	45.2	-3.8	-15.2	3.3	3.7	5.0	5.1	6.8
Georgia	27.8	29.0	46.1	-1.2	-18.3	3.8	3.9	6.1	4.9	6.0
Hawaii	7.3	8.4	5.3	-1.1	2.0	4.2	4.8	3.1	1.0	1.5
Idaho	5.1	7.8	6.9	-2.7	-1.8	4.3	6.6	5.9	.6	.7
Illinois	92.8	118.3	140.9	-25.4	-48.0	3.6	4.6	5.3	13.3	16.9
Indiana	34.0	45.7	66.9	-11.7	-32.9	3.2	4.3	6.1	5.0	8.2
Iowa	13.9	20.2	18.2	-6.3	-4.4	3.1	4.5	4.1	1.6	2.3
Kansas	9.5	13.9	16.9	-4.4	-7.4	2.7	4.0	4.9	1.0	1.5
Kentucky	30.4	31.8	52.3	-1.4	-21.9	6.9	7.2	11.6	4.1	5.8
Louisiana	29.2	31.0	40.4	-1.8	-11.2	5.4	5.7	7.3	4.5	5.3
Maine	15.3	13.1	22.8	2.2	-7.5	8.1	6.9	11.9	.8	3.7
Maryland	30.7	40.5	44.1	-9.7	-13.3	4.5	6.0	6.5	3.5	5.0
Massachusetts	75.1	91.7	100.4	-16.5	-25.3	5.0	6.1	6.6	8.5	10.1
Michigan	87.1	113.6	185.6	-26.5	-98.5	5.1	6.5	10.3	13.2	16.1
Minnesota	42.2	47.4	54.0	-5.2	-11.8	6.0	6.7	7.6	3.4	4.7
Mississippi	15.2	17.1	24.5	-2.0	-9.3	5.6	6.4	9.0	2.0	2.7
Missouri	41.4	52.1	59.9	-10.7	-18.5	4.4	5.5	6.2	4.7	6.7
Montana	6.9	10.5	11.7	-3.6	-4.7	6.4	9.7	10.8	.6	1.2
Nebraska	7.2	13.2	8.6	-6.0	-1.4	3.1	5.6	3.8	.7	1.0
Nevada	3.8	5.1	5.5	-1.3	-1.7	4.6	6.2	6.9	.4	.6
New Hampshire	6.6	6.5	11.1	.2	-4.5	4.3	4.2	7.2	.6	1.2
New Jersey	82.1	97.7	110.5	-15.5	-28.4	5.3	6.3	7.1	14.1	16.5
New Mexico	7.6	8.7	10.8	-1.1	-3.2	4.8	5.5	6.7	.7	.9
New York	233.5	276.2	341.8	-42.7	-108.2	4.7	5.5	6.8	23.9	31.8
North Carolina	39.0	45.1	60.2	-6.1	-21.2	4.3	5.0	6.7	5.3	7.7
North Dakota	6.0	7.6	6.1	-1.6	-.1	8.9	11.2	8.9	.3	.5
Ohio	96.8	120.5	189.6	-23.7	-92.9	4.1	5.1	7.8	12.6	17.2
Oklahoma	18.7	19.8	26.7	-1.1	-8.0	5.0	5.3	7.2	2.1	2.8
Oregon	23.5	30.6	32.9	-7.1	-9.4	5.9	7.7	8.2	2.7	3.9
Pennsylvania	173.5	207.8	277.1	-34.2	-103.6	6.0	7.1	9.3	15.6	19.3
Puerto Rico	13.9	12.7	13.6	1.2	.3	5.9	5.5	6.2	2.1	2.9
Rhode Island	12.0	15.2	18.6	-3.2	-6.6	5.1	6.5	7.8	1.5	2.0
South Carolina	13.6	15.2	22.3	-1.6	-8.7	3.2	3.6	5.3	2.4	3.3
South Dakota	3.0	5.0	2.6	-2.0	.3	3.8	6.5	3.5	.2	.3
Tennessee	36.4	44.6	57.3	-8.2	-20.9	5.5	6.8	8.7	5.9	8.8
Texas	50.5	54.0	69.3	-3.5	-18.8	2.8	3.1	3.9	8.0	10.8
Utah	6.2	9.4	8.4	-3.1	-2.2	3.4	5.1	4.7	.6	.9
Vermont	4.5	5.4	6.6	-.9	-2.0	6.3	7.5	8.9	.3	.4
Virginia	17.4	25.8	29.5	-8.4	-12.1	2.5	3.7	4.2	2.4	3.0
Washington	33.0	44.3	48.4	-11.3	-15.4	5.5	7.4	8.0	7.8	8.4
West Virginia	22.3	26.3	36.5	-4.0	-14.2	7.1	8.3	11.0	2.5	3.4
Wisconsin	26.6	36.1	49.1	-9.6	-22.6	3.0	4.0	5.4	3.1	3.6
Wyoming	4.1	5.4	4.4	-1.3	-.3	6.1	8.0	6.4	.4	.5

[1] Temporary Extended Compensation program, effective April 8, 1961, covering claimants exhausting benefits under regular State programs only. April data excludes 14,991 insured unemployed under extended duration provisions of regular State laws (ED) as follows: California (8,985), Idaho (1,494), Illinois (3,883), and Vermont (629).

[2] Based on unrounded data.

Table 14. Insured unemployment[1] in 147 major labor market areas[2]

(In thousands, for week ending nearest the 15th of the month)

State and area	Regular programs		Temporary program[3]	
	April 1962	March 1962	April 1962	March 1962
Alabama				
Birmingham....	5.9	6.3	.9	1.2
Mobile........	2.8	3.3	.3	.5
Arizona				
Phoenix.......	5.1	6.7	.5	.8
Arkansas				
Little Rock...	1.5	1.8	.1	.2
California				
Fresno........	7.4	8.9	1.3	1.3
Los Angeles...	94.0	106.5	15.7	16.9
Sacramento....	6.3	9.5	.9	1.1
San Bernardino	9.6	10.5	1.5	1.5
San Diego.....	17.5	19.9	2.8	2.8
San Francisco.	37.4	45.0	6.4	6.3
San Jose......	9.7	13.4	2.3	2.2
Stockton......	5.0	7.5	.8	1.0
Colorado				
Denver........	5.5	7.0	.4	.6
Connecticut				
Bridgeport....	4.8	5.4	.8	1.1
Hartford......	5.2	6.2	.7	1.1
New Britain...	1.8	2.1	.3	.4
New Haven.....	3.2	3.8	.4	.6
Stamford......	1.3	1.7	.2	.3
Waterbury.....	2.6	3.3	.4	.7
Delaware				
Wilmington....	3.8	7.4	.6	.8
Dist. of Col.				
Washington....	8.0	10.9	1.0	1.4
Florida				
Jacksonville..	2.2	2.8	.4	.5
Miami.........	8.2	8.8	1.4	1.7
Tampa.........	5.8	*6.5	1.0	1.3
Georgia				
Atlanta.......	5.9	6.5	1.1	1.5
Augusta.......	1.1	1.1	.2	.2
Columbus......	1.6	1.3	.2	.3
Macon.........	1.0	1.3	.2	.3
Savannah......	1.7	1.6	.2	.3
Hawaii				
Honolulu......	5.8	6.7	.9	1.3
Illinois				
Chicago.......	56.1	69.9	12.0	10.7
Davenport.....	1.9	2.7	.3	.3
Peoria........	3.5	4.4	.5	.4
Rockford......	2.0	2.6	.4	.3

State and area	Regular programs		Temporary program[3]	
	April 1962	March 1962	April 1962	March 1962
Indiana				
Evansville....	2.1	2.2	.3	.4
Ft. Wayne.....	1.1	1.6	.2	.3
Gary-Hammond.	4.8	6.1	.8	1.1
Indianapolis.	4.8	6.7	.9	1.4
South Bend...	2.0	2.7	.3	.5
Terre Haute..	1.2	1.6	.2	.3
Iowa				
Cedar Rapids.	.7	.9	.1	.1
Des Moines...	1.7	2.6	.2	.3
Kansas				
Wichita......	2.1	2.7	.3	.4
Kentucky				
Louisville...	6.3	8.0	1.2	1.6
Louisiana				
Baton Rouge..	1.9	1.9	.3	.4
New Orleans..	8.1	8.7	1.5	1.6
Shreveport...	2.1	2.3	.3	.3
Maine				
Portland.....	1.7	1.7	.1	.4
Maryland				
Baltimore....	20.2	25.5	2.4	3.3
Massachusetts				
Boston.......	31.1	37.8	3.8	4.5
Brockton.....	2.7	3.2	.3	.3
Fall River...	4.4	6.1	.2	.3
Lawrence.....	4.2	4.0	.3	.4
Lowell.......	3.6	4.1	.3	.3
New Bedford..	3.2	4.0	.4	.4
Springfield..	8.0	9.2	1.0	1.2
Worcester....	4.4	5.1	.6	.6
Michigan				
Battle Creek.	1.4	2.0	.2	.3
Detroit......	45.1	58.8	7.2	8.6
Flint........	1.9	2.4	.3	.4
Grand Rapids.	2.9	4.5	.4	.6
Kalamazoo....	1.5	2.2	.2	.2
Lansing......	1.9	2.5	.3	.3
Muskegon.....	1.5	2.1	.4	.5
Saginaw......	1.5	1.9	.2	.3
Minnesota				
Duluth.......	2.9	3.2	.3	.4
Minneapolis..	14.3	16.3	1.5	1.9
Mississippi				
Jackson......	1.2	1.6	.2	.2
Missouri				
Kansas City..	8.0	11.3	1.0	1.6
St. Louis....	23.7	28.6	3.2	4.0

See footnotes at end of table.

Table 14. Insured unemployment[1] in 147 major labor market areas[2]—continued

(In thousands, for week ending nearest the 15th of the month)

State and area	Regular programs April 1962	Regular programs March 1962	Temporary program[3] April 1962	Temporary program[3] March 1962
Nebraska				
Omaha	3.4	4.6	.4	.6
New Hampshire				
Manchester	1.7	1.4	.1	.3
New Jersey				
Atlantic City	3.7	5.4	.8	.8
Jersey City	9.4	10.0	1.5	1.8
Newark	23.3	27.7	4.7	5.2
New Brunswick	8.3	8.7	1.2	1.4
Paterson	14.9	16.7	2.1	2.8
Trenton	3.3	4.4	.7	.8
New Mexico				
Albuquerque	3.1	3.5	.3	.3
New York				
Albany	7.1	9.3	.9	1.2
Binghamton	2.5	3.2	.3	.4
Buffalo	21.6	24.6	3.0	3.7
New York	148.2	173.4	14.5	19.8
Rochester	6.0	7.0	.8	1.0
Syracuse	6.6	7.9	.9	1.0
Utica	5.2	6.1	.5	.7
North Carolina				
Asheville	1.4	1.6	.3	.4
Charlotte	1.7	2.0	.3	.4
Durham	1.4	1.8	.2	.3
Greensboro	2.3	2.6	.3	.4
Winston-Salem	2.2	2.3	.4	.6
Ohio				
Akron	5.0	5.9	.8	1.1
Canton	4.6	5.4	.5	.8
Cincinnati	9.6	11.3	1.4	2.0
Cleveland	20.9	25.3	3.4	4.2
Columbus	4.4	6.1	.5	.7
Dayton	5.5	7.2	.7	1.0
Hamilton	2.8	3.4	.3	.5
Lorain	2.0	2.5	.2	.3
Steubenville	1.4	1.7	.2	.2
Toledo	6.3	7.3	.9	1.3
Youngstown	5.8	6.4	.7	1.0
Oklahoma				
Oklahoma City	3.2	3.6	.4	.5
Tulsa	3.7	3.9	.4	.5
Oregon				
Portland	10.3	12.2	1.5	1.9
Pennsylvania				
Allentown	6.1	7.5	.4	.6
Altoona	1.9	2.3	.2	.2
Erie	4.1	4.9	.3	.4
Harrisburg	4.8	6.0	.3	.4

State and area	Regular programs April 1962	Regular programs March 1962	Temporary program[3] April 1962	Temporary program[3] March 1962
Pa.—Con.				
Johnstown	7.0	7.9	.6	.7
Lancaster	1.8	2.4	.2	.3
Philadelphia	57.2	69.4	6.2	7.7
Pittsburgh	42.4	50.3	4.5	5.6
Reading	2.9	3.4	.2	.2
Scranton	6.0	6.9	.5	.6
Wilkes-Barre	8.5	9.3	.6	.8
York	3.4	4.8	.3	.4
Rhode Island				
Providence	12.5	16.0	1.6	2.1
South Carolina				
Charleston	1.0	1.1	.2	.3
Greenville	1.4	1.4	.3	.3
Tennessee				
Chattanooga	4.5	5.4	1.0	1.2
Knoxville	4.2	4.6	.8	1.0
Memphis	4.6	5.5	.9	1.3
Nashville	2.9	3.6	.5	.8
Texas				
Austin	.6	.6	.1	.1
Beaumont	3.3	3.1	.4	.5
Corpus Christi	1.7	1.6	.3	.3
Dallas	5.6	6.2	.9	1.3
El Paso	2.6	2.5	.4	.5
Ft. Worth	3.7	3.7	.5	.6
Houston	6.0	6.5	1.1	1.4
San Antonio	3.2	3.4	.5	.7
Utah				
Salt Lake City	2.3	3.3	.2	.3
Virginia				
Hampton	1.0	1.2	.1	.2
Norfolk	2.0	2.8	.3	.4
Richmond	1.3	1.7	.2	.2
Roanoke	.8	1.1	.1	.1
Washington				
Seattle	10.9	14.3	2.9	3.2
Spokane	4.0	5.8	.8	.9
Tacoma	2.8	3.8	.6	.8
West Virginia				
Charleston	2.7	3.0	.3	.3
Huntington	2.9	3.5	.3	.4
Wheeling	2.9	3.6	.3	.5
Wisconsin				
Kenosha	.5	.6	.1	.1
Madison	1.0	1.6	.1	.1
Milwaukee	9.2	12.1	.9	1.1
Racine	1.1	1.6	.1	.1

[1] Insured jobless under State, Federal Employee, and Ex-Servicemen's unemployment insurance programs.
[2] For full name of labor market area, see Area Labor Market Trends published by the Bureau of Employment Security.
[3] Temporary Extended Compensation program, effective April 8, 1961 covering claimants exhausting benefits under the regular State and Federal programs.
*Revised.

EXPLANATORY NOTES

Current statistics on employment and unemployment are compiled from household interviews, payroll reports from employers, and administrative statistics of unemployment insurance systems. Data from these different sources give valuable insights into various aspects of the labor market. The household survey gives an unduplicated count of individuals who are employed or unemployed and detailed information on their personal characteristics such as age, sex, color, and marital status. The payroll reports give detailed estimates of nonagricultural employment, hours and earnings, by industry and geographic locality. Data from the unemployment insurance systems yield geographic detail on the total number of workers drawing unemployment compensation under State unemployment insurance programs. These three series require different definitions, concepts, and methods of measurement. Because of this and because of sampling variability, response or reporting errors, and administrative factors, month-to-month changes shown by the series may differ.

Following is a brief description of each series. For more detail, see Employment and Earnings of the Bureau of Labor Statistics and publications of the Bureau of Employment Security.

The sample survey of households, collected and tabulated by the Bureau of the Census, U.S. Department of Commerce, for the Bureau of Labor Statistics, provides a comprehensive measure of the labor force, i.e., the total number of persons 14 years of age and over who are employed or unemployed. The information is obtained from a scientifically selected sample of about 35,000 interviewed households in 333 areas throughout the country and is based on the activity or status reported by surveyed persons for the calendar week ending nearest the 15th day of the month.

The sample survey of employers provides estimates of the number of employees on the payrolls in nonagricultural establishments, by industry. Statistics on employment of production or nonsupervisory workers, average weekly hours and average hourly and weekly earnings are also available for a large number of industries.

The figures are based on reports from a sample of establishments employing approximately 25 million workers. The employee figures include all persons who received pay from nonagricultural establishments during the payroll period ending nearest the 15th of the month.

Administrative statistics of unemployment insurance systems furnish a complete count of insured unemployment among the two-thirds of the Nation's labor force covered by unemployment insurance programs.

Weekly reports, by State, are issued on the number of initial claims, the volume and rate of insured unemployment under State unemployment insurance programs, and the volumes under the programs of unemployment compensation for Federal employees, for veterans, and for ex-servicemen. These statistics are published by the Bureau of Employment Security, U.S. Department of Labor in "Unemployment Insurance Claims."

Concepts and Definitions

Employment Data

The employed total from the household survey includes all wage and salary workers and self-employed persons who worked at all during the survey week or who had jobs or businesses from which they were temporarily absent because of illness, vacation, industrial dispute, or various other reasons, regardless of whether pay was received. It also includes unpaid workers in family-operated enterprises who worked 15 or more hours during the survey week. Employed persons include those working in agriculture, or in nonagricultural industries; those holding more than one job are counted only once and are classified according to the job at which they worked the greatest number of hours during the survey week.

Payroll employment from the employer survey includes nonfarm wage and salary workers who received pay for any part of the pay period. Persons on paid sick leave, paid holiday, or paid vacation are included, but those on leave without pay for the entire payroll period are excluded.

Persons on the payroll of more than one establishment during the period are counted each time reported. Self-employed persons, unpaid family workers, and domestics are excluded.

Because these payroll data are based upon records of a relatively large sample of establishments, they provide industry information in considerable detail which cannot be obtained with equal accuracy from a survey of households. The household survey, on the other hand, furnishes detail on personal characteristics of the labor force.

Unemployment Data

The unemployed total from the household survey includes all jobless persons who were looking for work, regardless of whether or not they were eligible for unemployment insurance. Also counted as unemployed are persons waiting to be called back to jobs from which they had been laid off; those scheduled to start new wage or salary jobs within 30 days (except students); and those who would have been looking for work except that they were temporarily ill or believed no work was available in their line of work or in the community.

Insured unemployment represents the number of persons reporting a week of unemployment under an unemployment insurance program. It includes some persons who are working part time who would be counted as employed in the payroll and household surveys. Excluded are persons who have exhausted their benefit rights; new workers who have not earned rights to unemployment insurance; and persons losing jobs not covered by unemployment insurance systems (agriculture, State and local government, domestic service, self-employment, unpaid family work, nonprofit organizations, and firms below a minimum size). The rate of insured unemployment is the number of insured unemployed expressed as a percentage of average covered employment in a 12-month period ending 6 to 8 months prior to the week of reference. Initial claims are notices filed by those losing jobs covered by an unemployment insurance program that they are starting periods of unemployment. A claimant who continues to be unemployed a full week is then counted in the insured unemployment figure.

Hours of Work

Average weekly hours of work from the employer survey are available for detailed industries in manufacturing and for selected nonmanufacturing industries. The data relate to production or nonsupervisory workers and measure the total number of hours for which pay was received.

The hours of work from the household survey include all hours worked (paid or unpaid) in farm and nonfarm employment as reported by individuals. The total number of hours worked by persons holding more than one job is credited to the activity at which they worked the most hours.

Statistical Reliability

Household Survey

Since the data from the household survey are based on a sample, they may differ from the figures that would have been obtained if it were possible to take a complete census using the same schedules, enumerators, and procedures.

The standard error is primarily a measure of sampling variability, that is, the variations that might occur by chance because only a sample of the population is surveyed. The chances are about two out of three that an estimate from the sample would differ from a complete census by less than the standard error. The chances are about 19 out of 20 that the difference would be less than twice the standard error.

The following table shows the average standard error for the major employment status categories, computed from data for 12 recent months. Estimates of change derived from the survey are also subject to sampling variability. The standard error of change for consecutive months is also shown. The standard errors of level are acceptable approximations of the standard errors

87869 O—62——12

of year-to-year change. For more details on statistical reliability, see Employment and Earnings of the Bureau of Labor Statistics.

Average standard error of major employment status categories

(In thousands)

Employment status	Average standard error of--	
	Monthly level	Month-to-month change (consecutive months only)
Labor force and total employment	250	180
Agriculture	200	120
Nonagricultural employment	300	180
Unemployment	100	100

Employer Survey

This survey is designed primarily to measure month-to-month changes in employment, as indicated by a sample of employers who report in successive pairs of months. The estimated employment levels are adjusted periodically to benchmarks obtained from a variety of sources, the most important of which are records of employment in establishments covered by State unemployment insurance laws. These data are compiled by State agencies under the direction of the Bureau of Employment Security. The extent of adjustments needed to make the monthly series conform with the benchmarks provides a check on the accuracy of the estimates.

Significant causes of difference between the benchmarks and estimates include changes in industrial classification of individual establishments, as well as sampling and response errors. The following table presents a comparison of nonagricultural payroll employment estimates for industry divisions for March 1959. This comparison relates to the series published prior to conversion to the 1957 Standard Industrial Classification, and reflects only those differences which would result from a normal benchmark adjustment. However, apart from sampling and related problems, the March 1959 benchmark levels actually used for the series on the 1957 SIC were affected by 1) additions to employment amounting to 670,000 (an increase of 1.3 percent in the total estimate) for certain categories not adequately represented before, and 2) shifts between industry divisions in accordance with the new SIC, as described in the article in the November 1961 issue of Employment and Earnings.

Comparison of nonagricultural payroll employment estimates with March 1959 benchmarks, by industry division

Industry division	Employment estimate	
	In thousands	As percentage of benchmark
TOTAL	51,093	99.4
Mining	689	96.1
Contract construction	2,435	95.1
Manufacturing	15,995	99.1
Transportation and public utilities	3,883	100.3
Wholesale and retail trade	11,134	100.8
Finance, insurance, and real estate	2,393	98.8
Service and miscellaneous	6,409	98.6
Government	8,155	100.0

Representative CURTIS. Would the gentleman yield at that point?

Senator PROXMIRE. I would be happy to yield.

Representative CURTIS. I got the figures for January 1961, February and March, before this revision census data, and we show a similar decline before that element entered in. I don't know the significance, but it does show a 100,000 decline. I think your point on armed services is well taken from the standpoint that they had increased about 300,000, but we still get back to the basic thing of a decline of the labor force in relation to our total population, which I think bears on this economic gap theory.

Senator PROXMIRE. I would like to say this is a neglected area of our whole economic approach. There has been laudatory emphasis on the demand aspects of the situation, but I think too little emphasis on the supply part of the employment equation.

As I analyze your statement, and I think it is a very, very fine one, there is an indication that you feel that the main problem is unemployment. There are other problems of growth and so forth, but unemployment is certainly a nagging and real and vital problem.

It is possible that we can solve this problem entirely in the area of increasing effective demand. I wonder if we can really do so. I can see nothing wrong at all with working constructively on reducing the size of the labor force because I think we can do so without reducing our standard of living and providing greater values for our people.

I am thinking particularly in two areas. One you mentioned, the earlier retirement age and social security from 65 to 62 made a real contribution. Why isn't this good? If people want to retire, can retire earlier, open up jobs for other people, I think this is fine.

Another possibility which has not been developed is to keep our young people in school longer. In the first panel discussion we had here it was emphasized that the most serious problem of unemployment is the people who are young and just entering the labor force. If they can be kept in school, and their remaining in school can be dovetailed with an effective and aggressive vocational program, then you solve the problem of diminishing unemployment and have them at constructive work so when they do enter the labor force they can make a substantial contribution, and a job will be more readily available.

I might conclude this statement with one point, and that is that if it were not for the social securiy system we have today, and did not have in the thirties, we would today have not 5½ percent of our work force out of work, but probably 14 or 15 percent of our work force out of work, because the 13 or 14 million people on social security, most of them, would have to work so that they would have the income to stay alive. Therefore, it would seem to me that a constructive and limited extension of social security may be another constructive way to cope with this economic problem rather than try to do it entirely with fiscal measures which can take us into a deeper and deeper national debt and aggravate our problems in that direction.

Dr. HELLER. We have been very much concerned about the supply side, particularly the employment problem. We have stressed in earlier testimony and in the annual report of the Council that, side by side with attention to expanding demand and expanding rates of investment and modernization which release labor, it is extremely important to improve the mobility and the skill structure of the labor force.

You are suggesting with respect to education and vocational training, that these work at two ends of the problem. First, such training takes people off the labor market for the time being, and second, it upgrades the skills and education and knowledge of these individuals. I couldn't agree more with your suggestion.

It is true, of course, that increased training costs money. An expansion in the Federal budget and in State and local budgets would be necessary to provide this higher level and longer period of training. The same is true of social security as well. If we were to make limited and modest advances in the provision of social security for the aged, that, too, would require revisions that cost money.

I am not saying that the increased budgetary costs makes your proposals undesirable. We have to balance the costs against the benefits. But it does run into some problems on the budgetary side that have to be considered.

Senator PROXMIRE. In this connection I understand the reduction in retirement from 65 to 62 did not cost a significant amount because it was accompanied by a reduction in the pension to be received. Similarly, a reduction from 62 to 60 might be accompanied by a reduction in the benefits to be received and it would be completely voluntary whether the people wanted to remain in the labor force and continue to work or whether they would prefer to retire and take a lower pension.

At any rate, the dollar cost could be adjusted, I would think, so it would not be significant.

Dr. HELLER. Yes. This whole question of how much of our advance in economic potential we take out in the form of increased leisure and how much we take out in the form of increased production is a very difficult one and depends a great deal on some of the basic philosophical goals of the society in which we live.

To the extent that we put emphasis on growth for domestic fulfillment and international leadership, we are a little more reluctant to cut down on the size of the labor force and its growth than if we felt that we were at a stage where we were truly affluent and could afford the cost.

I think this administration has placed somewhat more emphasis on the maintenance of high rates of labor force participation and improved opportunities for education and training as a means to faster economic growth.

Senator PROXMIRE. I think we can do both vigorously at the same time. The Senator from New York has 3 minutes remaining.

Senator JAVITS. Thank you very much, Senator.

Mr. Chairman, I have one other line of questioning which I shall make expeditious.

I notice in the various things you laid out under the heading of policy actions you list entirely matters which are already before us. You don't list any measures other than those already before us.

I just wondered whether you would, yourself, consider these actions as being everything that is needed, or what would be your attitude, for example, on the widespread view that we need some better mechanism in law for dealing with national strikes. We have just had a bill introduced by one of our colleagues which I didn't join in because I didn't like the way it was developed, but nonetheless it does seem to be a general feeling that strikes which affect the total national interest are beyond the reach of effective law.

Would it come within the compass of your activities to include in your prescription as to what we ought to do with any such ideas?

Dr. HELLER. As you know, Senator, we are primarily charged under the Employment Act of 1946 with problems and policy relating to economic stability, economic growth and price stability. We do not get as directly into problems of the kind you are raising.

We certainly do not have a policy position on the matter you refer to that I could very usefully comment on at the present time.

Senator JAVITS. Would the same be true as to how business ought to finance the worker in respect of the transition to automation?

Dr. HELLER. This gets into the basic question of how best to stimulate investment and modernization and to improve technology in the economy, and it is something on which the Council might naturally be consulted and concerned, although I would not say we have a specific program to lay before you.

Senator JAVITS. You did not hesitate to prescribe what you thought should be guidelines for labor-management wage negotiations.

Dr. HELLER. This is an area so directly related to wage and price levels in the economy, and to the whole question of the possible resumption of the wage-price spiral, that it is directly related to our responsibilities concerning maximum purchasing power which, as you know, we interpret to include concern with the maintenance of reasonable price stability.

Senator JAVITS. Would it be fair to say, therefore, and this is my last question because my time is up, that the policy actions which are specified are by no means an exclusive list as you see the needs of the economy to move it forward and avoid a recession?

Dr. HELLER. That is correct.

Senator JAVITS. Thank you. I thank my colleague.

Senator PROXMIRE. I will ask a few questions and then defer to Congressman Reuss.

I would like to go back to something we Democrats have been neglecting today, the monetary policy, and ask you a further question on it.

Most of our fire has been directed at the Federal Reserve Board. I think Senator Douglas and Congressman Reuss did a marvelous job of laying the groundwork for the question I want to ask. Senator Douglas pointed out that traditionally, monetary policy has been to ease the situation when the expansion slowed down. All the evidence is that we have not done so this time.

Congressman Reuss certainly documented it well. I am referring to a New York Times article on last Sunday which is headlined "Kennedy Revises His Fiscal Goals," and frankly, this is one of the most alarming articles I have read as a Democrat and one who is deeply interested in economic policy. It reads in part:

> The interest of the Kennedy administration in a steady or even higher interest structure both short- and long-term was attested last week by the outcome of an $8,800 million financing operation, most of which was intended to refund maturing debt and the rest to raise about a billion dollars in new money. All of the money could have been raised readily at short term at a cost of 3½ percent. Still, the Treasury saw fit to borrow $1,695 million of the total on bonds due in

6½ years at a cost of 4 percent, and $316 million on bonds due in 30 years at a cost of nearly 4¼ percent.

I might say in this connection that the administration expected to be able to sell $500 million worth of bonds, 4¼, 30 years. They stood ready to sell $750 million of bonds and they could only sell $316 million, indicating the serious plight of our money market.

The fact that interest rates have gone so high and risen so sharply, expectation of higher interest rates, is so apparent in the money market that they refused to buy the Treasury bonds at this very enticing rate.

It goes on to say that the reason for the long-term borrowings at rates closely approaching the highest incurred by the Treasury in the postwar period is perhaps best summed up in the declaration by the Federal Reserve Bank of New York in January:

> As an objective of monetary policy, the defense of the international value of the dollar has come to occupy a position alongside of the goal of stable economic growth.

You used some very strong words about the importance of monetary ease for the domestic economy.

Now I want to read briefly from what Chairman Martin said to us in February.

> There is no invariable relationship between relative interest rates in various capital markets. While interest differentials can be an important factor in movements of capital, there are others.

He goes on to say what they are.

> Capital movements are sometimes viewed in the narrow concept of short maturity. The differences that existed last year between money rates here and abroad on this kind of paper do not appear to have been a primary determinate of international movements of funds of this type.

Under Secretary of the Treasury Roosa has written the same kind of thing. Mr. Gemmill, a top monetary economist with the Federal Reserve Board, has written similarly.

As I understand, there has been no change in the forward cover premium. Chairman Martin indicated this to us 3 weeks ago when I asked him about this, so I just can't see what all the concern about the international balance of payments situation is that would warrant a deliberate policy of raising long-term interest rates, and the evidence is overwhelming, as well as short-term interest rates.

Dr. HELLER. As I believe I suggested in my response to earlier questions, the rise of about 20 basis points in the long-term rate is a matter of very serious concern to us, on the same general grounds as it is to you. It has made the cost of long-term money more expensive and might have touched off expectations of further rises. As you suggest, such expectations might have had some impact on the rather modest amount—I think you said $316 million—that the Treasury was able to borrow on long term.

Senator PROXMIRE. This is the Treasury Department policy determination. This is not the Federal Reserve Board.

Dr. HELLER. This is a source of concern to us as well as to you. I think in our consideration of the interest rate and monetary spectrum we should not leave out of account that, contrary to the development you just pointed out, in some areas—such as mortgage rates—

there has been no increase. Indeed, there has been a decline since the beginning of the year in mortgage rates.

Senator PROXMIRE. The figures I have been given show the conventional rates for mortgages in the last several months have been very high. July, 5.90; October, 5.95; April, 5.95; July, 5.95. The all-time high was January 1960, 6.24, but that is very high.

I hate to ask a question and run, but I will miss my rollcall unless I do go.

Dr. HELLER. I was hoping Mr. Gordon could comment on this.

Senator PROXMIRE. Would he defer that? I will be back in 5 minutes.

Chairman PATMAN. Congressman Curtis?

Representative CURTIS. I just wanted to pick up on that one little point on the labor force. I am reading now from table D, labor force participation rates by age and sex. I want to be sure what I am reading from now. This is the monthly report of the labor force.

Labor force growth appears to be slowing down for reasons which are not entirely clear. Second quarter 1962 increased 600,000 over the year, was about 400,000 short of what might have been expected on the basis of past trends. Most of the difference was among women 25 to 54 years of age who have accounted for such a large part of our expanding work force since World War II.

Young penole, on the other hand, joined the work force in about the expected numbers over the year. Shortage of job opportunities could not be the full explanation of the slowdown in growth. Over the year, the labor force participation of women 55 to 64 years of age has risen sharply as it has in all recent years. There is no evidence that jobs are available for them, but not for younger women.

I just wanted to add that into this discussion because it does seem to me this becomes a very critical area of examination. In the gap theory that the Council is advancing, certainly this should be interjected. I say that again as one who doesn't agree with the gap theory as an accurate way of viewing our economy.

Dr. HELLER. We recognize that many people remain outside the labor force when they are discouraged by the inadequate availability of job opportunities. Our estimate of potential output is, therefore, based on the expected normal size of the labor force at full employment. On the other hand, actual output is affected only by persons actually employed, and not by persons either unemployed or outside of the labor force. The gap is obtained by subtracting actual from potential output, and our calculations of the size of the gap, therefore, make an allowance for the response of the labor force to job opportunities.

So on the question of what the economy is capable of at full employment—which is really all we are talking about and what you identify as the "gap theory"—we do take both the present labor force and the prospective labor force into our calculations.

Representative CURTIS. If I am wrong, I want to be corrected. In your estimates, the gap has diminished in a year and a half. I would say that if the labor force were increasing at the same rate that it had been, roughly about a million a year, I suggest probably you have not closed at all. I don't know whether it would be that big, but it is a million more people in the unemployed sector, which would make a sizable difference.

Dr. HELLER. Mr. Congressman, the increase in the gross national product has been about $50 billion. We assume that approximately $30 billion of that has been keeping up with the growth in the economy's potential and about $20 billion has been a narrowing of the gap. That calculated gap of $30 billion does not rest on the difference between the present 5.3- or 5.4-percent unemployment rate and the so-called full employment rate of 4 percent; rather it does take into account the labor force that would be drawn into the economy at full employment, of course, not with perfect accuracy.

Representative CURTIS. How can it if you use unemployment figures, because unemployment figures do not reveal these people who are not in the work force.

Dr. HELLER. On the basis of previous experience of what happens to the growth of the labor force, as the economy approaches 4 percent unemployment, one can calculate approximately the additions to the labor force that high levels of economic activity will generate.

Representative CURTIS. You don't have to use hypothetical figures. We can simply use the figures as of any month, such as the current month of 1962, or take the year 1962 and compute if there had been the usual increase in the civilian labor force. It would be only in the one area. It would be in the unemployment area which would be roughly another million people there.

That is not, in my judgment, taken into your computations on your gap theory of where you are in 1962.

Dr. HELLER. This is, I guess, a difficult point on which to establish clear understanding. I want to state just once more, first, that the differential in the labor force projection and the actual is not really a million when we take account of the 350,000 increase in the Armed Forces and the 210,000 adjustment in the labor force figures in response to the 1960 census.

Representative CURTIS. I think it is. I agree on the armed services. But again the armed services are hardly a basis of referring to the private sector.

Dr. HELLER. That takes potential labor force out of the private sector. I want to say secondly that we would not get as big an increase as $30 billion in our total output if we were to use only the people now in the labor force. In measuring the gap, we are calculating an increment to that labor force from the sources you suggest.

Representative CURTIS. Our employment actually has increased. That part is clear. Employment has increased each year.

Dr. HELLER. That is correct.

Representative CURTIS. It has increased from 1961 to 1962. But the area where there has not been an increase has been the civilian labor force. That consists of the employed people and the unemployed people. I was at first afraid that it might be a statistical error in our computation of the unemployed because this is something that has never happened in our recent history. This is new that our civilian labor force has not been increasing. Even in the three post-World War II recessions the civilian labor force increased. You are confronted with a new phenomena of decline in the civilian labor force which to me is highly significant and must be fitted in somewhere in the gap theory because it is perhaps even more ominous than those who are listed as "unemployed." Let me go on to one other area. It is basic. But in your whole presentation of this deficit financing theory there is only one paragraph devoted to what I think is one of the great problems in deficit financing—debt management. I have asked other witnesses who have suggested this quickie tax cut to stimulate the economy—and I am using just the figure of $5 billion for convenience—we could use 10—that you cut taxes by $5 billion and thereby release that money to the private sector, but we have to sell $5 billion worth of bonds to the private sector and thereby we withdraw $5 billion from the private sector. Unless you want to use the banks of the Federal Reserve System to buy these bonds.

In your paper you say, and this is the only reference I found to debt management, that—

> if budget deficits are incurred, the method of financing them must be carefully adapted to the prevailing economic circumstances. A careful balance must be struck between bank and nonbank financing, a balance which will not thwart or nullify the expansionary effect of budget measures in an economy with excessive unemployment and excess capacity, but will prudently shift Federal debts into nonbank hands as the economy comes close to or reaches full employment.

As one who sits on the Ways and Means Committee, that has to figure how we are going to market these bonds, all you are really saying is that we have a problem. I think any one who advocates deficit financing, particularly right now, should be ready to discuss the economic impact of having to market these bonds.

May I relate it to one thing before I turn it over.

In monetary policy we find that the discipline that has entered the picture is balance of payments. So we can't follow the monetary policy that otherwise we would. So I suggest with the Federal debt the size it is, and the problems that we already have in marketing that debt, I think just the rollover is around $90 billion next year, what is the economic impact of superimposing another $5 billion on top of this tremendous amount we have in debt management.

Dr. HELLER. I think you are putting your finger on a very important part of expansionary policy, and, indeed, on one of the key areas where monetary policy has to be coordinated with fiscal policy. Essentially, in response to the very type of concern and question that you have raised, what this paragraph says is that when the economy is in a slack condition, when there are underemployed resources and manpower, a budgetary deficit can lead to an expansion of employment, production, incomes, and profits, without an increase in prices, and can do so even if it is bank financed.

Representative CURTIS. That is the thesis.

Dr. HELLER. This has been shown to be the case in past recessions when we have had deficits that were financed in large part by selling Government securities at the short end of the spectrum which were in large part placed in by the banking system.

Representative CURTIS. That is the area for debate. I don't know that it has been shown. I am not willing to presume that is so. I want the debate to center around the question, Is the theory of deficit financing sound? Your presentation and the presentation of others who advanced this theory begs the question throughout that the economy will be stimulated. I think we need to examine into whether it will or not. I doubt if it has in the past. People point to the fact that in the thirties this theory didn't work out. That is countered by those who say, "Well, the deficits were not large enough, we did not spend enough." After all, when the expenditures of World War II came the economy did come back. However, I relate World War II result to the fact that we took 10 million young men and women and put them in uniform. That is where you got rid of your unemployment situation. You had the war psychology and you had the forced savings in those periods with wage and price controls and a lot of other disciplines which people put up with because our country was at war. This was dictatorship and I am certain our people will not put up with this kind of government domination in peacetime. I certainly don't believe that this deficit financing theory is one that can be accepted without its proponents coming forward with their working papers to prove it. I have sat through almost 2 weeks of Ways and Means Committee hearings and listened to all of this restatement of this novel theory without anyone advancing it coming forward to establish it with their working papers. It is always presented more or less as you do, that we all agree. Maybe the bulk of the economists in the universities agree but there are some of us who do not agree and do not understand it.

Dr. HELLER. I think you are suggesting that a look at the statistical record over the years would be a useful exercise.

Representative CURTIS. Partly that, and also whether or not the statistics really give us enough information of what really has been going on.

Dr. HELLER. In our thinking about this problem we should also take into account the fact that in a period of economic expansion when there is still a considerable degree of unemployment and excess capacity, there is always substantial deficit financing by the private economy. Some of that deficit is covered by bank financing, some comes out of other sources. In terms of the principles involved this is really no different from the question of the impact of bank financing of Government deficits.

Representative CURTIS. I must make one comment that we can come back to. This business of relating private financing to Government financing in my judgment is an unsound reference. Private financing puts up collateral either in the way of buildings or equities but Federal financing doesn't.

Dr. HELLER. May I make one comment on the statistics that Mr. Gordon has called to my attention?

In financing the $12.9 billion deficit of fiscal year 1959, the banks absorbed about $10 billion of additional short-term securities. This was done without any increase, as you know, in the wholesale price level. We had a stable price level straight through.

Representative CURTIS. I was critical at the time of what we did in 1959 and it was my own administration; we are still paying for it.

Chairman PATMAN. Senator Pell.

Senator PELL. Thank you, Mr. Chairman.

Dr. Heller, just for the record, when you talk about the five quarters in which this growth has occurred, what exact period do we mean from the viewpoint of the calendar?

Dr. HELLER. From the first quarter of 1961 to the second quarter of 1962, I believe.

Senator PELL. You say since the beginning of the current expansion in 1961. Does that mean from February 1 until April 30?

Dr. HELLER. When we are dealing with quarterly figures, we use, in effect, the average for the first 3 months of 1961 compared with figures for the second 3-month period of 1962. That is for quarterly figures. The monthly comparisons are based on February 1961, and run up the latest month for which data are available, usually June of 1962.

Senator PELL. I found it a little confusing trying to discover the exact calendar period you were referring to in which this improvement occurred.

Dr. HELLER. I am sorry. Some data are only available quarterly; some monthly. Of the latter, the latest available data are in some cases for May, some for June, and some for July.

Senator PELL. In other words, our GNP has gone from 500.8 to 552 billion in the period from February 1 to April 30.

Dr. HELLER. No. From the first quarter of 1961 to the second quarter of 1962.

Senator PELL. What would be the calendar dates?

Dr. HELLER. The calendar dates are the average for January, February, and March 1961 and the average for April, May, and June 1962.

Senator PELL. Thank you very much.

Dr. HELLER. We don't have GNP on a monthly basis, only quarterly.

Senator PELL. In line with Senator Bush's question as to whether we have tried a reduction in tax before to ward off a recession or depression, I wonder if this same process has been tried in any foreign countries of which you are aware.

Dr. HELLER. There is a flexible tax authority that is now available to the British Government. They have the authority to vary certain excise tax rates and employment taxes in response to the requirements of economic policy. So far they have used only one of those two, their consumption taxes, and they moved those up last summer in order to cut down the level of demand.

Secondly, the Swedish authorities have an investment credit which is moved up and down. As I recall the operation of that, businesses are given a tax incentive to put a portion of their profits in escrow, so to speak, during boom times. Then, in slack times, they are allowed to use them for investment projects.

So there have been some experiments here and there, but there is no precise parallel to what we are talking about. I might say, however, that the 1954 experience offers some parallel, to be sure, not in the sense of a conscious, antirecessionary tax policy, but the effects are the same. Congress, as I recall, enacted a very quick cut of about $4 billion in the Korean war taxes. Then, in the longrun "tax overhaul," as it was called, there was added another billion and a half of income tax reduction. In other words, that gives us an experience that is quite relevant, although not in the sense of deliberate congressional action to cut taxes for business cycle reasons.

Senator PELL. If it is decided that a tax cut is a good idea—and I personally agree with Senator Douglas that it would not be right at this moment, although I am most certainly for an income tax cut—what kind of tax cut would you be inclined to consider as the most favorable or advisable? Would you incline to a cut in the lower bracket, or employing the withholding mechanism in which the withholding tax would be suspended for 2½ to 3 months, would you divide the cut pretty equally between corporations and individuals, or perhaps a straight matter of points across the board?

Dr. HELLER. As I indicated earlier, no decisions have been made. I do think as a general principle, however, if you were attempting to compensate for a short-run deficiency of demand, a good part of your increase would have to go into personal income tax reductions. We have, however, side by side with this a longer run problem of investment stimulus. We have corporate rates——

Senator PELL. Forgive me for interrupting, but isn't the whole purpose of this current discussion to consider the short-run problem?

Dr. HELLER. In talking about tax reduction any time from now on, it is necessary to take into account both the short-run cyclical considerations and the longer run reduction of the drag of taxes on the economy.

Senator PELL. But when thought is given to making a tax reduction in this session of Congress, I was under the impression it should be considered primarily from the short-term viewpoint because the longer term problem will be taken care of in the next Congress in a general bill.

Dr. HELLER. What I am saying is this: Given the background of the projected recommended tax cut for next year side by side with tax reform, it is impossible to discuss any 1962 tax reduction without relating it to what might happen in 1963. I should note, however, that apropos of your general comment on antirecessionary tax cuts, the President's request for standby authority proposed only reductions in individual income tax rates of up to 5 points on an across-the-board basis.

Senator PELL. If an immediate tax cut is approved, what would be your reaction to the idea of the withholding tax device for the reasons: No. 1, that since the lower income groups would get the principal benefit, the money would be more quickly pumped into the national economy by virtue of the fact that this group is more likely to use it to immediately purchase consumer goods. And secondly, by using the withholding device the general public would not be really aware of having received the reduction. They would just have thicker pay envelopes. And when the time comes for the temporary cut to be ended, there would not be such an outcry.

As Congressman Curtis pointed out, that might be balanced by the increase in the social security tax. At the same time when it came time for a permanent reduction you would have a little sugar with which to coat the general tax bill with which we will be presented at that time.

Dr. HELLER. The exact form in which you carry a short-run tax cut into effect is not preordained either by any administration or congressional decisions that have been made. I think this is something where we still have a great deal to learn. I don't think we can necessarily say that any one method is necessarily best in every respect, and I believe the President has made that very clear in inviting Congress to suggest alternative approaches to temporary tax-cutting authority that might be substituted for his request.

Senator PELL. Do you think the idea of suspending withholding for several months would be an effective device?

Dr. HELLER. I think it is one of the devices that deserves consideration. I don't think I can go beyond that comment.

Senator PELL. Thank you.

Chairman PATMAN. I believe you stated, Dr. Heller, that you had a table that would show what the different methods would produce in a tax reduction bill. Will you insert that table in connection with your remarks, please?

Dr. HELLER. Yes, Mr. Chairman.

(The table referred to follows:)

TABLE I.—*Tax liabilities under alternative tax schedules*[1] *(revised July 23, 1962)—Married persons, 2 children*

KEY

Schedule A: Present law
Schedule B: 3 percentage point reduction in tax rates
Schedule C: Chamber of commerce proposal
Schedule D: $200 increase in the per capita exemption
Schedule E: 5 percentage point reduction in first bracket only
Schedule F: 12½ percent reduction in tax liabilities

TABLE I–1.—*Tax liabilities under alternative tax schedules—Married persons, 2 children*

Income	Taxable income [1]	Amount of tax in dollars					
		A	B	C	D	E	F
$1,000	0	0	0	0	0	0	0
$2,000	0	0	0	0	0	0	0
$3,000	$300	$60	$51	$45	0	$45	$52
$4,000	1,200	240	204	180	$80	180	210
$5,000	2,100	420	357	320	260	315	368
$6,000	3,000	600	510	500	440	450	525
$8,000	4,800	976	832	868	800	776	854
$10,000	6,600	1,372	1,174	1,246	1,196	1,172	1,200
$15,000	11,100	2,486	2,153	2,284	2,278	2,286	2,175
$20,000	15,600	3,800	3,332	3,472	3,560	3,600	3,325
$25,000	20,100	5,318	4,715	4,813	5,042	5,118	4,653
$50,000	42,600	15,976	14,698	13,922	15,528	15,776	13,979
$100,000	87,600	44,724	42,056	37,360	44,172	44,524	39,134
$500,000	447,600	356,956	343,528	262,360	356,228	356,756	312,336
$1,000,000	897,600	766,456	739,528	554,860	765,728	766,256	670,649

[1] Assuming deductions equal to 10 percent of income

TABLE I–2.—*Tax liabilities under alternative tax schedules—Married persons, 2 children*

Income	Amount of tax as percent of income					
	A	B	C	D	E	F
$1,000	0	0	0	0	0	0
$2,000	0	0	0	0	0	0
$3,000	2.0	1.7	1.5	0	1.5	1.7
$4,000	6.0	5.1	4.5	2.0	4.5	5.2
$5,000	8.4	7.1	6.4	5.2	6.3	7.4
$6,000	10.0	8.5	8.3	7.3	7.5	8.8
$8,000	12.2	10.4	10.8	10.0	9.7	10.7
$10,000	13.7	11.7	12.5	12.0	11.7	12.0
$15,000	16.6	14.4	15.2	15.2	15.2	14.5
$20,000	19.0	16.7	17.4	17.8	18.0	16.6
$25,000	21.3	18.9	19.3	20.2	20.5	18.6
$50,000	32.0	29.4	27.8	31.1	31.6	28.0
$100,000	44.7	42.1	37.4	44.2	44.5	39.1
$500,000	71.4	68.7	52.5	71.2	71.4	62.5
$1,000,000	76.6	74.0	55.5	76.6	76.6	67.1

[1] All 5 tax proposals would reduce total liability by approximately $6 billion.

TABLE I-3.—*Tax liabilities under alternative tax schedules—Married persons, 2 children*

Income	Amount of tax reduction from present law				
	B	C	D	E	F
$1,000	0	0	0	0	0
$2,000	0	0	0	0	0
$3,000	$9	$15	$60	$15	$8
$4,000	36	60	160	60	30
$5,000	63	100	160	105	52
$6,000	90	100	160	150	75
$8,000	144	108	176	200	122
$10,000	198	126	176	200	172
$15,000	333	202	208	200	311
$20,000	468	328	240	200	475
$25,000	603	505	276	200	665
$50,000	1,278	2,054	448	200	1,997
$100,000	2,668	7,364	552	200	5,590
$500,000	13,428	94,596	728	200	44,620
$1,000,000	26,928	211,596	728	200	95,807

TABLE I-4.—*Tax liabilities under alternative tax schedules—Married persons, 2 children*

Income	Tax reduction as percent of income				
	B	C	D	E	F
$1,000	0	0	0	0	0
$2,000	0	0	0	0	0
$3,000	.3	.5	2.0	.5	.3
$4,000	.9	1.5	4.0	1.5	.8
$5,000	1.3	2.0	3.2	2.1	1.0
$6,000	1.5	1.7	2.7	2.5	1.2
$8,000	1.8	1.4	2.2	2.5	1.5
$10,000	2.0	1.3	1.8	2.0	1.7
$15,000	2.2	1.3	1.4	1.3	2.1
$20,000	2.3	1.6	1.2	1.0	2.4
$25,000	2.4	2.0	1.1	.8	2.7
$50,000	2.6	4.1	.9	.4	4.0
$100,000	2.7	7.4	.6	.2	5.6
$500.000	2.7	18.9	.1	0	8.9
$1,000,000	2.7	21.2	.1	0	9.6

TABLE I-5.—*Tax liabilities under alternative tax schedules—Married persons, 2 children*

Income	Tax reduction as percent of disposable income				
	B	C	D	E	F
$1,000	0	0	0	0	0
$2,000	0	0	0	0	0
$3,000	.3	.5	2.0	.5	.3
$4,000	1.0	1.6	4.3	1.6	.8
$5,000	1.4	2.2	3.5	2.3	1.1
$6,000	1.7	1.9	3.0	2.8	1.4
$8,000	2.1	1.5	2.5	2.8	1.7
$10,000	2.3	1.5	2.0	2.3	2.0
$15,000	2.7	1.6	1.7	1.6	2.5
$20,000	2.9	2.0	1.5	1.2	2.9
$25,000	3.1	2.6	1.4	1.0	3.4
$50,000	3.8	6.1	1.3	.6	5.9
$100,000	4.8	13.3	1.0	.4	10.1
$500,000	9.4	66.1	.5	.1	31.2
$1,000,000	11.5	90.6	.3	.1	41.0

Dr. HELLER. If the committee members would like to have copies, I believe we have a supply.

Chairman PATMAN. Thank you.

Senator Douglas?

Senator DOUGLAS. I want to pursue this question of whether it is necessary to increase interest rates in order to protect our gold supply. I think we brought out in previous questioning that the U.S. 3-month bill rate is about nine-tenths of 1 percent higher than the Swiss rate. The Swiss rate has remained steady for a long time. So difference in the interest rate in itself has thus not led to any major movement of funds from the United States to Switzerland. That is true, is it not?

Dr. HELLER. That is right.

Senator DOUGLAS. So far as the Dutch are concerned, the Dutch rate has fallen slightly in the last 2 months—the figure was 2.32 percent for June as compared to an American figure for June of 2.72 roughly. So they were four-tenths of 1 percent underneath the American rate. The West German rate for July was 2.38. The American rate for July was about 2.92. So you have an American rate which was almost six-tenths of 1 percent higher than the German rate. As far as interest rates are concerned, the American rate was thus already higher than in Netherlands and Germany. It was not necessary therefore to raise the American rate still more. The three remaining countries in the Federal Reserve table are France, Canada, and the United Kingdom. I don't have figures for France more recent than April—then it was 3.91.

Let us grant for the moment that the French rate is above the American rate. It is doubtful if there is important movement here as France does not have huge amounts on deposit in this country. So we come down to Canada and the United Kingdom.

Mr. Johnson has prepared some charts that I think are noteworthy. The upper chart (p. 183) shows the comparison of Treasury bill rates. You will notice that the British rate came down very markedly in the past year. The New York rate was rising at the very time that the London rate was falling. There would thus not be any increased strain in this case upon our currency, since the differential between those two actually fell substantially during this time. But to get at the real costs of converting dollars into pounds one must consider also the arbitrage trend. If you add the arbitrage, with forward exchange cover, to the New York rate you will see that, while the differences in favor of London and in favor of New York are small and vary from time to time, at other times recently the London rate is only one-sixth of the 1 percent or less in preference of London over the New York dollar. I think it has been testified that where the difference in net rates is less than one-quarter of 1 percent interest rate considerations do not enter. So if you allow for rates with forward arbitrage cover, there is really no material difference between London and New York.

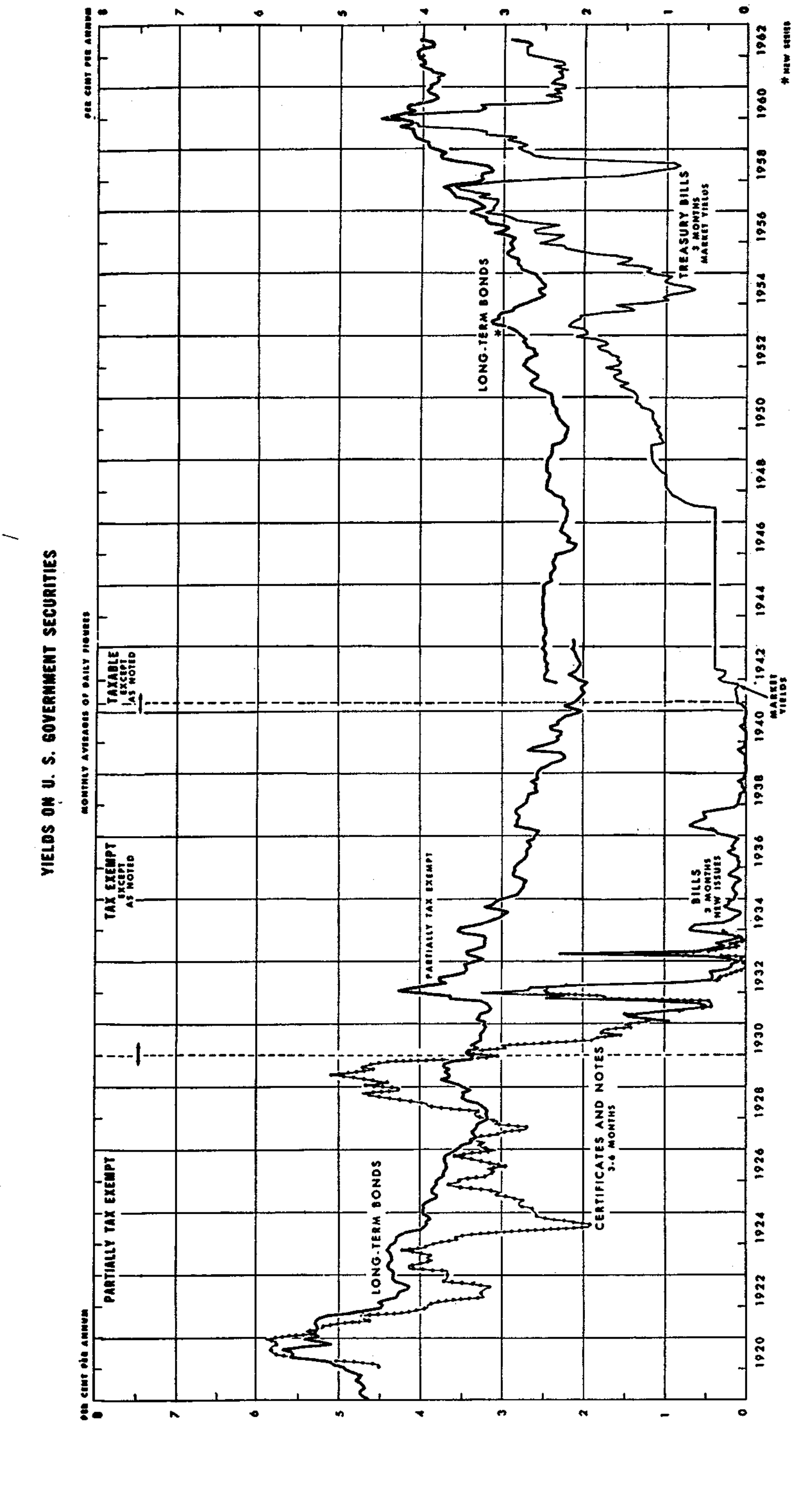
Then we come to Canada. Here there is a difference in Canada because Canada has been facing a financial crisis. Their short-time rate has shot up very sharply. They are recently up to 5½ percent or more.

Chairman PATMAN. Would you like to add those charts to the record?

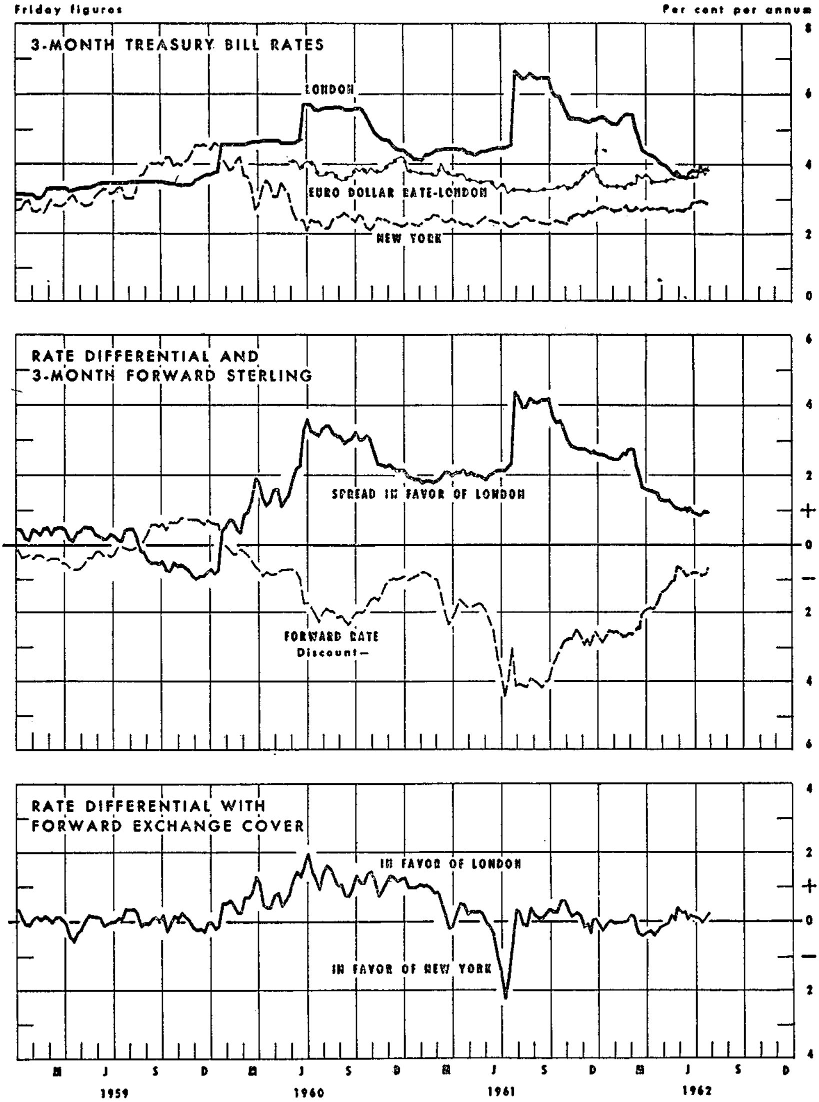
Senator DOUGLAS. Yes, I would.

Chairman PATMAN. Without objection, it is so ordered.

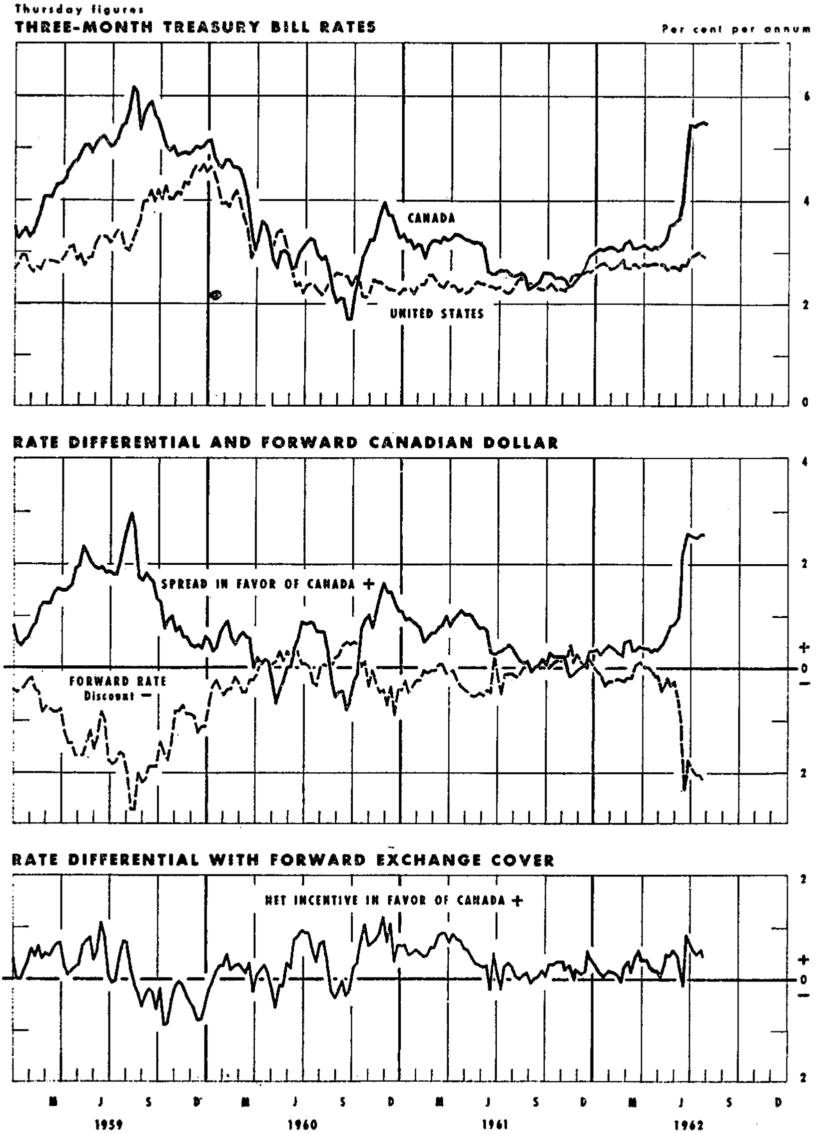
(The data referred to follow:)


YIELDS ON U. S. GOVERNMENT SECURITIES
MONTHLY AVERAGES OF DAILY FIGURES
PER CENT PER ANNUM
PARTIALLY TAX EXEMPT
TAX EXEMPT
EXCEPT AS NOTED
TAXABLE
EXCEPT AS NOTED
PARTIALLY TAX EXEMPT
LONG-TERM BONDS
CERTIFICATES AND NOTES
3-6 MONTHS
BILLS
3 MONTHS
NEW ISSUES
MARKET YIELDS
LONG-TERM BONDS
TREASURY BILLS
3 MONTHS
MARKET YIELDS
* NEW SERIES
1920
1922
1924
1926
1928
1930
1932
1934
1936
1938
1940
1942
1944
1946
1948
1950
1952
1954
1956
1958
1960
1962

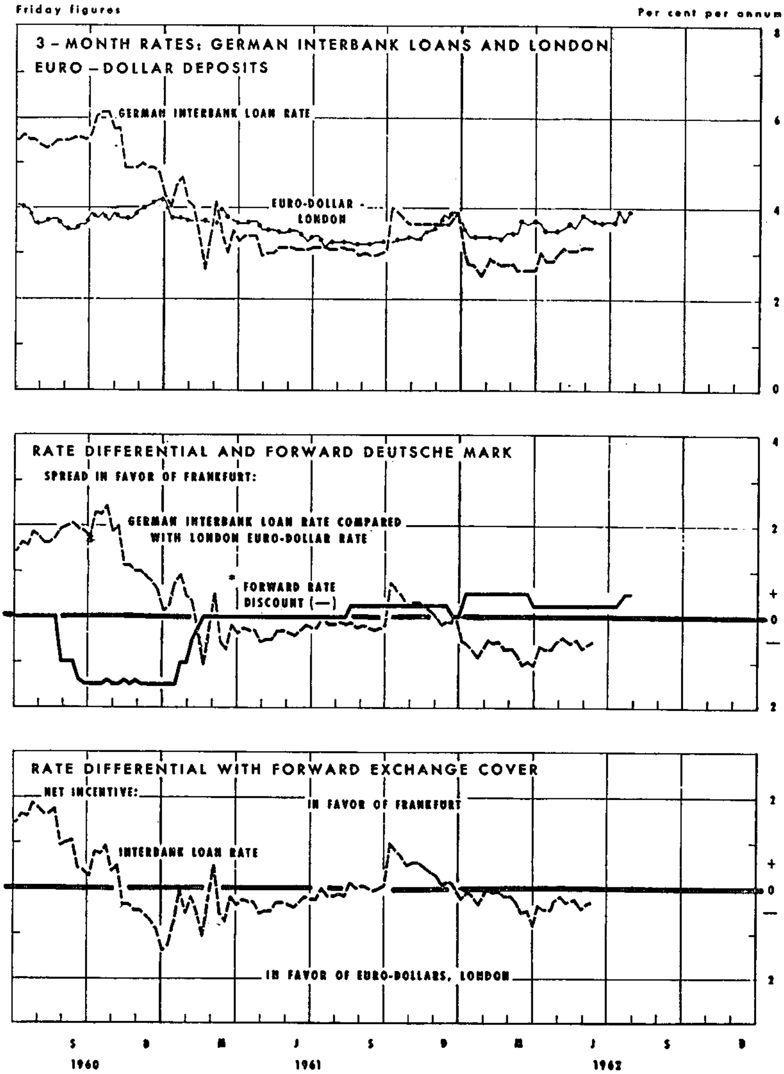
INTEREST ARBITRAGE, NEW YORK/LONDON



INTEREST ARBITRAGE, UNITED STATES/CANADA

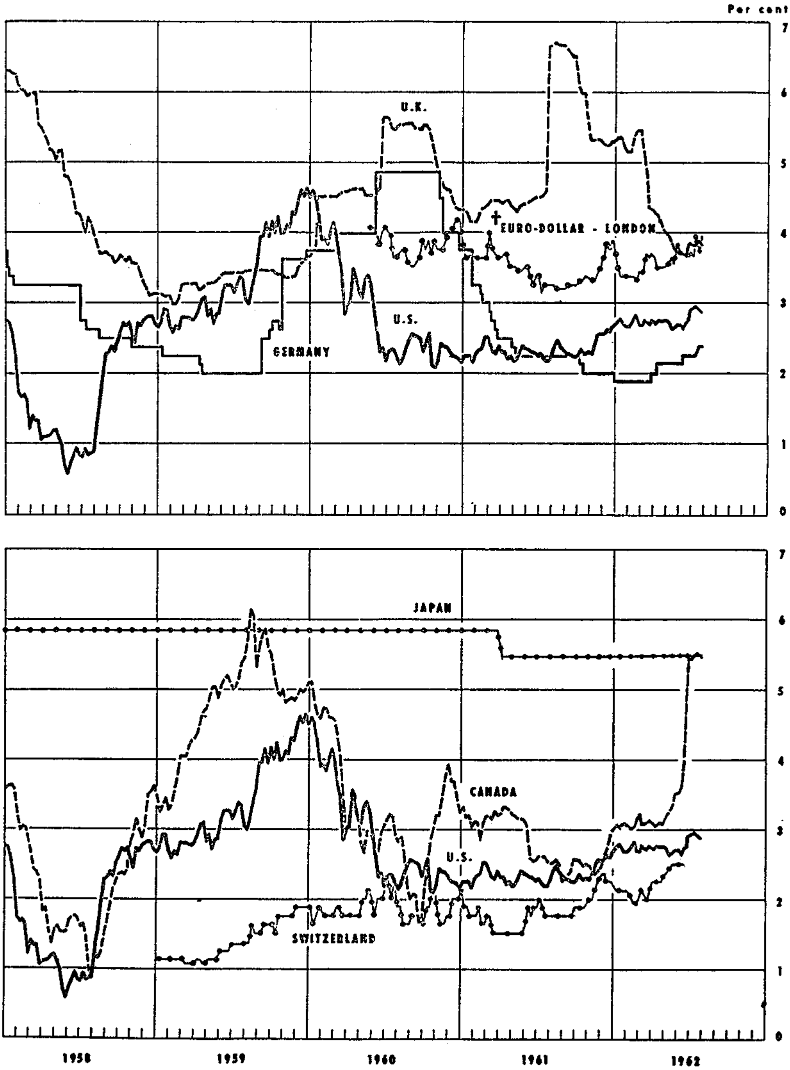


INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS



Note: Special forward rate available to German commercial banks.

SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).
† 3-month rate for U. S. dollar deposits in London.

Senator DOUGLAS. The point I want to make is that only in the case of the United Kingdom and Canada do you have any real difference in rates. The difference between United Kingdom and United States is accounted for by the arbitrage cost. This does not account for the full difference in the case of Canada. But I can't believe that Canada, with a population of 20 million, subjects the American dollar to such great strain, particularly in view of the highly uncertain financial situation of Canada. Both political parties concealed it during the election but it has come out after the election. I should think with the devaluation of the Canadian dollar down to 92 cents, whereas some time ago it was $1.05, that people would not be getting Canadian dollars in preference to American dollars. So, very frankly, I am puzzled by the claim that it is necessary to increase the domestic interest rate, both short term and long term, to meet the balance-of-payments problem.

In view of these facts, we know the adverse effect which a higher interest rate has in dampening off business recovery. I hope this will not be regarded as libelous, but I heard a wag say the other day that a good new Chairman of the Federal Reserve Board would be worth a $10 billion tax cut.

Dr. HELLER. I have heard it said that the Chairman of the Council is worth 50 points on the Dow-Jones.

Senator DOUGLAS. No; I think you are doing a fine job. I have a sneaky feeling that now you have become a Government official you feel an obligation to defend all policies of all branches of the Government.

Dr. HELLER. May I respond to two or three of the points you made?

First, while the points you make are very well taken, and while it is extremely difficult to judge whether the exact degree of tightening that has occurred is really necessary to meet balance-of-payments and gold pressures, it is necessary to take into account that the so-called Euro-dollar market is offering rates of over 3½ percent in Europe and without any exchange risk, is perhaps attracting dollars on that ground.

In other words, these are the dollars that are circulating, so to speak, and used from bank to bank and country to country in Europe, financed in effect with U.S. funds.

Second, the U.S. dollar is at a forward discount against the Dutch guilder, against the Swiss franc, and against the German mark. This may not be a huge factor, but it does mean that U.S. rates have to be slightly higher than you have suggested to prevent a flow of funds.

Senator DOUGLAS. Are Euro-dollars convertible into gold?

Dr. HELLER. Euro-dollars which find their way into the hands of foreign central banks are convertible to gold. They are not convertible to gold in the hands of private individuals at the U.S. Treasury, but they also may cause some problem by being converted to gold in the London gold market. This is only an indirect gold-conversion problem. But we must include it if we are talking about the total withdrawal of funds or the total attraction of funds overseas.

Senator DOUGLAS. So far as the Netherlands, Germany, Switzerland are concerned—countries that are held up to us as the great examples—our interest rates are higher. If they are economical men they would not call their short-term deposits with us and put them on deposit in Zurich because our interest rates are above those in Switzerland.

Dr. HELLER. We have to consider not only discount rates and bill rates, but also a number of other short-term rates. For example, the local authorities in the United Kingdom surprisingly enough offer 4½ percent on 7-day money. There is a whole range of short-term rates that we have to take account of. I think that is a factor that has to be weighed in making this assessment.

I am not suggesting, Senator Douglas, that the interest rate movements that have occurred are a kind of a categorical imperative in the light of international balance-of-payments considerations. That is a matter of judgment on which we are not prepared to reach any final conclusion here. However, I am prepared to suggest that, particularly at the long end, the increase in rates does not seem to make much of a contribution to the balance-of-payments problem.

Senator DOUGLAS. Do you think there is any relationship between the fact that in May and June, as interest rates started to move up under the policy of the Federal Reserve, business activity started to move down. The Commerce Department publishes its series of business cycle indexes. Congressman Reuss introduced this into the record yesterday. It shows on page 5 that the index turned down in May and June and this is what in the past advocates of the tax cut brought forward. I raise the question whether there is any connection between the fact that durable goods, hours per week, accession rate, and so forth turned down at the time interest rates turned up. Is it possible that the second factor was the cause of the first?

Dr. HELLER. We certainly cannot always know the precise cause-and-effect relationships. But it does seem that some of these things that have happened in recent months have occurred too fast or too soon to be directly related to the monetary tightening that has taken place very recently. The disappointing Commerce-SEC survey of plant and equipment investment plans came in March, well before this recent tightening.

Inventory-sales ratios have been low for some time and cannot be directly related to that. Of course, it is possible that there might be some other results that are directly related to the recent tigthening, although I cannot think of any obvious ones.

Chairman PATMAN. Congressman Reuss, you may proceed, sir.

Representative REUSS. Dr. Heller, you have been defending the Federal Reserve for some time now. I am going to ask you to defend the State Department for a while. In your statement you pointed out that the proposed Trade Expansion Act could, by expanding our exports, not only help us from the standpoint of our balance of payments but increase the demand for the output of our farms and factories. I agree that it has that potential, and I am one of those who think that it is a very important potential.

I want to ask, however, a question about it. Because my question necessarily is somewhat long, I wrote up the main points of the question and handed you a copy of it earlier. It reads as follows:

Bearing in mind the following:

1. There is not in sight today any stimulant to demand comparable to automobiles in the 1920's or homes and appliances in the early 1950's.

2. Western Europe, on the other hand, has a large pent-up demand for all sorts of household appliances—washers, driers, dishwashers—a potential $6 billion annual market, of which the United States could well aim at a $2 billion share.

3. Western Europe, with its over-full employment, is unlikely to be able to satisfy its domestic demand for consumer durable goods by its own production in the years immediately ahead. The United States has ample existing plant capacity.

4. A massive U.S. entry into the European market as soon as possible would help diminish U.S. unemployment, and accelerate our growth rate. Reciprocal tariff reductions which would make this possible would also reduce or eliminate our payments deficits, since the probability for the short-term is that our trade surplus with Western Europe would increase.

5. From the European standpoint, accepting larger U.S. exports would enable European employers to grant wage increases without severe inflationary consequences, thus helping to bring United States and European wages more closely into line as well as improving the European standard of living.

6. The biggest single obstacle to our entering this vast export market is the high tariff wall—20 percent or more—of the Common Market and of other European countries on these household appliances.

7. The special bargaining authority of the Trade Expansion Act to permit the tariffs to be reduced to zero on commodities for which the United States and the Common Market account for 80 percent of world trade is now largely meaningless since aircraft is the only major category affected, until and unless the United Kingdom and other EFTA countries join the Common Market. A current guess is that the United Kingdom is unlikely to become a member of the Common Market until at least 1964.

8. If the Trade Expansion Act were amended so that we had the power to bargain European tariffs down to zero, independently of the United Kingdom's joining the Common Market, we could start vigorous bargaining immediately, with active negotiations to start in 6 months. This would provide no incentive for the United Kingdom to refrain from joining the Common Market, since its own independent tariffs would have to be reduced.

Why does not the administration recognize the realities of the situation, amend the Trade Expansion Act, and move vigorously for lower tariffs to help us and the free world?

Dr. HELLER. Mr. Reuss, may I make just one general comment and then turn this question over to Mr. Gordon, who has been working with the State Department, the White House staff, and the Commerce Department in the general area of the Trade Expansion Act?

I hope your question does not imply that the American consumer is not a pretty ingenious fellow. We have certainly found over the years that when additional income is put into the hand of consumers, they are quite capable of finding ways and means of putting it to good use to the tune of 92 to 94 percent of their incomes, year in and year out.

I believe what you are stressing, however, is that there is apparent on the horizon no big, new, durable goods to take the lead in expansion; and you are suggesting that we do everything possible to exploit the expanding European market in this area. I want to say that we surely agree with that objective and then ask Mr. Gordon to comment on the specific proposal.

Representative REUSS. And to comment on your comment before we hear Mr. Gordon, I agree with you about the propensity to spend of the American consumer. However, in order to have that 92 percent propensity to spend applied to a higher income total, you have to give a tax cut or otherwise increase income, which in the immediate period ahead would increase the deficit.

I am looking, as you are, for additional and auxiliary or substitute methods which would stimulate the economy without increasing the deficit.

Dr. HELLER. I think that clarifies any possible misunderstanding on that point.

Mr. GORDON. Mr. Reuss, this is my first exposure to this proposal. I think it is a very bold and stimulating idea which I presume has been discussed with the State Department. I didn't know that.

Representative REUSS. The State Department's position is that the United Kingdom's entry into the Common Market is so desperately important we should do anything, including cutting our own economic throat, to help force the issue. I don't see their logic. I wonder what you think of their economics.

Dr. HELLER. That was not a direct quotation from the State Department?

Representative REUSS. No, it was an embroidery, but I defy you to produce from them any justification much different from what I have just said.

Mr. GORDON. On the economics of the matter, I must say I would agree virtually completely with your premises. I think there unquestionably is a very substantial potential market for consumer durable goods in Western Europe. I think that the effect of this kind of action might well be attractive to European countries as a means of reducing inflationary pressures which some of them are now having considerable difficulty with. It would obviously have very beneficial effects for our balance of payments. So in the quite narrow economic analysis of the proposal, I must say it strikes me as very attractive.

But it is clearly a proposal which has dimensions that go beyond the narrow economics. I think it is on this score that I would want to be somewhat reticent. As all of us know, the United Kingdom and the Common Market are presently engaged in negotiations. These negotiations apparently have reached a very delicate state. I would think that it might be argued, although I haven't had an opportunity to think it through, that a proposal of this kind at this stage would constitute a very disturbing element in the present delicate state of these negotiations.

But if I can separate the appraisal of the economic effects from the political-diplomatic effects, I would certainly say that on economic grounds it is most attractive.

Representative REUSS. Thank you for your answer. I will ask just one more question on it. Don't you think that looking at the opportunities available to us to achieve our economic goals of maximum employment, maximum growth and expansion of our exports so as to improve our balance of payments, this is one of the more promising opportunities that presents itself?