THE EMPLOYMENT ACT OF 1946: ORIGINAL INTENT VERSUS CURRENT INTERPRETATION, THE FORCES UNDERLYING THE MODIFICATION AND THE IMPLICATIONS THEREOF

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THESIS

Presented to the Graduate Council of the
North Texas State University in Partial
Fulfillment of the Requirements

For the Degree of

MASTER OF ARTS

By

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Denton, Texas

January, 1962

INTRODUCTION

On February 20, 1946, one saw the offspring of the marriage between American pragmatism and the economic doctrines of the not-so-roaring thirties. On this day the Congress of the United States passed the Employment Act of 1946. The purpose of this legislation was "to declare a national policy on employment, production and purchasing power, and for other purposes." The Federal Government in passing this bill committed itself to the task of maintaining the level of employment in the economy at or near full employment. Various groups, according to their interests, have defined "full employment" as being at this level or that level. Disregarding these more or less subjective definitions, the more important aspect of the Act was established at the time of its ratification: the committal of the Federal Government to the goal of maintaining full employment.

Underlying this bill, and of considerable significance, was the introduction of a new body of economic thought some ten years previous, specifically, John Maynard Keynes' book, <u>The General Theory of Employment, Interest, and Money</u>. Prior to this, orthodox economic doctrine had assumed the constancy of full employment in the economy. The responsibility for disproving this fallacious thought fell to Keynes. In the development of his General Theory he arrived at the conclusion that full employment was not a natural phenomenon which, due to unimpeachable natural laws, occurred automatically. On the contrary, he found that the level of employment could be at various positions which were determined by the interaction of various forces operating within the economy.[1]

Another important factor in the ratification of the Employment Act of 1946 was the stagnationist theory[2] which was present in the years immediately preceding the war and during the conflict. There was a widespread feeling among many economists that the United States had become a mature economy, and with the cessation of hostilities the economy would once again experience the depression which had plagued the United States during the thirties; that is, unless the Federal Government through fiscal policy aided in the prevention of such. The stagnationist argument based on, and combined with, the ideas developed by Keynes in his General Theory appears to have furnished much of the impetus for the passage of the Employment Act of 1946.

A question might be raised as to the extent of the influence of Keynes on the grounds that government programs

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[1]Dudley Dillard, The Economics of John Maynard Keynes (New York, 1948).

[2]Alvin H. Hansen, Full Recovery or Stagnation? (New York, 1938).

embodying fiscal policy were being used prior to the time he wrote his book. Admittedly, this is true; however, it seems that Keynes, in supplying a theoretical framework and/or rationale for the participation of government in economic matters, added considerably to the implementation of legislation of which the Employment Act of 1946 is a prime example. A theoretical framework provides four services. In turn, each of these facilitates policy decisions. First, by providing a general description of the cause-and-effect relationships in the economy, it gives policymakers a method of predicting the consequences of the actions their rules dictate. Second, the description of the determinants of economic events makes possible a larger variety of rules than might otherwise be available. Third, theoretical rigor demands specificity in question. This helps to clarify the precise nature of the goals sought and to clear up inconsistencies among them. Finally, theory provides policymakers with a standard of measurement for the objectives of policy. Without such standards and the resulting measurements, policymakers would not be able to evaluate their work.[3]

This thesis was undertaken as a result of a study of the current policies being pursued in conjunction with the Employment Act of 1946. There appears to be a vacillation from the

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[3]Barry N. Siegel, Aggregate Economics and Public Policy (Homewood, Illinois, 1960), p. 289.

original intent of the Act. At this time, whether this shift is thought to be advantageous or disadvantageous, recognition should be given to this modification.

It is contended herein that the Employment Act of 1946 was originally intended to serve as a tool whereby the smoothing and the easing of cyclical fluctuations of the business cycle could be facilitated. However, it now seems as though this tool has become one which is being used to correct those structural weaknesses (such as income distribution, tax equity, elimination of monopoly, and related items) which exist in the economy.

It should be mentioned that an assumption underlying the problem as presented is that it is possible to separate long-run policies and short-run policies. While secular trends are to a considerable extent dependent on short-run fluctuations, this does not necessarily imply that there should not be distinct policies devised with which to meet the difficulties encountered in short-run fluctuations. To the contrary, it would seem that due regard must be given to combating cyclical fluctuations before long-run policies can be expected to have substantial effect.

> Indeed, it is probably not far from the truth to say that a policy of growth must come after stabilization needs are taken care of; unless this is done, economic instability will negate the effect of any given long-term policy.[4]

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[4] *Ibid*., p. 297.

Before the Employment Act is discussed, it is necessary that cyclical fluctuation and structural weaknesses be defined in order to avoid any difficulties due to a misunderstanding. Wesley C. Mitchell and Arthur F. Burns made the following observation in regard to cyclical fluctuations:

> When we speak of observing business cycles [cyclical fluctuations] we use figurative language. For, like other concepts, business cycles can be seen only "in the mind's eye." What we literally observe is not a congeries of economic activities rising and falling in unison, but changes in readings taken from many recording instruments of varying reliability.[5]

The term structural weaknesses encompasses the following items: national security, income equality, eliminations of monopoly, better conservation of resources, tax equity, and other related items.[6]

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[5]Arthur F. Burns and Wesley C. Mitchell, Measuring Business Cycles (New York, 1946), p. 3.

[6]Siegel, Aggregate Economics, p. 297.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

THE ORIGINAL INTENT OF THE EMPLOYMENT ACT OF 1946

In the initial analysis of the Employment Act of 1946, in order to avoid needless repetition only its major aspects will be considered. If more specific information is desired, reference is made to Appendix A, which is a verbatim copy of the Act.

"To declare a national policy on employment, production and purchasing, and for other purposes" is the specific purpose stated in Public Law 304. Contained therein, for all intents and purposes, is the first commitment by the Federal Government to sustain the economy at a level of "maximum employment, production, and purchasing power." During the 1930's similar legislation had been passed. However, it was for the most part directed at specific sectors of the economy (especially agriculture). Of course, it was hoped that by buoying up a particular area such action would also add to the general stability of the economy in its entirety. Even in the light of this, it seems a justifiable presumption that the Employment Act of 1946 was the first such legislation of major consequences. A similar opinion is expressed in the following excerpt taken from an article written at the time of the passage of the bill:

> The act declares that it is the responsibility of the Federal Government to use all of its plans, functions, and resources toward creating and maintaining . . . useful employment opportunities. This is a comprehensive commitment, the most comprehensive ever made by the Government on this question.[1]

In the Introduction, mention was made that, since the passage of the Employment Act of 1946, there has been a gradual exodus from the original intent contained within the Act. Brief mention was also given concerning the original meaning; at this time, a more exhaustive analysis of the initial intent will be undertaken. Our analysis will also take into consideration those forces which motivated the passage of the Act; i.e., the economic philosophy upon which it is based, and the implications of this philosophy which tend to indicate that the Act was intended as a device whereby the fluctuations of the business cycle might be mitigated and/or mollified.

Nowhere in the Act can one find specific reference to the business cycle, or even less forceful words such as depression and prosperity. After a careful and thoughtful reading, however, this intent makes itself known.[2]

> For if, through constructive policies, the Nation were enabled to come closer to the attainment of maximum employment, production, and purchasing power, business depressions would to that extent have been filled up

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[1]Francis E. McMahon, "Plain Speaking," as cited in <u>Congressional Record</u>, Vol. XCII, Part X, 79th Congress, 2nd Session, p. A1287.

[2]<u>Report of the Joint Economic Committee on the Economic Report of the President</u> (Washington, 1947), p. 8.

> and turns of the cycle would have lost their former power to work hardships upon the people.[3]

One of the most important factors exerting itself in regard to the passage of the Act is the marriage between the economic doctrines of the thirties and American pragmatism. The result of this union manifests itself in the form of a process of mutual adjustment. This process represents a substantial portion of the philosophy underlying the Employment Act.

> The agents of government must diligently study and vigorously use a democratic and statesmanlike control of the purse to put a brake at certain points where boom forces develop dangerous trends, and to stimulate employment and production and support purchasing power when and where it becomes unduly depressed. Here Government must constantly face the same dilemma that every doctor--and every parent--faces. Calm adjustment must be exercised not to rush in fussily, ministering to small and temporary disturbances that would right themselves sooner and better if left to themselves. On the other hand, carelessness or ignorance must not keep Government from detecting serious symptoms promptly and initiating corrective measures with skill and decisiveness.[4]

This quotation serves well to demonstrate the position taken by the Federal Government in the passage of the Act. It also unfurls the Employment Act of 1946 into a broader and clearer perspective, adding substantial authentication to the premise that the Act was originally a decree to furnish the government a tool for the mitigation of and/or the modulation of the cyclical fluctuations of the business cycle.

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[3] *Ibid.*, p. 9.

[4] *Ibid.*, p. 18.

A plethora of material exists concerning the Employment Act of 1946. Although many of the statements and articles are concerned with the constitutionality of the Act, or with the moral question, i.e., government intervention, evidence can be found which tends to re-enforce our postulate concerning the original intentions embodied in the Act. The following is an excerpt taken from an editorial written at the time of the passage of the Employment Act in the Nashville Tennesseean:

> They [the American people] believe that the economic cycle can be forestalled, that millions are not foreordained and predestined to unemployment and insecurity, that the commitments of science and religion promise a real economy of abundance.[5]

Additional indication is gained from the following statement by Chester Bowles, who at the time of the passage of the Act was Chief Administrator of the Office of Price Administration. He said, "I believe that these boom and bust cycles, if permitted to continue, will eventually destroy our free enterprise system in spite of its achievements in the past and the unlimited contribution it can make to our future."[6] Alvin H. Hansen, then a professor at Harvard, had the following comment to make in relation to the Employment Act:

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[5]Editorial, Nashville Tennesseean, as cited in Congressional Record, Vol. XCII, Part I, 79th Congress, 2nd Session, p. A760.

[6]Chester Bowles, as cited in Congressional Record, Vol. XCI, Part XII, 79th Congress, 1st Session, p. A4006.

> The important step forward is that the Employment Act of 1946 proceeds on the general assumption that the Federal Government has the ultimate responsibility for creating and maintaining a general framework for economic activity conducive to the achievement of maximum employment. The law assumes that the way to deal with depression is not to wait until it has progressed beyond control, but to be forearmed with measures that will prevent it from becoming disastrous.[7]

Although business cylces and cyclical fluctuations are not mentioned per se, the implication of such is evident in Hansen's reference to the relationship between the law and a period of depression. Thus far, only the opinions of individuals have been cited in our attempt to verify the original intent of the Act. At this time, an illustration will be given which gives indication that the feeling concerning the Employment Act being a countercyclical device was widespread in its scope.

During the period after Congress had ratified the bill and before President Truman had signed it, the President received a letter signed by twenty-one national civic, labor, and veteran groups.[8] A paragraph from this letter reads as follows:

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[7]Alvin H. Hansen, Economic Policy and Full Employment, as cited in the Congressional Record, Vol. XCIV, Part II, 80th Congress, 2nd Session, p. 2024.

[8]A partial list of these groups is as follows: Veterans of Foreign Wars, National Planning Association, American Federation of Labor, Congress of Industrial Organizations, National Education Association, and American Association of University Women. The complete list may be found in the source cited in the following footnote.

> We are substantially convinced, and our opinion is substantiated by all public opinion polls, that the overwhelming majority of the American people are prepared to support the strongest possible legislation designed to assure the objectives of full employment and to avoid the periods of boom and bust which have heretofore marked the course of American history and which, if continued in the postwar period, can lead only to a national and international disaster.[9]

Perhaps the most conclusive evidence of the original intent of the Employment Act of 1946 is the following remark made by Senator James E. Murray of Montana. It was Senator Murray who had sponsored the bill in the Senate. He said, "Mr. President, the Employment Act of 1946 was a long step forward toward enabling the Federal Government to meet its responsibility in preventing booms and busts that threaten our private enterprise economy."[10] From the remark itself, it appears that our contention in regard to the Employment Act originally being intended as a countercyclical device to ease and smooth the cyclical fluctuations of the business cycle is, indeed, a plausible one.

The foregoing opinions all seem to point to the Employment Act of 1946 as being a countercyclical tool. This fact combined with the implied implications of the Act, i.e., the necessity of diminishing the effects of cyclical fluctuations if maximum employment, production, and purchasing

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[9] Congressional Record, Vol. IX, Part IX, 79th Congress, 2nd Session, p. A770.

[10] Congressional Record, Vol. XCIV, Part IV, 80th Congress, 2nd Session, p. 5103.

power are to be attained, appears to furnish ample foundation for the postulation that the Employment Act of 1946 was originally intended, and conceived, to serve the purpose of placing at the disposal of the Federal Government a tool with which to combat cyclical fluctuations.

In the introduction it was stated that there appears to be a vacillation from the original intent of the Act. This comment was the culmination of a study of the policy proposals submitted in pursuance to the Employment Act of 1946. Included in the study were all of the policy proposals submitted for the years 1955 through 1959. At this point, the purpose for mentioning the shift is to give an indication of nature. The modification which has taken place in the interpretation of the Employment Act of 1946 is that it now serves the purpose of correcting the structural weaknesses which exist in the economy. Evidence of this shift will not be given at this time. In subsequent chapters, analysis will be made of the forces perpetuating the shift, the policies which are a result of these forces, and the implications of the shift in regard to the attainment of economic stability.

CHAPTER II

THE MECHANICS OF THE EMPLOYMENT ACT

Before analysis is undertaken to determine the forces underlying the shift in the interpretation of the Employment Act of 1946, consideration will be given to the machinery created by the Act to assure its perpetuation. The following explanation consists of only the major components involved in the workings of the Act. If more detailed information is desired, it may be found in Appendix A.

To aid in the execution of the policies outlined in the declaration of policy of the Act, there was created (1) the Economic Report of the President; (2) the Council of Economic Advisers, an administrative body to assist and advise the President and aid him in the preparation of his report; and (3) the Joint Economic Committee, a Congressional Committee whose purpose it is to hold hearings on the report of the President, and after such, issue the Joint Economic Report which consists of a brief summary of the hearings and the presentation of any additional and/or supplementary policy proposals which the Committee deems necessary in the light of information acquired in the hearings.

The President's Economic Report

Originally, the Act declared that the President should submit his Economic Report on January 20 of each year. This provision of the Act was amended in 1956. Currently, the President is compelled to present his report at the beginning of each regular session of Congress. To be included in the Economic Report of the President are (1) the current level of employment, and that level of employment needed to perpetuate the policies stated in the declaration of policy; (2) current and foreseeable trends in the level of employment, production, and purchasing power; (3) a review of the Federal Government; and (4) a program including recommendations for legislation which will enable the execution of those principles laid down in the initial declaration of policy. In addition to the required annual report of the President, he is permitted to submit at his discretion any additional reports during the year. Explicit directions concerning the Economic Report of the President are relatively few. The Report for the most part consists of work done by the Council of Economic Advisers, with only a short introductory section set aside for the President's views. Of course, the views of the Council reflect to a great extent the views of the President.

The Council of Economic Advisers

Section 1023 of the Employment Act is concerned with the Council of Economic Advisers, its composition, its qualifications, and the selection of the chairman.[1] The Council is appointed by the President with the advice and consent of the Senate. As a criterion for the selection of each of its three members, the President is directed to consider their training, their attainments in the economic profession, and their experience in analyzing and interpreting economic developments. The Council upon appointment is, in turn, allowed to employ such experts and specialists as deemed necessary for the purposes of carrying out those terms as set forth in the Act.

The duties of the Council of Economic Advisers entail (1) assisting the President in the preparation of his Economic Report; (2) gathering information pertinent to the current and prospective position of the economy in the light of the goals stated in the Act; (3) appraising the programs and activities of the Federal Government in the light of the policy declared in the declaration of policy; (4) developing and recommending to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effect thereof, and

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[1]Originally, the Act prescribed that a chairman and a vice-chairman should be appointed. In a subsequent amendment the vice-chairmanship was eliminated, leaving only the position of chairman to be filled from among the three members making up the Council.

to maintain employment, production, and purchasing power;[2] (5) making such reports regarding current and prospective Federal Government policies as the President may request; and (6) submitting an annual report to the President in December of each year.

As a means of achieving the ends envisaged in the Employment Act of 1946, provisions are made which permit the Council use of the facilities of governmental agencies and private organizations which are involved in gathering facts pertinent to the economic picture.

The Joint Economic Committee

Another important piece of machinery created by the Act is the Joint Economic Committee, which is composed of fourteen members, seven from each branch of Congress. They are appointed by the respective leaders in the Senate and in the House of Representatives, according to the relative membership of the majority and minority parties.

The major function of the Committee is to hold hearings on the Economic Report of the President and, as a result of the information attained from these hearings, to issue the Joint Economic Report. In this report they are to include

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[2]Special recognition should be given to this particular duty in that it adds creditability to the premise that the Employment Act was originally intended to serve as a tool to mitigate or lessen the cyclical fluctuations of the business cycle.

any supplementary and/or any additional policy proposals they feel are necessary.

The Joint Economic Committee is authorized to hold any hearings which they deem to be necessary to the pursual of the objectives envisaged by the Employment Act of 1946.[3] Of course, this must be done within the limits of their budget, which is $125,000.

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[3]The reports which result from these hearings give an indication of the direction the shift in the interpretation of the Act has taken. Following is a brief list of some of the studies pursued in the hearings:

1. "Automation and Technological Change"
2. "Characteristics of the Low-income Population and Related Problems"
3. "Soviet Economic Growth: A Comparison with the United States"
4. "Policy for Commercial Agriculture: Its Relation to Economic Growth and Stability"
5. "Energy Resources and Technology"
6. "A Program for the Low-income Population at Substandard Levels of Living"
7. "Pension in the United States"

As will be noted, these studies are directed at structural weaknesses in the economy.

CHAPTER III

THE INFLUENCE OF THE DISPARITY OF POLITICAL THOUGHT BETWEEN THE REPUBLICAN AND DEMOCRATIC PARTIES

The purpose of this chapter is to examine one of the forces which has caused the proposed shift in the interpretation of the Employment Act of 1946. This force finds its origin in the disparity of political thought which exists between the Republican and Democratic parties. The ramifications of these divergent views have, at least in part, motivated the shift in thinking in respect to the Employment Act.

The Republican Party

The Republican party has traditionally adhered to the philosophy that government's role should be one of minimum interference in the workings of private sectors of the economy. Of course, during a period of severe recession or depression, this view is tempered to some degree or other. Generally, however, the Republicans do hold to this philosophy. They believe that the private sector of the economy operates best when there is a minimum amount of government intervention. The following quotation serves the purpose of indicating the foregoing belief: "Moreover, market forces themselves tend to correct many maladjustments [in the economy], and governmental policy must take into account the direction of these forces."[1] Further indication of the belief in minimum activity by the Government may be attained from the view expressed by Representatives Curtiss and Killburn (Republican members of the Joint Economic Committee) in a supplementary view to the Joint Economic Report:

> Certain overtones remain in the committee report though we have been gratified to have many that were in the original draft eliminated or muted, which carry the thought that somehow or other the Federal Government can plan and direct our economy. We are convinced that the best the Federal Government can do today is to serve the climate under which our private enterprise system can thrive. Perhaps someday men will be wise enough to move into the unknown through a system other than an enlightened trial-and-error system. But this day has not yet arrived. In essence, the private enterprise system is no more than a trial-and-error system, although many people seem not to appreciate it.[2]

An implication arising from the belief in minimum government interference is that, to a degree, cyclical fluctuations should be allowed to take place. There is evident an indication that the Republican party views some cyclical fluctuations as natural and necessary.

The Republicans' opinion in respect to natural fluctuations is evident in the following excerpt from a supplementary view to the Joint Economic Report. Concurring in this opinion were

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[1] <u>Economic Report of the President</u> (Washington, 1956), p. 29.

[2] <u>Joint Economic Report</u> (Washington, 1957), p. 32.

Senators Watkins, Goldwater, and Flanders, and Representative Wollcott (all Republican):

> And it is a characteristic of a healthy private enterprise economy that, simultaneously, we find as some industries experience negative cumulative movements, others experience positive cumulative movements, making for over-all stability and expansion.[3]

Additional evidence exhibiting this belief in natural fluctuations is found in the following quotation: ". . . a lessened rate of expansion does not imply stagnation; rather a mixture of cumulative movements up and down as required by the needs of individual industries."[4] Because the Republicans view these fluctuations as more or less natural, it re-enforces their belief that government should keep their "tinkerings" to a minimum.

It was also noted that the Republicans seem to feel that the fluctuations referred to in the preceding paragraph are necessary. This view stems from what they consider to be the prime "evil" with which the economy is faced. It is based on the fact that at high levels of employment and production inflation can become a serious threat to the economy. This "hair-curling" fear of inflation is evident in the Economic Reports of President Eisenhower and in the views expressed by the Republican members of the Joint Economic Committee. An excellent example of this fear is found in the 1958

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[3] Joint Economic Report (Washington, 1955), p. 45.

[4] Joint Economic Report (Washington, 1956), p. 57.

Economic Report. At the time it was submitted the economy was experiencing a sharp curtailment in production. President Eisenhower commented:

> The change in economic conditions called for adjustments in economic policies. During much of the year, the task of restraining inflationary pressures was paramount and policies were directed at this end. In the closing months and currently, the task has been to facilitate readjustments in the economy essential to the redemption of sustainable economic growth, but to do so without reviving inflationary pressures.[5]

Another opinion stated in the 1958 Economic Report expressed the fear of inflation:

> When resources are close to being fully used, even though there may be slack in some sectors of the economy, expansion normally proceeds at a slower pace. Efforts to accelerate growth in these conditions may succeed only in generating inflationary pressures.[6]

A prime example of the Republican view on inflation is offered in the following quotation taken from a supplementary view to the Joint Economic Report. Republican Representative Curtiss had the following comment to make in regard to the "pressing" problem of inflation.

> I believe it is important to emphasize that inflation is a form of taxation, indirect and hidden. . . . continued deficit financing means a continuation of this form of taxation which I believe proper study will reveal is the form potentially most dangerous and damaging to any society.[7]

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[5]Economic Report of the President (Washington, 1958), p. iii. The underscoring has been added for emphasis.

[6]Ibid., p. 3.

[7]Joint Economic Report (Washington, 1955), p. 76. The underscoring has been added for emphasis.

Because of the belief of the Republican party in respect to the role of government and their fear of the effects of inflation, they have favored the use of monetary policy as a means of attaining economic stability. This idea is expressed, in part, in the following remark: "Republicans usually lean more toward the use of monetary policy because of their inherent distrust in the intervention into such matters by the government."[8] The two following quotations give further support to the thesis that Republicans place extreme emphasis on the use of monetary policy to attain economic stabilization:

> Although conditions in the latter part of 1954 did not call for a policy of restraint, a mild change in the degree of credit ease seemed desirable in the light of the unfolding economic situation. Accordingly, the Federal Reserve System restricted the purchases of Government securities in 1954. This action made it necessary for commercial banks to increase their borrowings to meet the unusually large increase in year-end currency and credit demands. It also placed the monetary authorities in a better position to move toward a policy of restraint if economic conditions should warrant it. This move exemplified one of the advantages of general monetary and credit policies; they can be adjusted gradually and, if need be, promptly reserved to meet changing economic conditions.[9]

> In contrast to large-scale public works, monetary and credit policy, used vigorously, can produce a prompt and significantly helpful result. Although the

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[8]Louis Share, Hearings before the Joint Economic Committee on the Economic Report of the President (Washington, 1957), p. 477.

[9]Economic Report of the President (Washington, 1956), p. 29.

> easing of credit does not affect all parts of the economy to the same degree, it works broadly, is promptly reversible, and makes its impact felt without entailing direct governmental intervention in affairs of business concerns and individuals.[10]

At this point further discussion of the Republican party will be delayed. Attention will now be directed at the Democratic party and the philosophy which underlies its beliefs and actions. Upon completion of this examination, our attention will be focused upon the conflict which has arisen due to the difference of political thought between the two parties, and its impact on the Employment Act of 1946.

The Democratic Party

The Democratic party, in contrast to the Republican party, had consistently adhered to the philosophy that government should take an active role in those matters which concern the general welfare of the nation. One of the main reasons underlying, and related to, this belief in active government intervention appears to stem from the view that the absence of full employment in economy is highly undesirable and should be dealt with accordingly. This feeling can be seen by the following opinions expressed by the Democratic members of the Joint Economic Committee.

In a supplementary view to the 1955 Joint Economic Report, the Democratic members had the following comments

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[10] Economic Report of the President (Washington, 1959), p. 2.

to make in regard to the problem of unemployment: "First, we note that recent increases in almost all cases have not returned economic activity to prerecession levels. The first task is to gain back the remaining lost ground."[11] Although they do not refer specifically to unemployment, it is evident that the implication is there. Just a few sentences after the preceding remark was made, they said:

> It is a cause of deep concern that unemployment in February, 1955, was only about 300,000 below February, 1954, a reduction of 8 per cent only. . . . the reduction in unemployment is not commensurate with the recovery in production.[12]

In the 1959 Joint Economic Report the following view was expressed:

> On the basis of the present economic outlook, principal emphasis in public policy this year should be placed on prompt and full recovery from the 1957-58 recession. Achieving maximum employment and production, therefore, should be given the highest priority.[13]

Again, the view is expressed that unemployment is some sort of "evil" of which the economy must rid itself.

The most explicit opinion on employment and its importance is found in the following excerpt taken from a supplementary view to the Joint Economic Report and submitted by Senators Douglas, Sparkman, and O'Mahoney, and Representatives Patman, Bolling, Mills, and Kelley (all Democrats):

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[11] Joint Economic Report (Washington, 1955), p. 10.

[12] Joint Economic Report (Washington, 1955), p. 11.

[13] Joint Economic Report (Washington, 1959), p. 3.

"Emphasis upon fighting an inflation 'straw man' at the expense of what should be the primary objectives of economic policy--maximum employment and purchasing power--accounts for the disturbing level of unemployment."[14]

Resulting from the fear of unemployment, exhibited by the Democrats, is the means whereby this problem may be alleviated. This is the use of fiscal policy as a means to promote economic stability and, in turn, enhance full employment. This reliance upon fiscal policy can be seen in the following quotation taken from a supplementary view to the 1955 Joint Economic Report. It was submitted by seven of the eight Democratic members on the Joint Economic Committee.

> The importance of flexible tax policy to meet the needs of economic stability and growth cannot be overemphasized. While present indications point toward recovery from the reduced levels of activity of 1953-54, fiscal policy must recognize that this upturn has yet to demonstrate its strength. If the Economic Report's expectations fail to materialize, or if economic activity turns down, we must be prepared to turn quickly to immediate tax relief . . .[15]

A flexible tax policy represents only one of the tools of fiscal policy. The Democrats also propose other tools to be used as a means of implementing full employment. This can be seen in the following criticism directed at the Eisenhower administration by the Democratic members of the Committee:

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[14] Ibid. (1955), p. 10.

[15] Ibid., p. 29.

> The administration's claim that it extended the automatic countercyclical workings of the fiscal system is grossly exaggerated. It is true that some improvements were made in the various State employment insurance programs. These are welcome. But the major needed improvements--increasing the amount and duration of weekly benefits--have not been energetically promoted by the administration.[16]

Once again, the Democrats are seen leaning toward the vigorous use of fiscal policy. In this instance, the Democratic preference for fiscal policy as a means for achieving economic stability was evident in their criticism of what they viewed as sluggishness on the part of the administration in meeting its fiscal obligations.

The Conflict

In the preceding analysis, the Democratic party's views in respect to unemployment and fiscal policy have been noted briefly. These views do, indeed, furnish a contrast to those expressed earlier by the Republican party. It is this disparity of thought which has been one of the factors contributing to the shift in the interpretation of the Employment Act of 1946.

It should be noted that the sources which have supplied the various opinions expressed by the Republicans and Democrats have been the Economic Reports of the President (1955-59) and the Joint Economic Reports (1955-59). This in itself

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[16] *Ibid.* (1956), p. 31.

tends to suggest that the disparity of thought existing between the two parties has had some influence on the shift in the interpretation of the Act in that the differences are present in the machinery created for its implementation.

It was noted in the examination of the Democratic and Republican parties that each favors a different means for attaining economic stability. The Democrats favor the use of vigorous, fiscal policy. In contrast, the Republicans favor the use of monetary policy. Arising from this bias on the part of each has been a conflict on how to use the Employment Act as a countercyclical device. This conflict is evident in much of the preceding material.

Conflict within the Joint Economic Committee

Mention has just been made that much of the preceding material in this chapter is indicative of the conflict arising between the Republicans and Democrats. As a means for re-emphasis, a reiteration will be made in regard to the quotations which best demonstrate this difference. In a supplemental view to the Committee report, Republican Representative Curtiss expressed the following opinion:

> I believe it is important to emphasize that inflation is a form of taxation, indirect and hidden . . . continued deficit financing means a continuation of this form of taxation which I believe proper study will reveal is the form most potentially most dangerous and damaging to any society.[17]

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[17] *Ibid*. (1955), p. 76.

In the same report the following opinion was voiced in a supplemental view submitted by seven Democratic Committee members: "Emphasis upon fighting an inflation 'straw man' at the expense of what should be the primary objectives of economic policy--maximum employment and purchasing power--accounts for the disturbing level of unemployment."[18]

Especially significant is the fact that the conflict just cited, and as exhibited by other opinions noted earlier, has been confined to the supplemental views rather than the report submitted by the Committee as a whole. This tends to suggest that those policies recommended in the unanimous report have resulted, in part, from an attempt to find a common ground upon which both the Democrats and the Republicans could reach agreement. This idea of reconciliation and/or compromise is indicated in a quotation from one of the unanimous reports submitted by the Committee:

> Extensive discussion of the President's Economic Report suggests a myriad of detail on which we disagree. Supplementary statements of committee members discuss those differences. But our deliberation indicates important areas upon which we agree both to interpretation of past, present, and foreseeable economic conditions, and as to appropriate economic policy for the future.[19]

This view is expressed again in 1956 and in 1957:

> In spite of the inevitable differences of opinion as to details, timing and emphasis, we find important

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[18]*Ibid.*, p. 10.

[19]*Ibid.*, p. 1.

> points upon which members of the committee agree as to current economic condition and appropriate policy for the future.[20]
>
> The committee finds important points upon which it agrees with respect to problems and policies suggested by economic prospects for the months ahead, despite differences in viewpoint as to details timing and emphasis.[21]

Before cognizance is taken of the common ground found by the Republican and Democratic members, another conflict of significance might be mentioned.

Conflict between the Democratic Majority and the President

The conflict between the Republican President and the Democratic majority has also been indicated by material earlier in this chapter. It will be recalled that President Eisenhower shared the fear of inflation exhibited by the Republican members of the Joint Economic Committee. He also placed a great deal of reliance upon monetary policy as a tool for economic stability.[22] These views expressed by President Eisenhower have not gone unnoticed by the Democratic members of the Committee. In a supplemental view by the Democrats the following criticism was voiced. "The fear of anticipated price rises and the fear of anticipated inflation

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[20] Ibid. (1956), p. 2.

[21] Ibid. (1957), p. 2.

[22] See pp. 15-16 and pp. 17-18.

have obviously had greater weight in the minds of authorities [the Administration] than actual facts."[23] By actual facts they were referring to the fact that unemployment was only about 300,000 below what it had been in February of the preceding year.[24] In the same year (1955) in a supplemental view of Democratic Representatives Patman, Bolling, Mills, and Kelley the following opinion (fear) was expressed: "General measures of monetary restraint run the risk of choking off full recovery from the low levels of the 1954 recession."[25]

Another point of disagreement between the President and Democratic members of the Committee resulted from the absence of specificity in the President's estimates of the levels of employment, production, and purchasing power. Prompting this criticism have been statements by the President which are as follows:

> If all live up to these responsibilities, the capacity of our economy to provide the high levels of employment, production, and purchasing power envisaged by the Employment Act, and broadly attained in the past year, will be further enhanced.[26]
>
> Taking recent developments all together, it is reasonable to expect that high levels of production,

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[23]*Joint Economic Report* (Washington, 1955), p. 24.

[24]See p. 19.

[25]*Joint Economic Report* (Washington, 1955), p. 42.

[26]*Economic Report of the President* (Washington, 1957), p. vii.

> employment and income will be broadly sustained during the coming year, and that underlying conditions will remain favorable to further economic growth.[27]

In criticism of this vagueness the Democratic members of the Joint Economic Committee stated the following feelings on the matter in a supplemental view:

> How can this committee and the public intelligently evaluate the President's Economic Report if the report does not contain numerical estimates of the levels of employment production and purchasing power needed to carry out the act's objectives, together with foreseeable trends in the economic activity as contemplated in the act.[28]
>
> Since first taking office this administration has consistently ignored the explicit directive of the Employment Act to set forth the levels of employment, production and purchasing power needed to carry out the objectives of the act.[29]

Although the foregoing criticisms do not explicitly refer to full employment and the use of fiscal policy to attain this goal, it would seem that proper inference would yield such ideas in the light of the views consistently held by the Democratic members of the Committee. Again, that these opinions were expressed in supplemental views thus tending to suggest that the unanimous opinion emanating from the Joint Economic Committee is a common ground upon which the conflicting views of the Democrats and Republicans may be reconciled.

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[27] Ibid. (1956), p. vi.

[28] Ibid. (1955), p. 13.

[29] Ibid. (1956), p. 39.

The common ground just referred to, and also mentioned in respect to the conflict within the Committee, is a means whereby the economy might attain economic stability in the long run. Rather than attempt to achieve this goal through countercyclical tools such as monetary and fiscal policy, the Committee has suggested policies by which the structural weakness in the economy may be removed and, in turn, bring about the desired stability. Although specific proposals will not be mentioned at this point, some of the areas at which these measures are directed might be noted. They are: national defense, aid to depressed areas, elimination of monopoly, income equality, and related policies.[30] The important aspect of these policy proposals is that they are not congruous to the original intent of the act, i.e., they are not countercyclical tools. They are the result of one of the factors perpetuating the shift of which they are, in turn, representative; namely, the existence of the disparity of thought between the Republican and Democratic parties.

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[30]For specific citation of some of these proposals, see Chapter VI, pp. 77-78.

CHAPTER IV

THE EFFECT OF THE TIME LAG ON MONETARY AND FISCAL POLICY

The purpose of this chapter will be to analyze a second force exerting an influence on the shift in interpretation of the Employment Act of 1946. The force to be discussed is directly related to monetary policy and fiscal policy, and the comparative advantages and disadvantages of each as a countercyclical device. However, due to its effect on both types of policy, it warrants special attention. This force is the time lag. It will be discussed in the light of its influence on the retardation of monetary policy and fiscal policy as countercyclical tools.

In an article entitled "The Limitations of Monetary Policy," Warren L. Smith suggests there are in existence three distinct time lags.[1] These are (1) the recognition lag, (2) the administrative lag, and (3) the operational lag. These three affect both monetary and fiscal policy and, in turn, the effectiveness of the Employment Act as a countercyclical tool.

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[1]Warren L. Smith, "The Limitations of Monetary Policy," American Economic Review (September, 1956), p. 605.

The Recognition Lag

First is the recognition lag, i.e., the time that elapses between the need for action and recognition of the need. It is quite obvious this particular time lag is the same for both monetary and fiscal policy.

For many years it has been the modus operandi for businessmen to attempt to predict future economic conditions. Some have based their predictions on sunspots, the hog market, and other so-called economic barometers. However, their forecasts have been anything but successful. With the advent of the thirties, emphasis began to be placed on a scientific approach to economic forecasting. It was hoped that through the collection of data, and through the subsequent analysis and interpretation of the data, that some insight into the workings of the business cycle might be acquired. Studies of this type are still being undertaken in order to lessen the problem of the recognition lag.

There are numerous difficulties which arise when attempting to forecast future movements of the business cycle (and thereby decrease the time of the recognition lag). One of the first problems to arise is the difficulty of placing oneself in the proper perspective of what is actually being observed.

> When we speak of observing business cycles we use figurative language. For, like other concepts, business cycles can be seen only "in the mind's eye." What we literally observe is not a congeries of economic activities rising and falling in unison, but changes in readings taken from many recording instruments of varying

> reliability. These readings have to be decomposed for our purposes; then one set of components must be put together in a new fashion. The whole procedure seems far removed from what actually happens in the world where men strive for their living. Whether its results will be worth having is not assured in advance; that can be determined only by pragmatic tests after the results have been attained.[2]

The preceding statement was made by Arthur F. Burns and Wesley C. Mitchell while they were attempting to compile a set of statistical indicators which would aid in the prediction of approaching economic conditions. The method used by Burns and Mitchell and by others has been to try to find specific economic activities which either lead, coincide roughly with, or lag in relation to the economic upswings and downswings for the economy as a whole. The search for such indicators has been neither easy nor fully successful. Geoffrey H. Moore, in a paper entitled "Statistical Indicators of Cyclical Revivals and Recession," suggests five qualities which would be present in the ideal indicator. These are: (1) it [the statistical indicator] would cover a century or longer, thus showing its relation to business cycles under a variety of conditions; (2) it would lead the month around which cyclical revival centers by an invariable interval--say, three months, or better, six months; it would also lead the central month of every cyclical recession by an invariable interval, which might differ from the lead at

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[2]Arthur F. Burns and Wesley C. Mitchell, Measuring Business Cycles (New York, 1956), p. 14.

revival; (3) it would show no erratic movements; that is, it would sweep smoothly up from each cyclical trough to the next cyclical peak and then sweep smoothly down to the next trough, so that every change in the direction would herald the coming of a revival or recession in general business; (4) its cyclical movement would be pronounced enough to be readily recognized, and give some indication of the relative amplitude of the coming change; and (5) it would be so related to general business activity as to establish as much confidence as the nature of such things allows that its future behavior in regard to business cycles will be like its past behavior.[3]

In all of the studies undertaken, no indicator has been found which exhibits the five qualities mentioned above. It is unlikely that such an indicator exists. However, through the use of a set of indicators, there is a possibility that such a group might exhibit these qualities, thereby enabling a more accurate prediction of trends which are developing in the economy. And as our understanding of statistical indicators increases, it might afford a greater resistance to the hardships imposed by the business cycle.

Most of the work thus far completed in selecting a set of statistical indicators has been done by the National Bureau

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[3]Geoffrey H. Moore, <u>Statistical Indicators of Cyclical Revivals and Recessions</u> (New York, 1950), p. 20.

of Economic Research. In the latter part of the thirties, the Bureau was authorized by the Government to begin research to find some indicators which would foretell future turns of the business cycle. Burns and Mitchell, cited earlier, were in charge of the project. As a result of their work they compiled some eighty indicators that enabled them to approximate roughly an approaching change in the direction of the business cycle.

More recent work in regard to the problem of statistical indicators has also been done under the auspices of the National Bureau of Economic Research. Figuring most prominently in this research is Geoffrey H. Moore.[4] He began where the previous studies had ended. As a result of his efforts, he developed a new set of statistical indicators, consisting of twenty-one indicators.

Moore divided this group into three categories: the leaders, the coinciders, and the laggers.

> The leaders' function is to give notice when the economy is about to change direction; the coinciders', to indicate a turning point; a turn in the laggers confirms that the cycle is in its new phase and gives a sign to watch for harbingers of the next reversal.[5]

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[4]See preceding footnote.

[5]Henry M. Platt, "Economic Indicators: Their Use in Business Forecasting," Tuck Bulletin 21, Hanover, Amos Tuck School of Business Administration, p. 6.

Of the twenty-one specific cycles, eight of the indicators are leaders, eight are coinciders, and five are laggers.[6]

The leaders are:

Number of new corporations

New order, manufacturers' durable goods

Industrial--stock prices

Wholesale prices--basic commodities

Commercial--and industrial construction contracts (floor space)

Average work week, manufacturing

Business failures (total liabilities).

The coinciders are:

Production (Federal Reserve Board Index)

Nonagricultural employment

Unemployment

Bank debits (outside New York City)

Freight carloadings

Wholesale prices (except for farm and food products)

Corporate profits

Unemployment

Bank debits (outside New York City)

Freight carloadings

Wholesale prices (except for farm and food products)

Corporate profits

The Gross National Product.

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[6] _Ibid_.

The laggers are:

Personal income

Consumer installment debt

Bank rates on business loans

Manufacturer inventories

Retail sales.

Each of the three categories has several traits. Most of the indicators in the category of leaders are some form of investment. These are also based to a large degree on expectations. The expectations may be wrong, but if they are widely accepted they tend to insure their own fulfillment.[7]

In the case of those indicators which coincide roughly with the movements of economic activity in general, they do so because they either (1) directly measure broad phases of economic activity (for example, industrial production and nonagricultural employment) or (2) have to do with transporting goods or financing goods and production.[8]

The laggers are a result of the general attitude of business and consumers. In the case of personal income there is a lag because its components (such as wages and salaries) are usually not cut until a definite downward trend has been established.[9] Retail sales are also influenced by the lag

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[7]*Ibid*., p. 7. [8]*Ibid*.

[9]*Ibid*., p. 8.

in the reduction of wages and salaries. In addition to this fact, the public tries to maintain its former level of spending for as long as possible; in many instances, even to the point of dissaving.[10] In respect to interest (bank rates on business loans), another lagger, banks are usually hesitant to embark upon new policies until a fairly definite trend can be observed.

The development of the preceding set of statistical indicators is, indeed, a step in the right direction. Even though its ability to see coming changes in business activity is limited, it can help in reducing the recognition lag. Moore gives some indication of its usefulness in the following quotation:

> While the study has, we hope, contributed something to render guesses about the future course of business less hazardous, we find little to justify more optimism than Mitchell and Burns expressed. Our impression is that forecasts of revivals and recessions by means of materials and approaches described in this paper will be subject to . . . difficulties. . . . Nevertheless, there is some ground for confidence that objective use of these methods will at least reduce lag in recognizing revivals or recessions <u>that have already begun</u>. If after an expansion in a group of roughly coincident series several begin to decline, careful study of recent behavior of a group of leading series may yield convincing evidence that the decline is not cyclical and that a recession is or is not underway. True, this is forecasting of a sort. But it is forecasting with a highly important element of confirmation, which works in two directions. The behavior of the roughly coincident

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[10]For a theoretical explanation of this idea, see James S. Duessenberry, <u>Income, Savings, and the Theory of Consumer Behavior</u> (New York, 1949).

> series confirms or fails to confirm that of the leading series, and vice versa. Some clue to the prospect that the emerging expansion or contraction will be comparable in magnitude to previous cyclical movements may be given to the extent to which it is already diffused among the processes being examined.[11]

The Administrative Lag

The second time lag suggested by Smith is the administrative lag, i.e., "the time that elapses between the recognition of a need for action and the taking of action."[12] Unlike the recognition lag, it does not have an identical effect on monetary policy and on fiscal policy. Due to the nature of the two bodies which administer each, there arises a difference in the period of time needed to take action in regard to inflationary or deflationary forces. In the case of the administrative lag, monetary policy and fiscal policy must be considered separately.

The Administrative Lag and Monetary Policy

Monetary policy is usually regarded as being less affected by the administrative lag. For the most part, this opinion results from the nature of the body which directs monetary policy, i.e., the Federal Reserve System.

The Federal Reserve was set into motion with passage of the Federal Reserve Act on December 23, 1913, under the Wilson Administration.

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[11]Moore, Statistical Indicators, p. 77.

[12]Smith, "Monetary Policy," p. 605.

> Its original purposes, as expressed by its founders, were to give the country an elastic currency, to provide facilities for discounting commercial paper, and to improve the supervision of banking. From the outset, there was recognition that these original purposes were in fact integral parts of a broader objective; namely, to help counteract inflationary and deflationary movements, and to share in creating conditions favorable to sustained high employment, stable values, growth of the country, and a rising level of consumption.[13]

With these goals in mind, the structure of the Federal Reserve System will be observed and compared to the administration of fiscal policy. A clearer picture will thus evolve of the relative time required in the initiation of actions by these two agencies.

The two specific parts of the structure of the Federal Reserve System at which study will be directed are the Board of Governors and the Open Market Committee. Others, such as districting, service functions, and advisory boards, will be omitted.[14]

The Board of Governors consists of seven members appointed by the President and confirmed by the Senate. Their tenure of office is fourteen years. The terms of the members are set up so that one expires every two years.[15] In addition

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[13]Board of Governors, The Federal Reserve System: Purposes and Function (Washington, 1954), p. 1.

[14]If such information is desired, attention is directed to the booklet, published by the Board of Governors, cited in the preceding footnote.

[15]Board of Governors, Federal Reserve System, p. 78.

to the mechanical functions of directing the Federal Reserve System, the Board has two major functions: (1) the authority to change reserve requirements within the limits specified by Congress, and (2) the authority to approve, or disapprove, the rediscount rates established by the twelve Federal Reserve Banks.

The Open Market Committee is comprised of the seven members of the Board of Governors and five representatives elected by the Federal Reserve Banks. Its function is the management of the System's portfolio of Government securities. It has final authority in such matters, and the Reserve Banks are required by law to pursue the open market operations initiated by the Committee.[16]

<u>The effect of the administrative lag on the Board and on the Committee</u>.--The Board of Governors devotes full time to the duties prescribed by the Federal Reserve Act, thus being ready to make adjustments in policy as soon as the need to do so is recognized. This, combined with the autonomous nature of the Board of Governors, tends to minimize the time lost as a result of administrative procedure.

The Open Market Committee meets about every three weeks, or oftener. This fact also reduces the amount of time lost to administrative procedure, and thereby tends to lessen the administrative lag.

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[16] *Ibid.*, p. 80.

To demonstrate the effects of the administrative lag on monetary policy, courses of action during the 1957-58 recession will be observed. Throughout the first two quarters of 1957, most sectors of the economy were either expanding or exhibiting a relative degree of stability. In the latter part of the third quarter (September), signs began to come to the surface which indicated a slackening in economic activity for some parts of the economy. Stock-sales ratios were higher in September than in preceding years. Purchases of major appliances such as refrigerators began to decline. By October, the first month of the fourth quarter, employment had declined to 52.5 million (seasonally adjusted). This was 300,000 below the August level.[17] As this decline became more evident, monetary authorities began to adjust the controls at their disposal. On November 14, the Board of Governors approved actions by four of the Federal Reserve Banks in decreasing the rediscount rate in their districts. Similar action by the eight remaining Reserve Banks was approved by the Board in the ensuing two weeks. This decrease in the rediscount rate was followed by actions of the Open Market Committee in mid-December. The Committee at that time authorized the purchase of Government securities from the open market.

As the outlook for economic activity grew progressively worse, the Board of Governors took further action. In

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[17] Federal Reserve Bulletin (Washington, November, 1957), p. 1228.

February, 1958, they lowered the reserve requirement. This was followed by similar action in April and May.

At this point, the effectiveness of the actions taken by the Board of Governors and by the Open Market Committee will not be questioned. The foregoing description of their actions is used only to demonstrate the minimum time necessary for the Board and the Committee to put their policies into action.

The Administrative Lag and Fiscal Policy

Fiscal policy is more affected by the administrative lag than monetary policy. It does not have the advantage of being administered by one central body. Rather, it is disseminated through various channels of the administrative and legislative branches of the Government. This fact alone tends to suggest that fiscal policy will be more susceptible to the administrative lag, i.e., "the time that elapses between the recognition of a need for action and the taking of action."

The legislative process.--Adding intensity to the effect of the administrative lag on fiscal policy is the legislative process. Many of the measures intended to counteract cyclical pressure in the economy are subject to this process. They must run the time-consuming gauntlet of dissension which rises from the various factions present in Congress. An example of this difficulty is shown in the following illustration, typifying the procedure through which a bill must go.

The bill under consideration is H.R. 12065 or the Temporary Unemployment Compensation Act of 1958. The purpose of the law was to authorize temporary unemployment benefits for individuals who had exhausted their unemployment insurance and also to extend coverage to those who were employed in noncovered employment. It provided up to sixteen additional weeks of employment compensation to the above-mentioned groups. The steps this bill underwent are more or less typical of the legislative process.

The bill was first introduced on April 22, 1958. At this time it was referred to the proper committee; in this case, the Committee on Ways and Means. In many instances a bill is stopped at this point if the opposition has enough strength in the Committee to keep it from coming before Congress for a vote. In the case of the Temporary Unemployment Act, this pitfall was avoided because the proponents were in the majority; and, to some degree, because of its nonpartisan nature. It was not, however, completely free from bipartisanship.

Once on the floor of the House the effects of partisanship on the bill become more evident. Much of the resulting debate, rather than being directed at the strengths and/or weaknesses of the bill, was the result of party affiliations.

The following quotations reflect this element of partisanship. Republican Representative Allen from Illinois voiced this opinion: "I was against school construction or Federal Aid to education for the same reason that I am opposed to this measure. I feel that both are the responsibility of the several States."[18] His Republican colleague Charles Halleck (Indiana) took the following position in regard to H.R. 12065: "After all, the ultimate solution to any problem like this [a recession] that confronts us is not a dole, but is a matter of real jobs for the people who seek employment."[19] Presenting the opposite side of the picture is Democratic Representative McCormack:

> Mr. Speaker, my mind goes back thirty years in this body, back to the time when I was one of the members of the Committee on Ways and Means who helped frame the Social Security Act. My mind goes back to the time when that bill came up. Some of the same members who spoke today in opposition to the pending bill, talking about a dole and socialism, advanced the same argument then. They represent the forces of status quo; honest, but if our Government was ever in their control, God help it.
>
> It is the old battle of the forces of progressive outlook against those of status quo, the old battle of service to the people in view of changed conditions. I can remember the same forces opposing the minimum wage bill, even elimination of the exploitation of child labor. The faces might be different to some extent, although some are still here. They talked about socialism then; they talked about a dole.[20]

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[18] Congressional Record, Vol. CIV, Part VI, 85th Congress, 2nd Session, p. 7746.

[19] Ibid., p. 7749. [20] Ibid., p. 7751.

Also adding to the delay in the passage of the Temporary Unemployment Compensation Act was an attempt--and, it might be added, a successful one--to amend the Act whereby the States participating in the program would be required to pay back a portion of the money over an extended period of time. Following this, the bill was ready for a final vote. It was passed 372 to 17, with forty members not voting.

Further tracing of the passage of H.R. 12065 will not be pursued. The next step would be the forwarding of the Act to the Senate. There, it probably encountered many of the same difficulties as it did in the House of Representatives. If the Senate gives its approval, the bill is then sent on to the President. If the President gives his approval, the bill then becomes law. This was the case in regard to the Temporary Unemployment Compensation Act of 1958. It became Public Law 441 on June 4, 1958. However, six weeks (April 22, 1958, to June 4, 1958) had passed since it was first introduced. This interlude represents the limitation which the administrative lag can, and does, place on fiscal policy in respect to its effectiveness as a countercyclical tool.

The administrative lag in respect to fiscal policy and in respect to monetary policy has been discussed at some length. As has been demonstrated, the time lag between the recognition of the need for action and the taking of action is somewhat longer for fiscal policy than for monetary policy. The main reason for this difference emanates from the nature of the agencies which have the responsibility for enacting the policies of each; specifically, monetary policy as administered by the Federal Reserve System, and fiscal policy as administered by the Congress and the President.

The Operational Lag

The third time lag suggested by Smith is the operational lag, i.e., "the time elapsing between the taking of action and the effective impact of that action on the economic situation."[21] Both monetary and fiscal policy are vulnerable to the operational lag. This is true in varying degrees for each. The nature of the specific action has a considerable amount of significance if the effect of the operational lag on it is to be determined. For example, the effect of the operational lag on a government expenditure for public works would be determined by the size of the expenditure and by the method of its apportionment. Generally speaking, this would also hold true in respect to monetary policy. This topic will be developed further as the analysis of the operational lag is undertaken.

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[21]Smith, "Monetary Policy," p. 605.

The Impact of the Operational Lag on Monetary Policy

In determining the impact of the operational lag on monetary policy, consideration must be given the manner in which monetary policy affects economic activity. "Monetary policy's first impact is on the asset structure and only through this structure does it . . . affect the income stream."[22] This is to say that its first effects come in the form of an increase in loanable funds. This does not, however, guarantee the use of these funds in an income and employment generating capacity. In February of 1958, for example, the Board of Governors decreased the reserve requirement. As a result of this action, 500 million dollars were released from required reserves and became loanable funds.[23] Business loans for the month of February were 30.4 billion dollars.[24] This was a decrease of .2 billion dollars from the preceding month.[25] This gives some indication of the ineffectiveness of monetary policy in stimulating investment. To try to determine the effectiveness of the Federal Reserve during a period of inflation, observation will be made of the actions of the Open Market Committee during the first six months of 1957.

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[22] Ibid., p. 606.

[23] Annual Report of the Board of Governors (Washington, 1958), p. 33.

[24] Council of Economic Advisers, Economic Indicators (Washington, December, 1958), p. 27.

[25] For further information along this line, see Table II in the following chapter.

Open market operations for the first six months of 1956 consisted of the reduction of the System's holdings in Government securities by about 1.8 billion dollars.[26] Among other things, this was done to limit credit expansion. During this period of six months, business loans increased from 30.3 billion dollars to 32.5 billion dollars, a total increase of 2.2 billion dollars.[27] This tends to suggest that monetary policy also suffers from the operational lag when pursuing a policy of credit restraint. Some indication has been gained concerning the impact of the operational lag on monetary policy. Consideration will now be given to the impact of the operational lag on fiscal policy.

The Impact of the Operational Lag on Fiscal Policy

"The great advantage of fiscal policy is that it has a direct and powerful impact on the income stream."[28] Citation of the Temporary Unemployment Compensation Act of 1958, mentioned earlier in another connection, might help in explaining the foregoing quotation. Once the bill became law, it probably had an immediate effect on the income of the recipients of the additional compensation. The main factor retarding its effect would be the time necessary to set

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[26]Board of Governors, Annual Report of the Board of Governors (Washington, 1957), p. 32.

[27]Economic Indicators (Washington, January, 1958), p. 27.

[28]Smith, "Monetary Policy," p. 606.

up the machinery whereby the funds could be dispersed. Relatively speaking, this would be of short duration.

Another situation which might be conceived to illustrate the impact of the operational lag on fiscal policy is one where a tax reduction (increase) is used to counteract deflationary (inflationary) pressures. Such tax manipulation would have a direct impact on the income stream. Of course, this impact would depend a great deal on the size of the tax reduction (increase).[29]

From the foregoing examination of the operational lag, it appears that the monetary policy is more subject to the restrictions imposed by the operational lag than is fiscal policy. Direct issue with this question will not be taken at this time. More important at this juncture is the fact that monetary and fiscal policy are affected by the operational lag. This, in turn, suggests a limitation to their effectiveness as countercyclical tools. This fact also furnishes a broader perspective of the shift from the original intent of the Employment Act of 1946 to its current interpretation.

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[29]For further discussion of taxation as a countercyclical tool, see p. 63.

CHAPTER V

THE LIMITATIONS OF MONETARY AND FISCAL POLICY AS COUNTERCYCLICAL TOOLS

The significance of time lags for the effective implementation of monetary and fiscal policy has been examined in order to illustrate one important influence which has led to the modification of the original intent of the Employment Act of 1946. The factor of the time lag is, however, only one of the forces which impair the effective utilization of monetary and fiscal policy as deterrents to cyclical fluctuations. It will be the purpose of this chapter to analyze other weaknesses of these two tools.

The Tools of Monetary Policy

It was noted in Chapter IV that the Federal Reserve System is the chief administrator of monetary policy.[1] From

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[1]Although this is technically correct, the Federal in many instances is handicapped by monetary influences not within its control. Some of these are the volume of monetary gold and silver stocks, the volume of Treasury currency, and the volume of Treasury balances with the Federal Reserve Banks. For further explanation, see Leland J. Pritchard, Money and Banking (Boston, 1958), pp. 138-140.

For further information along this line of thought, see Donald A. Fergusson, "A Suggested Reorganization of Monetary Policy," Journal of Business (January, 1951), pp. 25-42. Fergusson reiterates the suggestion, first given in the Hoover Reports (1949), that "there be established a National Monetary and Credit Council of domestic financial agencies in connection this it follows that the tools used by the Federal Reserve are the major means of monetary control. Only those of major consequence to the economy in general will be examined.

The major controls of the Federal Reserve System are changes in the reserve requirements, the rediscount rate, and open market operations. The reserve requirement and the rediscount rate are administered by the Board of Governors. The Open Market Committee has the responsibility of transacting the System's open market operations.

The Rediscount Rate

The rediscount rate has been mentioned previously in an examination of the time lag. The mechanics of the rediscount rate operate in the following manner. If a member bank is in need of additional reserves, it may apply to the Federal Reserve Bank of its district. It acquires the needed funds by rediscounting a customer's note at the current rediscount rate. This rate is determined by and large by the prevailing business conditions. If there are inflationary pressures evident, the rate is usually raised to discourage borrowing which might intensify existing pressures. If there are recessionary

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with the Treasury to advise on policies and coordination of the operations of domestic lending and Government financial guarantees." The purpose would be to better coordinate monetary and fiscal policy. Agencies which would come under the control would be the Reconstruction Finance Corporation, the Export-Import Bank, the Federal Deposit Insurance Corporation, and related agencies.

tendencies evident, then it would be lowered to stimulate new borrowing. In April of 1956, when inflationary forces were becoming apparent, the rediscount rate was raised in all the Reserve Banks.[2] In November of 1957, when a recessionary trend was becoming apparent the rediscount rate was lowered in all the Reserve Banks.[3]

Generally speaking, the rediscount rate has not been very successful in its influence on credit conditions. This has been due to the reluctance of banks to use the facilities of the rediscount window except "in coping with emergency banking developments."[4] This reluctance has come about because of two factors. The first is the member banks' hesitancy in borrowing because of the "disposition of depositors, especially business and financial depositors, to be critical of borrowing on the part of individual banks."[5] The second is that

> it is a well-established prudence for member bank operations that, under normal conditions borrowing from the Federal Reserve Banks should be to replenish reserves when, in meeting temporary banking needs, they have fallen below current legal requirements.[6]

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[2]Board of Governors, <u>Annual Report</u> (Washington, 1956), p. 48.

[3]<u>Ibid</u>. (1957), p. 68.

[4]Board of Governors, <u>Federal Reserve System</u>, p. 34.

[5]<u>Ibid</u>., p. 35.

[6]<u>Ibid</u>.

These two factors have exerted considerable influence in lessening the effectiveness of the rediscount rate as a tool to meet the needs of current credit conditions.

Because of this reluctance, the rediscount rate now serves the purpose of announcing the policy which the Open Market Committee is planning to pursue,[7] i.e., an increase in the rediscount rate usually indicates a "tight money" policy, while a decrease in the rediscount rate usually indicates an "easy money" policy. To illustrate this, reference is made to the reduction of the rediscount rate in November of 1957. Shortly thereafter, the Open Market Committee stepped up their purchases of Government securities.[8]

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[7]See Warren L. Smith, "The Discount Rate as a Credit-control Weapon," Journal of Political Economy (April, 1958), pp. 171-177. In this article Smith argues that discretionary changes in the rediscount rate should be abolished. This view is based on the fact that the rediscount rate has not been very effective in controlling credit. And, not only has it been ineffective, but it also has provided an escape hatch whereby member banks can temporarily lessen the effect of other monetary pressures. "Discretionary discount-rate changes have ambiguous and unpredictable effects and, as a result, are likely to do more harm than good." Smith recommends that the rediscount rate be set at one percentage point (or more) above the current Treasury Bill rate. The rediscount rate would then be allowed to fluctuate in unison with the Treasury Bill rate, maintaining, of course, the percentage differential.

It has been suggested by some that rediscount operations should be done away with completely. See Milton Friedman, "A Monetary and Fiscal Framework for Economic Stability," American Economic Review (June, 1948), p. 247.

[8]Board of Governors, Annual Report (Washington, 1957), p. 60.

The Reserve Requirement

A second major control at the disposal of the Federal Reserve System is the reserve requirement. By changes in the reserve requirement the Board of Governors is able to influence the liquidity position of the member banks. In doing so they affect the amount of money available for lending or investment. Technically, the only limitation to the use of changes in the reserve requirement is that imposed by Congress. It consists of the establishment of a specific range of rates within which the Board must confine its activities in decreasing or increasing the reserve requirement. However, because frequent changes in the reserve requirement have a destabilizing effect on the credit market, it has not been used extensively. It is "usually employed only when large-scale changes in the country's available bank reserves are desired."[9]

To demonstrate the use of the reserve requirement, and to examine its impact on credit conditions, attention is directed to the months of February, March, and April, 1958. During each of the three months, the reserve requirement was reduced by 1/2 per cent. This released from required reserves approximately 1.5 billion dollars. In turn, this 1.5 billion dollars became available for the member banks to loan and/or to invest. In order to determine what was

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[9] Board of Governors, Federal Reserve System, p. 52.

the effect of the new funds on investment, the amount of business loans[10] created during the period will be examined.

During the three-month period under consideration there was a net decrease of .6 billion dollars in the level of business loans. Table I shows this decrease and also takes into account the possibility of a seasonal fluctuation.

In 1956 the level of business loans showed an increase from February to March, and then remained stable for the months of March, April, and May. In June the level increased by one billion dollars. In 1957 an increase in business loans from February to March was also in evidence. However, during the next three months there was a moderate decline. Once again, the June level increased. For 1957 this increase was 1.4 billion dollars. In 1958 the increase in business loans from February to March occurred once more. In this instance the increase was .6 billion dollars, as compared to 1.5 billion dollars in 1956 and .9 billion dollars in 1957. As was the case in 1957, the level of business loans in 1958 declined from March to May and exhibited an increase in June.

Emanating from the foregoing comparison is an indication that a seasonal factor does enter the picture. In each of the three years the level of business loans moved, more or less, in the same direction. The intensity of the decline

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[10] Included in the category of business loans are commercial, industrial, and agricultural loans. Such loans by weekly reporting banks, member banks, represent approximately 70 per cent of all business loans by commercial banks.

TABLE I

COMPARISON OF BUSINESS LOANS FOR THE MONTHS OF FEBRUARY, MARCH, APRIL, MAY, AND JUNE OF 1958

(in millions of dollars)

Month	1956		1957		1958	
	Business Loans	Net Change from Preceding Month	Business Loans	Net Change from Preceding Month	Business Loans	Net Change from Preceding Month
February	26.3	...	30.3	...	30.4	...
March	27.8	1.5	31.4	1.1	31.0	0.6
April	27.8	0.0	31.3	(0.1)*	30.2	(0.8)
May	27.8	0.0	31.1	(0.2)	29.8	(0.4)
June	28.8	1.0	32.5	1.4	30.4	0.6

*Figures in parentheses show decrease.

Source: Council of Economic Advisers, Economic Indicators (Washington, November, 1957), p. 27, and (Washington, 1958), p. 27.

in 1958 also serves to show the limitations of the reserve requirement in stimulating new investment.[11] This decline not only appears to indicate a seasonal fluctuation, but also reflects the faltering business conditions prevailing in the 1957-58 recession.

The foregoing analysis has not been intended to imply the monetary policy, via changes in the reserve requirement, is completely inadequate in combating cyclical fluctuations. Perhaps, had the monetary authorities not taken action, the decline would have been a great deal more severe. However, the limitations of this tool in promoting economic stability should be given careful consideration.

Open Market Operation

The monetary tool used most frequently in combating cyclical fluctuations is open market operations. This is the most effective tool at the System's disposal for controlling credit conditions. The purpose of the operations is to increase, or decrease, credit availability in response to prevailing economic conditions and, in this way, counteract dangerous forces present in the economy.

Before further examination is made concerning open market operations and the effect thereof on the stimulation or curtailment of investment, a brief digression in respect to the

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[11] It was during this period that the Board of Governors had reduced the reserve requirement and made 1.5 billion dollars available for loans or investments.

relationship between the rate of interest and investment will be injected.

The main assumption underlying the action of the Federal Reserve System in increasing the quantity of money during a period of recession or depression is that in doing so it leads to an increase in excess reserves and thus makes possible new lending, which may be at a lower rate of interest. The effectiveness of an increase in the quantity of money depends on how much the rate of interest falls in response to an increase in the money supply, and how responsive investment is to a fall in the rate of interest.[12] In the first case, it is somewhat doubtful that an increase in the money supply will necessarily bring about a decrease in the rate of interest. In a time of severe depression it is likely that an increase in the quantity of money would, due to the liquidity preference of the public, be absorbed for purposes other than investment (e.g., the public might hold the newly acquired as idle balances due to characteristic pessimism present during a depression), thereby preventing a decrease in the rate of interest.[13]

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[12]Dudley Dillard, <u>The Economics of John Maynard Keynes</u> (New York, 1948), p. 178.

[13]See William J. Fellner, <u>Monetary Policy and Full Employment</u> (Los Angeles, 1946) for a theoretical explanation of the above idea.

In the second case, serious doubts arise in respect to the responsiveness of investment to a fall in the rate of interest.

> A number of studies have shown that businessmen do not take interest rates into account in their investment decisions. Rather, factors such as the level of unused plant capacity, the growth of markets, the cost and availability of labor, new techniques of production, and the availability of funds seem to play a greater role.[14]

Since the effectiveness of an increase in the quantity of money is limited, other than in creating new loanable funds, by the two factors examined above, the operations of the Open Market Committee may be severely handicapped in generating new investment.

To illustrate the effectiveness (ineffectiveness) of open market operations as a tool to counteract cyclical fluctuations, the reader's attention will once again be directed to the period of the 1957-58 recession.

In a meeting of the Open Market Committee in October, 1957, the Committee took its first action in view of the impending decrease in business activity.[15] At this meeting, however, little more was accomplished than recognition of the fact that the economy might be heading for a downturn,[16]

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[14]Siegel, Aggregate Economics, p. 198.

[15]It might be noted in passing that indications of this decline in economic activity had become apparent in the preceding month.

[16]Board of Governors, Annual Report (Washington, 1957), p. 54.

and that the Committee should not add additional restraint to the money supply. In subsequent meetings held during November and early December, the Committee began to take a more active role in trying to arrest the decline. On December 17, committee members made their first definite policy statement. In this meeting they decided that their transactions "were to be with a view, among other things, to cushioning adjustments and mitigating recessionary tendencies in the economy."[17]

During this period from October to December the Committee had been gradually purchasing Government securities in the open market to the amount of one billion dollars. As a result of these purchases an almost equal amount of new loanable funds was placed at the disposal of the member banks. To measure the effectiveness of this action, the level of business loans made by weekly reporting member banks during this period will serve as a yardstick.

Business loans showed a net increase of four billion dollars during the last quarter of 1957.[18] The extent of this increase resulting from the operations of the Open Market Committee is difficult to determine. This is due in large part to the seasonal fluctuations characteristic of the last part of the year (especially December). Perhaps

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[17] Ibid., p. 60.

[18] Council of Economic Advisers, Economic Indicators (Washington, 1958), p. 27.

a large portion of the increase was due to the seasonal factor, for in January business loans decreased by 1.6 billion dollars (from 32.2 to 30.6).[19] At the same time excess reserves of the member banks remained at the December level of .6 billion dollars,[20] thus tending to imply the effect of a seasonal fluctuation. Further evidence indicating the influence of a seasonal fluctuation might be gained from Table II.

It can be seen that in each of the three years included in Table II there has been an increase in business loans for the month of December. In 1955 it was .7 billion dollars, and in 1956 it was .9 billion dollars. In January of 1956 and 1957 there was a decrease of .5 billion dollars and 1 billion dollars, respectively. This fact appears to indicate a seasonal fluctuation. If this be the case, then a portion of the increase in December of 1958 is also a result of this influence. This, in turn, seems to indicate that the operations of the Open Market Committee were not too effective in stimulating new investment.

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[19] Ibid.

[20] Ibid.

TABLE II

COMPARISON OF BUSINESS LOANS FOR THE WEEKLY REPORTING MEMBER BANKS FOR THE MONTHS OF SEPTEMBER, OCTOBER, NOVEMBER, AND DECEMBER OF 1955, 1956, AND 1957 AND FOR THE MONTH OF JANUARY OF 1956, 1957, AND 1958

(in billions of dollars)

Month	1955		1956		1957		1958	
	Business Loans	Net Change from Preceding Month	Business Loans	Net Change from Preceding Month	Business Loans	Net Change from Preceding Month	Business Loans	Net Change from Preceding Month
September	24.7	...	29.7	...	32.4	...	...	...
October	25.1	0.4	29.9	0.2	31.8	(0.6)*	...	...
November	26.0	0.9	30.4	0.5	31.5	(0.3)	...	...
December	26.7	0.7	31.3	0.9	32.2	0.9	...	...
January	...	...	26.2	(0.5)	30.3	(1.0)	30.6	(1.6)

*Figures in parentheses show decrease.

Source: Council of Economic Advisers, Economic Indicators (Washington, November and December, 1956 and 1957), p. 27, and (December, 1958), p. 27.

Examination has been made in some detail of the effect of open market operations on the stimulation of investment during a period of recession. The analysis will now proceed to include open market operations during an inflationary period.

There are several factors which impose limitations on the effectiveness of open market operation in depressing inflationary forces. Some of these are (1) the effects of monetary policy on the supply of loanable funds, (2) the rationing of credit by commercial banks, (3) the effects of difficulties in marketing new issues of securities, and (4) the effect of financial intermediaries.[21]

The first refers to the ability of commercial banks and other large financial institutions to avoid the restraint placed on their lending ability by high interest rates, if their portfolio contains a large amount of short-term United States government securities. The second factor (credit rationing) concerns the practice of commercial banks' rationing credit in order to avoid restraints imposed by open market operations. "Commercial banks *want* to meet the credit demands of their customers and are under pressure to do so."[22] The third escape hatch suggested by Smith is the supposed difficulty of marketing new issues of securities when interest

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[21]For a detailed explanation of these factors, see W. L. Smith, "On the Effectiveness of Monetary Policy," *American Economic Review* (September, 1956), pp. 588-606.

[22]*Ibid*., p. 594.

rates are high. There is some validity to this supposition, but as Smith points out, the difficulty does not come as a result of a high interest rate, but rather as a result of rapidly rising interest rates. Once the interest rate has become stable, it is possible that the issuance of new securities would be resumed.[23] The fourth factor which places a limitation on the effectiveness of open market operations in curtailing inflation is the effect of financial intermediaries (e.g., insurance companies, savings and loan associations, and mutual savings banks). Such financial institutions may be able to hinder considerably the attempts of the Open Market Committee to restrain lending. The combined effect of these four factors may place a serious handicap on open market operations in restraining inflationary pressure.

The influence of several forces at both extremes of the business cycle again emphasizes the limitations of open market operations as a countercyclical tool. This fact, coupled with limitations mentioned earlier in respect to the effectiveness of the rediscount rate and changes in reserve requirements, raised serious questions concerning the ability of monetary policy in the role of a countercyclical tool. This, in turn, demonstrates one of the forces influencing the shift from the original intent of the Employment Act of 1946.

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[23] *Ibid.*, p. 597.

The Tools of Fiscal Policy

The term fiscal policy refers to those actions of the Federal Government aimed at supplementing and adding to general economic stability. The tools of fiscal policy are taxation, expenditures, and related measures (debt management, appropriation, and government funds). Each of these represents a method by which the Federal Government attempts to fulfill those duties imposed upon it by the passage of the Employment Act of 1956. Each of the tools encounters difficulties and barriers in an attempt to realize those ends.[24]

Taxation as a Tool for Economic Stability

Tax policy offers an effective means of combating cyclical fluctuations--*if* its use is permitted. During a period of inflationary pressures the Federal Government could raise taxes, thereby causing immediate withdrawal of money from circulation and, in turn, diminishing consumer and investment spending. If the economy is experiencing deflationary pressures, taxes could be lowered to supply consumers with additional income and purchasing power. It is difficult to determine how much of this additional income would be used for consumption purposes. However, due to the pressures exerted on the consumer during a period of depression or recession, and the consumer's (the public) desire to maintain his present

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[24]One of these difficulties, the administrative lag, has been discussed previously. See pp. 40-44.

standard of living, a justifiable hypothesis may be offered that, indeed, a large portion of the additional income received by the consumer as a result of the tax reduction would be used for consumption purposes.[25]

In the beginning of the current discussion it was stated that tax policy of the Federal Government could have an important effect on economic stability if its use is permitted. Currently, an increase or a reduction in the tax rate must go through the channels of congressional approval before it can be enacted. This imposes a serious limitation on such action because of the time needed to secure ratification. Much of this is due to the political element involved, i.e., the possible repercussions which might occur from an increase or a decrease in the tax rate. Politicians are somewhat reluctant to pass legislation which (as is the case with tax policy) has a great deal of emotional appeal. The passage of such legislation can have a significant bearing on whether or not they will be re-elected to office. A great deal of discussion has taken place in regard to taxation as a countercyclical tool. However, due to political considerations there has been little action.[26]

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[25]See James Duessenberry, Income, Savings, and the Theory of Consumer Behavior (Cambridge, 1949).

[26]One of the strongest proponents of tax policy (as a stabilizing tool) is Senator Paul Douglas. He has repeatedly proposed such measures, but to no avail. Evidence of the inaction in regard to tax policy may be found in almost any issue of the Hearing before the Joint Economic Committee or in the Joint Economic Report.

Although the aforementioned factor has limited the use of taxation as a means of promoting economic stability, it does not necessarily negate its potential. An alternative presents itself which would probably add considerable potency to taxation as a countercyclical tool--*if* accepted. This alternative is the granting of discretionary controls to the President in order that he may change the tax rate within the limits of a specified range if economic conditions warrant such action. Such a policy was, in fact, recommended recently by the Commission on Money and Credit.[27]

The Commission proposed that "Congress should grant to the President limited conditional power to make temporary countercyclical adjustments in the first bracket rate of the personal income tax."[28] Accompanying this proposal was the stipulation that in passing such legislation Congress should impose certain qualifications and safeguards "upon the President's actions."[29] Included in this category would be the specifications limiting the extent of the adjustment (the Commission suggested a range of up to a 5 per cent increase or decrease from the existing 20 per cent level) and the

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[27]An independent research and policy group supported by grants from the Ford Foundation, the Merrill Foundation, and the Committee for Economic Development.

[28]Commission on Money and Credit, "Money and Credit" (a summary) (Washington, 1961), p. 8.

[29]*Ibid*.

duration of the adjustment.[30] Whether or not Congress will be receptive to this suggestion is rather difficult to determine. Mainly so, because it involves releasing one of the prerogatives which has traditionally belonged to the legislative branch of government. Perhaps if the need became acute, this prerogative would be shifted to the administrative branch. Excluding such an occurrence, it is more or less a speculation whether or not Congress would pass the legislation suggested by the Commission on Money and Credit.

Before passing on to the discussion of Federal Government expenditures as a countercyclical tool, one additional comment might be made in regard to taxation. Because of the nature of expenditure programs, it is sometimes difficult (for reasons to be discussed later[31]) for them to cease their operations during a period of inflation. Because of this, the burden of curtailing inflation through the use of fiscal policy falls heaviest on taxation; and unless legislation similar to that suggested by the Commission on Money and Credit is enacted, the effectiveness of fiscal policy in restraining inflationary pressures will be seriously limited.

Expenditures as a Tool for Economic Stability

Another tool of fiscal policy for combating cyclical fluctuations is the expenditures of the Federal Government.

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[30] *Ibid.*

[31] See pp. 74-75.

Certainly, expenditures can play a vital role in maintaining economic stability. There are, however, certain limitations which exist and which dull the effectiveness of such expenditures. Because of the difficulties of tracing the effects of Government expenditures, the discussion will have to be more or less general in scope.

Many types of expenditures are available; however, all do not meet the qualifications for being considered short-run, countercyclical tools. An example of these would be expenditures on health, education, etc. At this point they will only be mentioned. In the next chapter, which is concerned with the modification of interpretation of the Employment Act of 1946 because of the limitations of monetary and fiscal policy, such expenditures will be discussed in greater detail.

Recognition has been given the limitation of fiscal policy in regard to restraining inflationary pressures. In the case of expenditures during a period of recession or depression, more reliability can be placed on their effectiveness to stimulate income and employment. Even here, however, there is a barrier to the effectiveness of Federal expenditures. This barrier is in relation to the operational lag mentioned earlier, i.e., the length of time which exists between the initiation of some expenditure and the impact of this expenditure on income, etc. Perhaps, the time needed for an expenditure to exert a stimulating effect is such that it might occur after the period of recession had lessened, and thereby have an unstabilizing effect on the economy. The Commission on Money and Credit, mentioned earlier in respect to tax policy, made the following recommendations in regard to fiscal policy via public expenditures:

1. There should be more adequate planning for postponable projects; suitable expenditure programs should be enacted for a number of years so as to permit greater executive flexibility and timing.

2. For countercyclical expenditures, projects and programs should be initiated or expanded only if these expenditures are essential and useful and if the length of the project as well as its time pattern are appropriate. To combat a recession a high ratio of spending in the early period relative to subsequent periods would be favorable.

3. Changes in planning and budgeting techniques would also help to make expenditure policy more flexible. The possibility of advanced appropriations for public works programs should be considered.[32]

If the preceding proposals could be adopted and applied to Federal Government expenditures, fiscal policy as a countercyclical tool would be strengthened considerably. However, in the absence of careful and thoughtful planning it is unlilely that public expenditures will be able to furnish the ingredients necessary to achieve economic stability.

Monetary and fiscal policy have been examined at some length in regard to their effectiveness as countercyclical tools. The separate discussion was not intended to imply

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[32]Commission on Money and Credit, "Money and Credit," p. 8.

that these two tools for economic stability are independent of one another. It is highly doubtful that monetary policy could sufficiently create a healthy condition in the economy without the support of fiscal policy, or vice versa.[33] What is necessary is the integration of monetary policy and fiscal policy so as to achieve additional means for combating cyclical fluctuations. And, even through the use of these two in a complimentary fashion, the attainment of economic stability is by no means assured. This lack of assurance, in turn, indicates one of the main reasons for the shift from the original intent of the Employment Act of 1946 to current interpretation.

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[33] See James Tobin, "Liquidity Preference and Monetary Policy," Review of Economic Statistics (May, 1947), pp. 124-131.

CHAPTER VI

THE CURRENT INTERPRETATION OF THE EMPLOYMENT ACT OF 1946

In Chapter I it was established that the Employment Act of 1946 was originally intended to serve as a countercyclical device. It was noted in passing that this is no longer the chief purpose of the Act. The idea was advanced that the Act is now interpreted to be a tool for the correction of those structural weaknesses which exist in the economy (e.g., national security, income equality, elimination of monopoly, better conservation of our natural resources, tax equity, and various related measures). Attention was then directed to the major forces perpetuating the supposed shift in interpretation of the Act. For purposes of re-emphasis, a brief outline of these forces follows:

1. The effect of the disparity of political thought which exists between the Republican Party and the Democratic Party.
2. The effect of the time lag on the effectiveness of monetary and fiscal policy as countercyclical tools.
3. The effect of other limitations on the effectiveness of monetary and fiscal policy as countercyclical tools.

The purpose of this chapter is to demonstrate that these three forces have, indeed, caused a vacillation from the original intent of the Act. To accomplish this end, the policy proposals contained within the Economic Report of the President and the Joint Economic Report for the years 1955 through 1959 will be analyzed. This analysis will be based on whether or not the policy proposals are countercyclical in nature.

The Economic Report of the President

Because of the multiplicity of proposals contained within the reports of the President for the years 1955 through 1959, all of them cannot be examined.[1] Those proposals which will be examined have been chosen because they seem to give the clearest perspective of the current interpretation of the Employment Act. It should be noted that all the policies proposed during the five-year period under study have not been directed solely toward correcting structural weaknesses. These, however, are relatively few in number, thus distracting little from our thesis concerning the current interpretation of the Act.

The ensuing summary of proposals was developed to demonstrate the nature of the policies now being suggested by the President. They are taken directly from Appendix B,

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[1]See Appendix B for a complete list of these proposals.

which is a verbatim listing of all the policy proposals of the five-year period under study. This summary tends to support the thesis that the Employment Act is now being used to rectify structural weaknesses which exist in the economy.

1. Provisions for the aged: (a) extend coverage of the Federal Old-Age and Survivors Insurance on permanent and full contributory basis to Federal personnel; (b) give preference to older persons and their immediate families in admission to public housing projects; and (c) authorize mortgage insurance on favorable terms for housing built for occupancy in whole or in part by older persons buying a home under a Federally insured mortgage.
2. Provisions for agriculture: (a) eliminate acreage allotments for corn and provide discretionary authority to increase allotments for other crops; (b) enlarge the Commodity Credit Corporation Advisory Board and assign it the role of advising the Secretary of Agriculture in the exercise of the wider discretionary authority requested earlier; and (c) take steps to speed surplus disposal, broaden outlets for farm products, reduce farm production costs, improve farm credit facilities, and expand agricultural research.
3. Provisions for the continuance of small business: (a) extend the Small Business Administration beyond

June 30, 1957; (b) give early consideration to those recommendations of the Cabinet Committee on Small Business for tax relief that would involve only a minimum loss of revenue; and (c) amend the tax laws to extend accelerated depreciation formulas to purchases of used property up to $50,000 in any one year, to permit closely held corporations the option of electing the tax statutes of partnerships, to grant taxpayers the option of paying estate taxes over a period of up to ten years where estates consist largely of investments in the stock of small companies to be treated as ordinary loss deductions rather than capital loss deductions.

4. Provisions for the elimination of monopoly: (a) require advanced notice to the antitrust agencies of proposed mergers by all firms of significant size engaging in interstate commerce; (b) make explicit the application of the Clayton Act to business mergers in which either party is engaged in interstate commerce; (c) make Federal Trade Commission cease-and-desist orders under the Clayton Act final, unless appealed to the courts; and (d) authorize the Federal Trade Commission to seek preliminary injunctions where violation may be likely.

5. Provisions for health, education, and welfare: (a) expand the Area Development Program of the Department of Commerce, which is designed to help depressed communities; (b) increase the Federal minimum wage to ninety cents an hour, consider extending the coverage of a minimum age to substantial number of workers now excluded (Congressional and State Responsibility); (c) extend Federal funds for fellowships, research, teacher training, and related activities; (d) take early steps to relieve the classroom shortage that now exists in our schools (Congressional and State Responsibility); and (3) extend the Hospital and Medical Facilities Survey and Construction Program for an additional two years, and provide Federal insurance of mortgage loans for the construction or improvement of private health facilities.

To substantiate that the foregoing proposals are indeed not countercyclical in nature, one sample has been selected from each of the five categories and will be examined in some detail.

The policy proposal chosen for analysis which extends aid to the aged was submitted in the President's Economic Report for 1956. The President recommended the following policy:

> The National Housing Act should be amended to authorize under especially favorable mortgage terms for apartment projects built by nonprofit organizations for elderly persons. Favorable mortgage insurance terms should also be accorded for other multiunit rental projects designed for at least partial occupancy by elderly persons. Finally, provision should be made to permit third parties, which could be either organizations or individuals, to guarantee monthly interest and amortization payments in behalf of older persons buying a home under a Federally insured mortgage.[2]

Assuming housing for the aged is a pressing problem, then it probably should be dealt with as quickly as circumstance permits. Such action might be used to supplement other anti-recession stimuli. However, it is ludicrous to believe that such a policy would, to a substantial degree, be directed at a large enough portion of the economy to facilitate any wide-spread recovery. For it is highly doubtful in the time of economic recession or depression that the program suggested by the President would stimulate construction to the extent needed to induce recovery.

Another impediment limiting the program of housing for the elderly as a countercyclical tool is the fact that it would be politically impossible to shut such a program off as an anti-inflationary measure. Because of the social nature of this program, it cannot be expected to fulfill the role of a countercyclical tool.

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[2] Economic Report of the President (Washington, 1956), p. 69.

The second category in the list of proposals from the President's Economic Report contained policies for the agricultural sector of the economy. In 1957 the President proposed that steps should be taken "to speed surplus disposals, broaden outlets for farm products, reduce farm production, improve credit facilities, and expand agricultural research."[3] This proposal leaves something to be desired as a countercyclical tool. It could neither affect a large enough portion of the economy to offset recessionary pressure, nor could it be withdrawn--due to political considerations--to curtail inflationary pressures.

In 1958 President Eisenhower recommended

> that Congress extend accelerated depreciation formulas to purchases of used property up to $50,000 in any one year; grant closely held corporations the option to elect the tax status of partnerships; grant taxpayers the option of paying estate taxes over periods of up to ten years where an estate consists largely of investments in closely held businesses; and to allow losses on original investments in the stock of small companies to be treated as ordinary loss reductions rather than capital loss deductions.[4]

This policy is designed to aid small business. Perhaps this tax relief could, through its stimulation of investment in small businesses, be an antirecessionary tool (in a supplementary role). Once again, the major factor limiting its effectiveness as a countercyclical tool is its substantive

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[3] *Ibid.*, p. 59.

[4] *Ibid.* (1958), p. 63.

nature. It would be politically inexpedient to cease aid to small business as a means for combating inflationary pressures.

Samples from three of the categories in the summary of the proposals of the President's Economic Report, for the years 1955 through 1959, have been examined in some detail. It has been demonstrated that these policy proposals leave something to be desired as countercyclical tools. The fourth and fifth categories of the summary share this common bond of ineffectiveness. The inability of these policy proposals to offset recessionary pressure varies with the specific policy. The policy proposal concerning housing for the elderly, relatively speaking, would be more effective than the agricultural policy. The one severely limiting factor to the use of the programs, emanating from the policy proposals as countercyclical tools, is the fact that all are social measures, substantive in nature, thus making it politically inexpedient to use them to counteract inflationary pressures.

The Joint Economic Report

The shift in the interpretation of the Employment Act of 1946 can also be seen in the policy proposals submitted by the Joint Economic Committee. The following list exemplifies some of the proposals which they have suggested:

1. The nation has the economic capacity to meet our national security requirements. With the advent of thermonuclear energy and the intercontinental

bombers and missiles, military and technological developments to improve our defenses must be given every possible support.[5]

2. We should continually strive to improve the distribution of tax burden in the interest of economic stability and growth and rising standards of living.[6]

3. We are very concerned with distressed conditions which persist in certain areas and regions, even in an expanding economy. We believe that action is required now and that much can be done, through public works, to assist these communities. The Federal Government should recognize its responsibility to those areas and industries by promoting research to discover new products and new processes. Consideration should be given to the possibility of modifying the employment compensation programs to meet the special problems to retraining and readjustment facing these areas. Loans, technical assistance, and, as the President recommends, an expanded area development program should be provided these areas to help them adapt to changed economic conditions.[7]

4. Construction of schools, highways, and hospitals, as the President observes, must move forward more rapidly during the immediate years ahead. The evidence submitted to our Subcommittee on Economic Stabilization during its study on automation clearly pointed out the need and documented the necessity for improved educational facilities and improved teaching.[8]

5. In the interests of fostering free competitive enterprise and preserving and increasing opportunities for small independent business, we especially recommend as a minimum program the President's recommendation for the strengthening of Federal Anti-trust policy.[9]

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[5]Senate, Report of the Joint Economic Committee on the Economic Report of the President (Washington, 1955), p. 1.

[6]Ibid., p. 2.

[7]Ibid., p. 3.

[8]Ibid. (1956), p. 4.

[9]Ibid., p. 5.

The first policy proposal, directed at National Security, is an important consideration in the light of the prevailing world situation. Due recognition should be given the need arising here. An increase in defense spending could have a favorable effect on employment and purchasing power. However, it is naive to believe that it could be used as a countercyclical tool. Defense spending could not be stepped up during a period of recession unless there was an actual need for it. It can certainly not be diminished or curtailed as a means for depressing inflationary pressures.

The additional four policy proposals are similar to those which have been discussed in respect to the policy proposals contained within the Economic Report of the President. Further elucidation would involve needless repetition. However, by way of re-emphasis, consideration will be given them. In time of recession they might be used to supplement other programs, thus helping to speed recovery. The policy proposals are not, however, countercyclical tools. They are social measures and, therefore, cannot be stopped merely to lessen inflationary pressures which are in existence. This limitation brings the present examination to the point where some general remark can be made in regard to material contained in this chapter.

All of the policy proposals discussed in this chapter have been aimed at correcting structural weaknesses which are in existence, i.e., they have been directed at such areas as national security, elimination of monopoly, help for the aged, and related items. The most significant quality held in common is their inability to serve as countercyclical tools, for the policy proposals are social measures which have a substantive nature. Issue will not be taken with their reliability as such, but it is extremely important that these policies are recognized as such, for they cannot be _turned on_ and/or _turned off_ to counteract cyclical fluctuations. By their intrinsic nature they are not countercyclical tools. The implications which arise from this fact will be discussed in the next chapter.

CHAPTER VII

CONCLUSION AND IMPLICATIONS

In Chapter I it was demonstrated and established that the Employment Act of 1946 was originally intended to be a countercyclical tool. In the succeeding chapters it was demonstrated that this Act is no longer used in this manner. Rather, there has been a modification in the interpretation of the Act. The current interpretation of the Act is that by the correction and removal of structural weaknesses which exist in the economy, economic stability in the long run might be attained. That the policy proposals emanating from the Employment Act are of this nature was shown in the preceding chapter.

There have been three major forces which have contributed to the shift in thinking in respect to the Employment Act. The first was the disparity of political thought which exists between the Republican and Democratic parties. Its effect in regard to the Act has been to create a barrier between the two parties in respect to the use of monetary and fiscal policy to achieve short-run and, in turn, long-run economic stability. In order to overcome this barrier, a common ground was sought upon which the Republicans and the Democrats could reach some degree of unanimity of opinion on how to promote long-run economic stability. This common ground has been the current interpretation of the Act. Future use of the Act will probably continue in this manner; however, there are favorable indications that along with an attempt to correct structural weaknesses and thus to promote stability. There might be, at least, an attempt to use a more vigorous application of monetary and fiscal policy. In Chapter III it was revealed that much of the conflict between the Republicans and Democrats has come about due to a difference of opinion as to what is the most dangerous problem facing our economy. The Republicans viewed inflation as the paramount issue, while the Democrats exhibited a great deal of uneasiness toward the problem of unemployment. In the 1959 Joint Economic Report there is some indication that this point of disagreement might be lessened. The members of the Joint Economic Committee are aware of the effects of this difference of belief. In an attempt to reconcile this difference, they stated the following list of studies which they would make:

1. Historical and comparative rates of unemployment, production, and prices.

2. Inflation and deflation caused by increases and decreases in the effective supply of money and credit and the effects of these and of interest rates on growth, employment, and economic stability.

3. The effect of monopolistic and quasi-monopolistic practices upon prices, profits, production, and employment.

4. The effect of increases in wages, salaries, and the prices of personal services, together with union

and professional practices, upon prices, profits, production, and employment.

5. The effect of governmental expenditures, taxation, and budgetary surpluses and deficits and of monetary and debt management policies upon price levels, production, and employment.

6. International influences affecting prices, production, trade, and employment.

7. Constructive suggestions for reconciling and simultaneously attaining the three objectives of maximum employment, an adequate rate of growth, and substantial stability of the price level.[1]

Perhaps these studies will come to naught in lessening the conflict. They are, however, representative of a step in the right direction.

The second force influencing the shift in the interpretation of the Employment Act is the effect of the time lag on monetary and fiscal policy.[2] The analysis dealt with three distinct time lags. The first, the recognition lag, as was pointed out, had the same effect on the use of monetary and fiscal policy as countercyclical tools. Most of the work done on this problem has been in the direction of developing a set of statistical indicators by which prediction of a change of direction in the business cycle can be facilitated. The success of these attempts has, however, been limited.[3] In all probability, the recognition lag will lessen as better

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[1] Joint Economic Report (Washington, 1959), p. 2.

[2] See Chapter IV.

[3] See Chapter IV, pp. 35-36.

information on the workings of the business cycle is compiled. However, this lag will probably remain the proverbial "thorn in the side" for some time to come.

The second time lag examined was that of the administrative lag.[4] As the analysis has revealed, this particular lag has a greater effect on the administration of fiscal policy than on the administration of monetary policy. This uneven impact is a result of the nature of the two bodies which administer monetary and fiscal policy. The Federal Reserve System is the chief administrator of monetary policy and, because of its autonomous nature, can quickly decide upon policies which need to be enacted. Fiscal policy, on the other hand, is administered by the Administration and Congress and is, therefore, plagued with many time-consuming procedures. As can be seen, a great deal of the administrative lag's effect on fiscal policy is a result of institutional arrangements (e.g., the legislative procedure and separation of powers). To decrease the administrative lag for fiscal policy will entail some changes in the institutional framework, which is not an easy thing to accomplish.

The third time lag considered in Chapter IV was the operational lag.[5] This time lag also fell unevenly on

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[4] <u>Ibid</u>.

[5] See p. 44.

monetary and fiscal policy. In the case of monetary policy the effect of the operational lag was greater. The main reason for this is that monetary policy's first influence is upon the asset structure of the economy, and the effect does not necessarily continue thereafter and cause income, employment, and production to increase. At the same time, fiscal policy has a more or less direct impact on the income stream. The main point to be stressed in relation to the operational lag is that it does affect both monetary and fiscal policy to some degree and, therefore, inhibits their effectiveness as countercyclical tools.

In Chapter V the object of analysis was, once again, monetary and fiscal policy. In this instance, they were examined in respect to more general limitations on the use of both as countercyclical tools. In respect to monetary policy and its three major tools (the rediscount rate, changes in reserve requirements, and open market operations), the examination revealed a rather severe limitation to the use of monetary policy in the role of a countercyclical device. It was seen that monetary policy was not sufficient to stimulate recovery in a period of recession.[6] Also noted were factors which limit its effect to restrain inflationary

[6]See Table I, p. 54, and Table II, p. 60.

pressures such as the rationing of credit by commercial banks and the effects of financial intermediaries.[7]

Also examined in Chapter V were the limitations of fiscal policy in eliminating or lessening cyclical fluctuations. In respect to taxation the examination revealed a potentially effective weapon to be used as a countercyclical tool. However, it was also noted that taxation was not being used as such. This was found to be the result of a reluctance on the part of Congress to delegate to the Administrative branch any power in effecting tax increases or decreases. Without this action on the part of Congress, taxation will continue to play an insignificant role in mitigating cyclical fluctuations.

The examination of the effectiveness of Federal expenditures as a countercyclical tool also led to the conclusion that such had several limitations to its use in lessening cyclical fluctuations. Such limitations would be the time necessary to start expenditure programs and the possibility that the programs will not actually exert an effect until the need for this effect is passed. This, in turn, might lead to further instability.

The future hopes of fiscal policy as a countercyclical tool depend a great deal upon the actions of Congress and the Administration. If they can have the foresight to enact

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[7]See pp. 61-62.

programs such as (1) granting to the President limited discretionary control over taxation, and (2) advanced development of expenditure programs which can be placed into effect at the first signs of recession,[8] then the use of fiscal policy to counteract cyclical fluctuations will be greatly enhanced.

In Chapter VI the policies which have resulted from, and are representative of, the shift in the interpretation of the Employment Act of 1946 were examined. It was demonstrated that the policy proposals now emanating from the machinery of the Act (the Economic Report of the President and the Joint Economic Report) are not countercyclical tools. Rather, they are measures aimed at correcting structural weaknesses which exist in the economy. The fact that these policies are social and/or substantive in nature enjoins their use as countercyclical tools. Perhaps during a period of recessionary pressures, programs such as aid to the elderly population, aid to depressed areas, or aid to small business can add to the resiliency of the economy. However, because of the political inexpediency of such actions, these programs cannot be withdrawn during an inflationary period; thus, their use as countercyclical tools is not eliminated. The reason for this shift has been demonstrated.

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[8]See Recommendations of the Commission on Money and Credit, Chapter V, pp. 65 and 68.

One of the major causes of our unsuccessful attempts to attain economic stability in the manner originally conceived in the Employment Act of 1946 has been the inadequacy of monetary and fiscal policy to serve as effective countercyclical tools. An implication arising from the shift from the original intent of the Act to the current interpretation suggests that short- and long-run economic stability cannot be achieved merely by the turning on and turning off of monetary and fiscal policies. Through more judicious use and thoughtful pre-planning, these tools can be used more successfully to mitigate cyclical fluctuations. Even if this proved to be the case, it is probable that such actions would continue to be used, with additional attempts to correct structural weaknesses. In this manner, the goal of long-run economic stability might be further realized.

In the Introduction, remarks were made concerning the Employment Act in respect to its being the first major committal by the Federal Government to promote and maintain levels of "maximum employment, production, and purchasing power" in the economy. It is interesting and important that, even though the method of implementation of the Act has been modified, and debate continues concerning the extent of the Government's role in the realization of these goals, the recognition of the necessity of participation by the Federal Government has remained. In other words, despite the procedural difficulties encountered in respect to the functioning of the Employment Act of 1946, the basic idea upon which it is grounded has prevailed, i.e., the need for government intervention in such economic matters.

APPENDIX A

THE EMPLOYMENT ACT OF 1946[1]

1021 Declaration of Policy

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

1022 Economic Report of the President; coverage; supplementary reports; reference to Congressional Joint Committee.

(a) The President shall transmit to Congress at not later than January 20 of each year an economic report (hereinafter called the "Economic Report") setting forth (1) the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in section 1021 of this title; (2) current and foreseeable trends in the levels of employment, production, and purchasing power; (3) a review of the economic program of the Federal Government and a review of economic conditions affecting employment in the United States or any considerable portion thereof during the preceding year and of their effect on employment, production and purchasing power; and (4) a program for carrying out the policy declared in section 1021 of this title, together with such recommendations for legislation as he may deem necessary or desirable.

(b) The President may transmit from time to time to the Congress reports supplementary to the economic report, each of which shall include such supplementary or revised recommendation as he may deem necessary or desirable to achieve the policy declared in section 1021 of this title.

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[1]House of Representatives, United States Code, Titles 12-15 (Washington, 1958), pp. 2659-2662.

(c) The Economic Report, and all supplementary reports transmitted under subsection (b) of this section, shall, when transmitted to Congress, be referred to the joint committee created by section 1024 of this title. (Feb. 20, 1946, ch. 33, 3; 60 Stat. 24;

1023 Council of Economic Advisers

(a) Creation; composition; qualifications; selection of chairman and vice chairman.

There is created in the Executive Office of the President a Council of Economic Advisers (hereinafter called the "Council"). The Council shall be composed of three members who shall be appointed by the President by and with the advice and consent of the Senate, and each of whom shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the government in the light of the policy declared in section 1021 of this title, and to formulate and recommend national economic policy to promote employment, production, and purchasing power under free competitive enterprise. The President shall designate one of the members of the council as chairman and one as vice chairman, who shall act as chairman in the absence of the chairman.

(b) Employment of specialists, experts, and other personnel.

The Council is authorized to employ, and fix the compensation of, such specialists and other experts as may be necessary for the carrying out of its functions under this chapter, without regard to the civil service laws, to employ such other officers and employees as may be necessary for carrying out its functions under this chapter.

(c) Duties

It shall be the duty and the function of the Council--

(1) to assist and advise the President in the preparation of the Economic Report;

(2) to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective, to analyze and interpret such information in the light of the policy declared in section 1021 of this title for the purpose of determining whether such developments and trends are interfering, or are likely to interfere, with the achievement of such policy, and to compile and submit to the President studies relating to such developments and trends;

(3) to appraise the various programs and activities of the Federal Government in the light of the policy declared in section 1021 of this title for the purpose of determining the extent to which such programs and activities are contributing and the extent to which they are not contributing, to the achievement of such policy, and to make recommendations to the President with respect thereto;

(4) to develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production and purchasing power;

(5) to make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request.

(d) Annual report

The Council shall make an annual report to the President in December of each year.

(e) Consultation with other groups and agencies; utilization of Governmental services and private research agencies.

In exercising its powers, functions and duties under this chapter--

(1) the Council may constitute such advisory committees and may consult with such representatives of industry, agriculture, labor, consumers, State and local governments, and other groups, as it deems advisable;

(2) the Council shall, to the fullest extent possible, utilize the services, facilities, and information (including statistical information) of other Government Agencies as well as of private research agencies, in order that duplication of effort and expense may be avoided.

(f) Appropriations

To enable the Council to exercise its powers, functions and duties under this chapter, there are authorized to be appropriated (except for the salaries of the members and the salaries of officers and employees of the Council) such sums as may be necessary. For the salaries of the members and the salaries of officers and employees of the Council, there is authorized to be appropriated not exceeding $345,000 in the aggregate for each fiscal year.

1024 <u>Joint</u> <u>Economic</u> <u>Committee</u>

(a) Composition

There is established a Joint Economic Committee, to be composed of seven Members of the Senate, to be appointed by the President of the Senate, and seven Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. The party representation on the joint committee shall be nearly as may be feasible reflect the relative membership of the majority and minority parties in the Senate and House of Representatives.

(b) Functions

It shall be a function of the joint committee--

(1) to make a continuing study of matters relating to the economic report;

(2) to study means of coordinating programs in order to further the policy of this chapter; and

(3) as a guide to the several committees of the Congress dealing with legislation relating to the economic report, not later than March 1 of each year (beginning with the year 1947) to file a report with the Senate and House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report and from time to time to make such other reports and recommendations to the Senate and House of Representatives as it deems necessary.

(c) Vacancies; selection of chairman and vice chairman.

Vacancies in the membership of the joint committee shall not affect the power of the remaining members to execute the functions of the joint committee, and shall be filled in the same manner as in the case of the original selection. The joint committee shall select a chairman and a vice chairman from among its members.

(d) Hearings; employment and compensation of personnel; cost of stenographic service; utilization of Government services and private research agencies.

The joint committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings as it deems advisable, and within the limitations of its appropriations, the joint committee is empowered to appoint and fix the compensation of such experts, consultants, technicians, and clerical and stenographic assistants, to procure such printing.

(e) Appropriations

There is authorized to be appropriated for each fiscal year, the sum of $125,000, or so much thereof as may be necessary to carry out the provisions of this section, to be disbursed by the Secretary of the Senate on vouchers signed by the chairman or vice chairman.

APPENDIX B

SUMMARY OF RECOMMENDATIONS IN THE ECONOMIC REPORT OF THE PRESIDENT

1955[1]

Taxes, Business Regulation, and the Public Debt

1. Postpone the lowering of the corporate income tax and of excises, scheduled for April 1, 1955.

2. Reduce the tax rate on corporate income from all foreign sources by 14 percentage points.

3. Permit corporations with foreign branches to defer the tax on branch income until it is withdrawn from the country in which it was earned.

4. Allow a regulated investment company, holding the bulk of its assets in the form of tax-exempt securities, to pass through to its shareholders the tax-exempt status of the income from such securities.

5. Strengthen the deterrent to violation of the Sherman Antitrust Act by raising substantially the maximum fine that may be imposed under the Act.

6. Increase the present statutory debt limit to permit greater flexibility in the management of Federal finances.

7. Review State and local tax-rate and debt limiting statutes with a view to removing or relaxing, where advisable, these barriers to local public investment.

Unemployment, Pensions, and Minimum Wage

8. Amend the unemployment insurance law of the District of Columbia to provide 26 weeks of benefits for all persons who qualify and who remain unemployed that long, and review disqualification provisions.

9. Strengthen the Federal-State Employment Service.

10. Extend the coverage of Federal Old-Age and Survivors Insurance, on a permanent and full contributory basis, to Federal personnel.

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[1] Economic Report of the President (Washington, 1955), pp. 69-71.

11. Consider including under the unemployment insurance system the employees of State and local governments, and employees who work for firms employing fewer than four persons, to the extent that these workers are not now covered.

12. Consider revising unemployment insurance benefits so that (a) the great majority of covered workers are eligible for payments that at least equal half their regular earnings, and (b) the term of unemployment insurance benefits is 26 weeks for every person who qualifies for any benefit and who remains unemployed that long.

13. Expand the Area Development Program of the Department of Commerce, which is designed to help depressed communities.

14. Increase the Federal minimum wage to 90 cents an hour; consider extending the coverage of a minimum wage to substantial numbers of workers now excluded.

<u>Education and Public Improvements</u>

15. Expand Federal programs for fellowships, research, teacher training, and related activities.

16. Take early steps to help relieve the classroom shortage that now exists in our schools.

17. Modernize over a ten-year period the presently-designated National System of Interstate Highways.

18. Appropriate funds to set up an Office of Coordinator of Public Works Planning within the Executive Office of the President.

19. Enlarge the appropriation for planning advances to States and minicipalities, and establish a revolving fund for the purpose.

20. Study the problems of metropolitan areas, so that area-wide transit systems, sanitation systems, water supplies, or educational facilities may be provided with maximum returns from public funds expended.

<u>Housing and Finance</u>

21. Increase the insurance authorization of the Federal Housing Administration.

22. Give the President greater latitude in the exercise of his power to vary, in the light of economic conditions, the terms on which home mortgages are underwritten by the Federal Government.

23. Allow national banks to make conventional real estate mortgage loans with maturities up to 20 years, and to extend the maximum duration of construction loans.

24. Take steps to expedite urban renewal plans, so as to obtain available Federal assistance.

25. Consider, where necessary, enacting legislation to permit the writing of "open-end" mortgages.

26. Authorize the Public Housing Administration to enter into contracts for 35,000 additional units of low-rental public housing in each of the next two fiscal years.

27. Continue the program for helping business concerns of small size to obtain access to adequate financing, to a fair share of Government procurement contracts, and to competent counsel; and extend the program's leading authority.

28. Consider the merits of share-account insurance and other measures for protecting savings in credit unions.

International Economic Relations

29. Extend the Trade Agreements Act, subject to present escape and peril point provisions, for three years with amendments to empower the President: (a) to reduce present tariff rates on individual commodities by as much as 5 per cent per year in each of the three years; (b) to reduce tariff rates in greater degree in the case of products now imported in negligible volume; and (c) to reduce to 50 per cent any rate in excess of that level.

30. Establish standards for the valuation of imported goods that are simple, clear, and logical in their application.

31. Increase the duty-free allowance of foreign goods brought home by tourists during any six-month period.

32. Authorize at the proper time a contribution to the capital of the proposed International Finance Corporation.

33. Strengthen the program of technical and other assistance to economically underdeveloped countries.

SUMMARY OF RECOMMENDATIONS IN THE ECONOMIC REPORT OF THE PRESIDENT

1956[2]

I. Promoting Agricultural Readjustments

(a) Inaugurate a two-part Soil Bank program designed to improve farm income, reduce surpluses of farm products, and shift crop acreage to soil-conserving uses:

(1) An Acreage Reserve Program

(2) A Conservation Reserve Program

(b) Implement the Great Plains Program to promote sounder land use in proportions of ten Western States between the Corn Belt and the Rocky Mountains.

(c) Take other steps, such as to speed surplus disposal, broaden outlets for farm products, etc.

II. Helping Local Communities Reduce Unemployment

(a) Establish an Area Assistance Program for aiding communities experiencing substantial and persistent unemployment, and make technical assistance more broadly available to aid urban and rural communities in developing balanced and progressive economies.

(b) Authorize the Housing and Home Finance Agency to give priority to applications for aid, in financing needed public facilities, from communities experiencing substantial and persistent unemployment.

(c) Make benefits under the Urban Renewal Program available for industrial redevelopment of business sections in such communities.

III. Lifting Income by Raising Productivity

(a) Provide the requested Federal support for the Rural Development Program to help low-income farm families improve their earning power.

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[2] Economic Report of the President (Washington, 1956), pp. 99-102.

(b) Expand State Programs of Vocational Rehabilitation on the basis of available Federal financial assistanceship.

(c) Proceed as far as is practical to extend coverage of minimum wage.

IV. <u>Improving the Economic Status of Older Persons</u>

(a) Extend the coverage of Federal Old-Age and Survivors Insurance to self-employed groups and other workers not yet covered, including Federal personnel.

(b) Require Federal registration and reports by private pension and welfare funds.

(c) Give preference to older persons and their immediate families in admission to public housing projects.

(d) Authorize mortgage insurance on favorable terms built for occupancy in whole or in part by older persons, and permit third parties to guarantee monthly payments in behalf of older persons buying a home under a Federally insured mortgage.

V. <u>Coping with Personal Hardships</u>

(a) Accelerate work on practical flood control projects.

(b) Provide reinsurance for private carriers offering flood insurance and authorize a joint Federal-State flood indemnity program.

(c) Encourage private insurance organizations to extend health plans to cover catastrophic illness and to cover persons not reached by usual group enrollment methods. Permissive legislation for private pooling of risks or Federal reinsurance may be needed.

(d) Strengthen workmen's compensation laws.

(e) Increase benefits available under the Longshoremen's and Harbor Workers' Compensation Act.

(f) Provide nonoccupational temporary disability insurance for workers in the District of Columbia. Consider developing similar programs in the States.

(g) Liberalize terms of Federally underwritten mortgages for persons displaced by urban renewal or other public projects.

VI. Reserving Sound Federal Finances

(a) Postpone scheduled reductions in excise and corporate income tax rates.

(b) Enact legislation continuing a temporary increase in the Statutory debt limit.

VII. Fostering Competitive Enterprise

(a) Require advanced notice to the antitrust agencies of proposed mergers by all firms of significant size engaging in interstate commerce.

(b) Extend Federal regulation to all mergers of banking institutions and require Federal approval of acquisitions of banks by holding companies.

(c) Make explicit the application of the Clayton Act to business mergers in which either party is engaged in interstate commerce.

(d) Make Federal Trade Commission cease-and-desist orders under the Clayton Act final, unless appealed to the courts.

(e) Empower the Attorney General to issue a civil investigative demand, compelling the production of documents before filing of complaint, without having to invoke grand jury proceedings.

(f) Increase appropriations for anti-trust law enforcement.

(g) Re-examine regulations of the transportation industry.

VIII. Extending Home Ownership and Improving Neighborhoods

(a) Make Federal assistance to a community for public housing contingent on its adoption of a workable program of slum prevention and elimination.

(b) Authorize 35,000 units of public housing in each of the next two years.

(c) Increase the permissible size of, and extend from three to five years the maximum permissible maturity on, home repair and modernization loans insurable under the FHA.

(d) Increase the FHA mortgage insurance authorization and put this on a more permanent basis.

IX. Enlarging Public Assets

(a) Authorize Federal matching grants and loans for public construction over a five-year period.

(b) Authorize Federal construction grants to medical and dental schools for teaching and research facilities.

(c) Continue the Federal loan program for college housing in such manner as to attract the investment of private funds.

(d) Extend the Hospital and Medical Facilities Survey and Construction Program for an additional two years, and provide Federal insurance of mortgage loans for the construction or improvement of private health facilities.

(e) Enact a comprehensive and soundly financed program for modernizing the Interstate Highway System.

(f) Authorize the construction of the Upper Colorado River project and other needed water resource developments.

(g) Extend and strengthen the Water Pollution Control Act.

(h) Review State and local debt limits that currently restrict borrowing for necessary public works.

(i) Allow regulated investment companies which hold the bulk of their assets in State and local securities to pass through to their shareholders the tax-exempt status of income received on such securities.

X. Improving Skills and Technology

(a) Take all practicable steps to attract suitably trained persons to the teaching profession.

(b) Enlarge the appropriation for the experimental program of the National Science Foundation for supplementary training of teachers of science, mathematics, and engineering.

(c) Strengthen existing Federal program to encourage higher education.

XI. Promoting the International Flow of Goods and Services

(a) Authorize membership of the United States in the Organization for Trade Cooperation.

(b) Enact legislation to simplify the present system of customs valuation.

(c) Enact legislation to stimulate foreign investment by modification of the taxation of corporate income from foreign sources.

(d) Extend the lending authority of the Export-Import Bank beyond June 30, 1958.

XII. Increasing the Stability of Our Expanding Economy

(a) Strengthen provisions for unemployment insurance (State responsibility).

(b) Study the problem of restoring the Government's power to regulate the terms of consumer installment credit.

(c) Authorize the Federal National Mortgage Association to vary with the wider limits its stock purchase requirement.

(d) Consider establishment of a Federal program of credit union shareaccount insurance.

SUMMARY OF RECOMMENDATIONS IN THE ECONOMIC REPORT OF THE PRESIDENT

1957[3]

I. Maintaining Sound Government Finances

(a) Extend for a year beyond April 1, 1957, the present excise rates on automobiles and parts, cigarettes, distilled spirits, wines, and beer, and the present tax rate on the income of corporations.

(b) Permit regulated investment companies holding their assets in State and local securities to pass through to their stockholders the tax-exempt status of the income received on these securities.

(c) Review State and local debt limits and other legal limitations that may unduly restrict borrowing for public improvements.

II. Improving Private Financial Facilities and Promoting Thrift

(a) Authorize a National Monetary and Financial Commission to study changes in our financial structure and practices, laws and regulations affecting financial facilities, and means for controlling credit.

(b) Strengthen the authority of the Securities and Exchange Commission to prevent certain remaining types of abuses in the distribution and sale of securities.

III. Strengthening Competition

(a) Empower the Attorney General in antitrust cases to issue civil investigative demands for the production of necessary documents without the need of grand jury proceedings.

(b) Make Federal Trade Commission cease-and-desist orders under the Clayton Act final, unless appealed to the courts.

(c) Require advance notification to the antitrust agencies of proposed mergers that are likely to have a significant effect on competition.

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[3]*Economic Report of the President* (Washington, 1957), pp. 73-76.

(d) Extend Federal regulation to cover bank mergers by asset, as well as by stock acquisition.

(e) Make explicit the application of the Clayton Act to business mergers where either party is engaged in interstate commerce.

(f) Authorize the Federal Trade Commission to restrain mergers by means of preliminary injunction before a complaint is filed.

(g) Consider recommendations of the National Committee to Study the Antitrust Laws on the application of anti-trust laws to regulated areas, and of the Presidential Advisory Committee on Transport Policy and Organization on ways of increasing competition in transport.

IV. <u>Widening the Opportunities for Small Business</u>

(a) Extend the Small Business Act beyond June 30, 1957.

(b) Permit the application of the Securities and Exchange Commission's simplified notification procedure to security issues in amounts up to $500,000.

(c) Give early consideration to those recommendations of the Cabinet Committee on Small Business for tax relief that would involve only a minimum loss of revenue.

(d) Authorize consolidation of wage reporting by employers for income tax withholding and old-age and survivors insurance purposes.

V. <u>Strengthening Economic Ties with Other Countries</u>

(a) Authorize United States membership in the Organization for Trade Cooperation.

(b) Continue economic assistance, including defense support, under the Mutual Security Program.

(c) Extend beyond June 30, 1958, the authority of the Export-Import Bank to approve credits.

(d) Authorize full participation by the United States in the International Atomic Energy Agency.

VI. Enlarging Public Assets and Developing Natural Resources

(a) Authorize partial Federal insurance against industrial atomic hazards.

(b) Authorize a four-year program of Federal assistance for public school construction.

(c) Authorize the Fryingpan-Arkansas project.

(d) Take steps to resolve difficulties of State and local governments in accommodating metropolitan growth.

VII. Improving Skills and Technology

See Recommendations VI(b) and XI(b).

VIII. Promoting Agricultural Adjustments

(a) Extend Title I of the Agricultural Trade Development and Assistance Act for one year beyond June 30, 1957, and raise the present limit on permissible losses under this program by $1 billion.

IX. Aiding Local Areas of Persistent Unemployment

(a) Establish an Area Assistance Administration in the Department of Commerce and enlarge the program of Federal aid to include loans and expanded technical assistance.

X. Improving Housing Standards

(a) Amend the Servicemen's Readjustment Act to make the maximum interest rate on VA-guaranteed home loans conform to the current maximum applicable to FHA-insured home loans.

(b) Amend the Housing Act of 1950 to relate the interest rate on Federal loans for college housing to market yields on long-term Government securities and provide for more frequent adjustments of the rate.

(c) Increase the Treasury subscription to the capital stock of the Federal National Mortgage Association by $100 million, and approve additional authorizations for FNMA purchases under special assistance programs.

(d) Consider changes in the home mortgage insurance program of the Federal Housing Administration to facilitate market adjustments incident to termination of home loan guarantee benefits for World War II veterans.

(e) Extend the Voluntary Home Mortgage Credit Program beyond its scheduled expiration date of June 30, 1957.

(f) Revise outmoded foreclosure laws, remove undue restrictions on mortgage lending by out-of-State institutions, and encourage the placement of pension and welfare funds in mortgage loans.

XI. Raising Health Standards

(a) Consider proposals for encouraging voluntary health insurance plans.

(b) Authorize a temporary program of construction grants for medical and dental training facilities.

XII. Strengthening Personal Security

(a) Raise maximum weekly unemployment insurance benefits and lengthen their maximum duration, where needed, and extend coverage to employees of the States and political subdivisions.

(b) Extend unemployment insurance to employees of firms with one to three persons on their payrolls, to ex-servicemen, and to employees in Puerto Rico.

(c) Require Federal registration and filing of reports by private pension and welfare funds.

(d) Extend minimum wage coverage to additional workers.

(e) Enact the principle of equal pay for equal work without discrimination on account of sex.

(f) Authorize limited financial assistance to the States for promoting occupational safety.

(g) Provide nonoccupational temporary disability insurance for employees in the District of Columbia.

SUMMARY OF RECOMMENDATIONS IN THE ECONOMIC REPORT OF THE PRESIDENT

1958[4]

I. Government Finances

(a) Extend the present tax rate on the income of corporations and the present excise rates on automobiles and parts, cigarettes, distilled spirits, wines, and beer for one year beyond July 1, 1958.

(b) Enact legislation temporarily increasing the statutory debt limit.

II. Federal Credit Programs

(a) Grant wider discretionary authority to heads of Executive agencies and departments to set terms on private loans insured or guaranteed by the Federal Government.

(b) Adjust interest rate limitations on certain FHA loan insurance programs (National Housing Act, Sections 207, 213, and 803) and on the VA Home Guaranty Program.

(c) Repeal the provision of the Housing Act of 1957 requiring regulation of charges, fees and discounts on federally insured or guaranteed home loans and the purchase of mortgages at par by the Federal National Mortgage Association under its special assistance programs.

(d) Increase to $30,000 the maximum size of home mortgage loan that may be insured by the FHA under Sections 203 and 220 of the National Housing Act.

(e) Increase the limit on outstanding insured loans of the FHA.

III. Science and Education

(a) Provide funds on a temporary basis for grants to States to improve instruction and to strengthen State Departments of Education in the fields of science and mathematics to identify and encourage able high school

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[4]Economic Report of the President (Washington, 1958), pp. 77-80.

students, to provide college scholarships, and to improve State statistics on education; and funds for broader support of graduate education and the improvement and expansion of foreign language teaching in colleges and universities.

(b) Authorize a temporary program of assistance for the expansion and modernization of medical and dental teaching facilities.

IV. Small Business and the Competitive System

(a) Amend the tax laws to extend accelerated depreciation formulas to purchases of used property up to $50,000 in any one year; to permit closely held corporations the option of electing the tax status of partnerships; to grant taxpayers the option of paying estate taxes over periods of up to ten years where an estate consists largely of investments in the stock of small companies to be treated as ordinary loss deductions rather than capital loss deductions.

(b) Permit the Securities and Exchange Commission to apply its simplified notification procedure to security issues in amounts up to $500,000.

(c) Remove the limitation on the life of the Small Business Administration and suitably increase its authorization for making business and disaster loans.

(d) Require notification to the antitrust agencies of proposed mergers by businesses of significant size engaged in interstate commerce.

(e) Extend Federal regulation to bank mergers accomplished through the acquisition of assets.

(f) Empower the Attorney General in antitrust cases to issue civil investigative demands for the production of necessary documents without the need of grand jury proceedings.

(g) Make FTC cease-and-desist orders issued for violations of the Clayton Act final, unless appealed to the courts.

(h) Authorize the FTC to seek preliminary injunctions in merger cases where a violation may be likely.

V. Personal Welfare

(a) Amount and duration of unemployment insurance benefits; coverage of firms with one to three persons on their payrolls; coverage of employees in Puerto Rico; coverage of State and local government employees.

(b) Bring the unemployment insurance provisions applicable to workers in the District of Columbia up to the standards recommended for the States.

(c) Intensify efforts to develop and enforce adequate occupational safety standards and to encourage safe practices (State and local responsibility).

(d) Improve workmen's compensation laws with respect to benefits, administration, and provisions for rehabilitation.

(e) Authorize the Secretary of Labor to prescribe and enforce safety standards for longshoremen.

(f) Provide nonoccupational temporary disability insurance for employees in States and Territorial jurisdictions where programs have not been established.

(g) Improve the 8-hour laws applicable to Federal and Federally assisted construction projects.

(h) Minimum wage legislation covering certain additional groups of workers; equal pay for equal work without discrimination on account of sex.

(i) Establish an Area Assistance Administration in the Department of Commerce to extend loans, research grants and technical assistance in areas of persistent unemployment.

(j) Require periodic public reports on the status of private employee welfare and pension funds, on financial dealings between employers and employee representative or their agents, on general union finances, and on union organization and structure.

(k) Modify the law governing secondary boycotts and picketing, and provide that the States have jurisdiction in labor-management disputes in which the NLRB declines to exercise authority.

VI. Agriculture

(a) Extend Titles I and II of the Agriculture Trade Development and Assistance Act of 1954 for one year beyond June 30, 1958, and raise the present limit on permissible expenses and losses of the CCC under Title I by $1.5 billion.

(b) Continue the special milk program beyond June 30, 1958.

(c) Eliminate the escalator clauses governing price supports on basic commodities under the Agriculture Act of 1949.

(d) Authorize price supports of wheat, cotton, corn, rice, tobacco, peanuts, and dairy products to be determined administratively, within a range of from 60 to 90 per cent of parity, in accordance with guidelines already established by law for almost all other agricultural commodities.

(e) Extend the National Wool Act beyond March 31, 1959.

(f) Eliminate acreage allotments for corn and provide discretionary authority to increase allotments for other crops.

(g) Permit the Acreage Reserve Program to expire at the end of the 1958 crop season; strengthen the Conservation Reserve Program; and consider further consolidation of Federal activities in soil and water conservation.

(h) Enlarge the CCC Advisory Board and assign it the role of advising the Secretary of Agriculture in the exercise of the wider discretionary authority requested earlier.

(i) Revise the distribution formula under Title I of the Bankhead-Jones Act to permit the allocation of a larger amount of loan funds to areas of acute need, and require States to contribute at least 25 per cent of disaster-relief costs in certain emergency programs.

III. Foreign Economic Policy

(a) Extend the Trade Agreement Acts for 5 years beyond June 30, 1958; permit the reduction of any duty existing on July 1, 1958, by 5 per cent per year over a five-year period, or by an equivalent total amount in not less than three stages with a maximum of 10 per cent in any one year; also permit, alternatively, the reduction of any rate of duty by three percentage points ad valorem without any yearly reduction exceeding one percentage point, or the reduction of any rate to 50 per cent ad valorem, if the existing duty is higher than that amount; without any yearly reduction exceeding one third of that difference; and authorize U. S. membership in the Organization for Trade Cooperation.

(b) Extend the Export Control Act beyond its expiration on June 30, 1958; amend certain customs administration provisions in the Tariff Act of 1930; and approve amendment to the Antidumping Act of 1921 to improve its administration.

(c) Provide funds for the Development Loan Fund to finance economic development projects in underdeveloped countries and for technical assistance under the United Nations program.

(d) Increase the lending authority of the Export-Import bank.

VIII. <u>Federal Economic Statistics</u>

(a) Provide funds for the improvement of Federal economic statistics programs.

SUMMARY OF RECOMMENDATIONS IN THE ECONOMIC REPORT OF THE PRESIDENT

1959[5]

I. Government Financial Policies

(a) Continue for one year beyond June 30, 1959, the present tax rate on corporate income and the excise taxes on automobiles and parts, cigarettes, distilled spirits, and wines and beer.

(b) Increase temporarily the Federal tax on motor fuels, raise the tax on aviation gasoline, and impose a similar tax on jet fuels.

(c) Authorize a revision in postal rates.

(d) Enact a permanent plan for the taxation of life insurance companies and adjust the present laws relating to the taxation of cooperatives.

(e) Specify the treatment processes which shall be considered as mining for the purpose of computing percentage depletion allowances in the case of mineral products.

(f) Grant wider administrative authority in setting interest rates and make certain adjustments in rates for various credit programs, as follows: Veterans Administration programs of rental (including armed services) and cooperative housing (Sections 207, 803, and 213 of the National Housing Act); the college housing program of the Housing and Home Finance Agency; the loan program of the Rural Electrification Administration; and the ship mortgage loan program of the Maritime Administration.

(g) Provide the President with authority to veto or reduce the amounts for specific items in appropriation bills and in other bills authorizing expenditures.

(h) Raise the permanent debt limit by $2 billion, to $285 billion, and authorize a further temporary increase for the fiscal year 1960.

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[5] Economic Report of the President (Washington, 1959), pp. 67-69.

II. Measures to Promote Economic Growth with Price Stability

(a) Amend the Employment Act of 1946 to make price stability an explicit goal of Federal economic policy.

(b) Extend Federal regulation to bank mergers accomplished through the acquisition of assets.

(c) Require notification to the antitrust agencies of proposed mergers by businesses of significant size engaged in interstate commerce.

(d) Empower the Attorney General to issue civil investigative demands in antitrust cases when civil procedures are contemplated.

(e) Make Federal Trade Commission cease-and-desist orders final when issued for violations of the Clayton Act, unless appealed to the courts.

(f) Authorize the Federal Trade Commission to seek preliminary injunctions in merger cases where a violation of law is likely.

(g) Amend the Securities and Exchange Act to extend the privilege of Regulation A filings to wider range of security issues.

(h) Enact a program that will provide assistance, through development loans and grants for technical studies, to communities that have suffered substantial and persistent unemployment; and technical aid for the diversification of rural low-income areas and of towns heavily dependent on a major industry.

(i) Enact a long-range program to conserve helium gas.

III. Personal Welfare

(a) Provide for extending the coverage of the Federal-State unemployment insurance system to employees of firms having fewer than four workers, to employees of Federal instrumentalities, nonprofit organizations and certain other groups, and to workers in Puerto Rico.

(b) Bring the provisions of the District of Columbia unemployment insurance system up to the standards recommended for the States.

(c) Strengthen State systems of workmen's compensation.

(d) Extend the coverage of the Fair Labor Standards Act.

(e) Improve the 8-hour laws applicable to Federal and federally assisted construction projects.

(f) Carry out the principle of equal pay for equal work without discrimination based on sex.

(g) Require reporting and disclosure of financial dealings between employers and employee representatives and their agents, and the filing of public reports on the status of union finances, organization, and procedures.

(h) Prescribe standards to promote democratic procedures in union affairs.

(i) Modify the law governing secondary boycotts, organizational and recognition picketing, and representation elections; and provide that States be given jurisdiction in labor-management disputes where the National Labor Relations Board declines to exercise authority.

(j) Correct shortcomings in the Welfare and Pension Plans Disclosure Act.

IV. Foreign Economic Policy

(a) Enlarge the resources of the International Monetary Fund and the International Bank for Reconstruction and Development.

(b) Provide additional authorization for the Development Loan Fund.

(c) Extend the authority for sales of surplus agricultural commodities for foreign currencies and for the donation of such commodities for famine relief and other assistance.

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