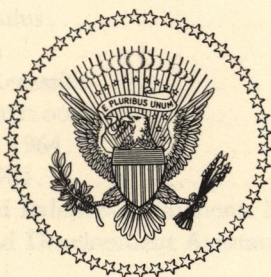


Economic Report of the President



Transmitted to the Congress
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ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

This is my first report as you require by the Employment Act of 1946.

As a member of the Congress a long time, I was proud to see for this historic Act.

As your President, I am now to its challenge
it is my duty to report to you on the progress of our economic, production, and
purchasing power. I am proud to report that we have achieved a "free competitive
economy."

ECONOMIC REPORT OF THE PRESIDENT

Nothing less than the maximum will meet our needs.

Our gross national product (GNP) for the fourth quarter of 1963
rose to a \$545 billion annual rate.

But an unemployment rate of 3 1/2 percent remains.

—over a long shadow over our goals in this achievement.

—remains as well for too much of our present human potential
with the life.

As I stated in outlining my political philosophy six years ago:

I regard achievement of the full potential of our re-
sources—physical, human, and otherwise—to be the highest
purpose of government policies near to the perfection of
those rights we regard as inalienable.

The road to that full potential is still a long one. But we have
gone steadily and impressively forward in the past three years.

And the tax cut will speed our climb toward our goals of full
employment, fast growth, equal opportunity, balance in our external
payments, and price stability.

As the Employment Act requires, I shall in this report:

—show our progress toward our economic goals.

—review the current and foreseeable trends in the U.S. economy
in relation to its potential, and

—set forth my policy and program for achieving our national
economic potential.

ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

This is my first report to you under the Employment Act of 1946.

As a member of the Congress at that time, I was proud to vote for this historic Act.

As your President today, I am proud to respond to its challenge—to its mandate “to promote maximum employment, production, and purchasing power” within the framework of “free competitive enterprise.”

Nothing less than the maximum will meet our needs.

Our gross national product (GNP) for the fourth quarter of 1963 rose to a \$600 billion annual rate.

But an unemployment rate of 5½ percent continues to

- cast a long shadow over our pride in this achievement;
- remind us that far too much of our precious human potential still lies idle.

As I stated in outlining my political philosophy six years ago:

I regard achievement of the full potential of our resources—physical, human, and otherwise—to be the highest purpose of governmental policies next to the protection of those rights we regard as inalienable.

The road to that full potential is still a long one. But we have moved steadily and impressively forward in the past three years.

And the tax cut will speed our climb toward our goals of full employment, faster growth, equal opportunity, balance in our external payments, and price stability.

As the Employment Act requires, I shall in this report

- assess our progress toward our economic goals,
- review the current and foreseeable trends in the U.S. economy in relation to its potential, and
- set forth my policy and program for achieving our national economic potential.

THE \$100 BILLION EXPANSION

As we face the tasks ahead, we have much to build on.

Economic Milestones

Our record \$100 billion expansion since early 1961 has carried us past important milestones in the march toward a better life. In 1963, for the first time in history:

- GNP passed the \$600 billion mark, by year-end.
- Average earnings in manufacturing exceeded \$100 a week, by year-end.
- Personal income (before taxes) reached an average rate of some \$2,500 per capita, by year-end.
- After-tax income of individuals exceeded \$400 billion, for the year.
- Corporate profits exceeded \$50 billion before taxes and \$25 billion after taxes, for the year.
- Residential construction passed \$25 billion, for the year.
- Civilian employment exceeded 70 million, during the year.

Extent of the Advance

These striking statistics tell us where we are. But they do not tell us how far and how fast we have come.

In the nearly three years of unbroken expansion since early 1961:

- GNP is up 16 percent, measured in constant dollars.
- Industrial production is up 23 percent.
- Civilian nonfarm jobs are up 2¾ million.
- Personal income is up \$70 billion, or 17 percent.
- Corporate profits before taxes are up \$17 billion, or 44 percent.
- Net income per farm for 1963 is up almost \$375, or 12 percent.
- Total after-tax income of the American people is up \$56 billion, or 16 percent.
- Real disposable income per family is up more than \$600, or 8 percent.

Comparative Gains

It is fair to ask how the 1961–63 expansion in output and incomes compares with earlier upswings in the American economy. Here is the answer:

1. The \$100 billion rise in output in 2¾ years knows no parallel in our peacetime economic annals.
2. The advance of \$51 billion in labor income is also unparalleled. Average real income of nonfarm workers has risen by \$345 a year, a gain not exceeded in any previous comparable period.

3. The rise in corporate profits from a rate of \$38½ billion in early 1961 to roughly \$55 billion at the end of 1963 is notable for three reasons:

- a. The 14-percent annual rate of advance is high by previous standards.
- b. The rise is not only large, but prolonged—at this stage in past expansions, profits had already declined from their peaks.
- c. The rise has occurred even as the liberalized depreciation guidelines of 1962 were transferring \$2½ billion of business receipts out of taxable profits into nontaxable depreciation.

Most heartening to me is that these gains to American labor and American business were not at the expense of

- the American consumer—whose income is no longer being eroded by inflation, as prices have held steadier in the United States than in any other major industrial country;
- the competitive position of U.S. exports—which has benefitted from several years of stable domestic wholesale prices, our best record since the war and better than that of any other major industrial country.

Contributions of Business, Labor, and Government

An expansion as long, strong, and free of excesses as the one we are now experiencing does not “just happen.”

- Business* has generally held prices in check, kept inventories on an even keel, and avoided excesses in capital financing.
- Labor* has been constructive in its collective bargaining and in its contributions to rising productivity. Average wage rate increases over the period 1961–63 have been the most modest since World War II, thereby helping to stabilize unit labor costs and improve our ability to compete with Europe and Japan.
- Government* has steadily pursued fiscal and monetary policies designed to promote recovery, accelerate expansion, and encourage business and consumer confidence:

in 1961, when the Administration's quick anti-recession program got recovery off to a flying start;

in 1962, when, in sharp contrast to 1960 and 1957, rising Federal purchases, new tax incentives to investment, and continued credit ease lent a steadying hand to an economy whose advance was faltering;

in 1963, when prospects of a timely tax cut buoyed a reassured and resurgent economy.

Federal Purchases and Tax Cuts

Rising Federal purchases have played an important role in sustaining the 1961-63 expansion. They accounted directly for 11 percent of the growth in GNP, quite apart from their substantial indirect effects in increasing business and consumer outlays.

Our fiscal program for 1964-65 will shift emphasis sharply from expanding Federal expenditure to boosting private consumer demand and business investment.

The \$11 billion tax cut will challenge American businessmen, investors, and consumers to put their enlarged incomes to work in the private economy to expand output, investment, and jobs.

I am confident that our private decision makers will rise to this challenge.

I am confident of their growing agreement

- that “new records” in output and employment are not enough;
- that four million unemployed and 13 percent idle factory capacity are intolerable;
- that the acid test of economic policy is whether we can make full use of our growing labor force and our rising productivity—our full potential.

THE JOB AHEAD OF US

We have not yet met this test. New high ground is not the summit. That still lies ahead.

Our 1961-63 advance—though impressive, sustained, and noninflationary—has not gone far enough and fast enough

- to create the jobs needed by our unemployed,
- to get our factories humming to desired capacity,
- to lift our GNP to its reasonable potential,
- to restore the growth rate of our productive potential to the pace we took for granted in the early postwar period,
- to raise the incomes of farm families to a level more comparable to those of nonfarm families,
- to expand investment and profits to levels that will hold more of our capital funds at home and thereby shrink our external payments deficit.

The size of the job that lies ahead of us is measured by—

1. *Unemployment*—5½ percent of our labor force is still idle, even after a year-to-year advance of \$30 billion in our GNP. Taking into account the added workers who seek employment as jobs become more plentiful, we would need at least two million more jobs today just to get rid of stubborn excess unemployment.

2. *Productivity advance*—we need about two million new jobs each year to offset the labor-saving effects of rising output per worker.
3. *Labor force growth*—more than a million added jobseekers enter the labor market each year—indeed we will soon need 75 million jobs.
4. *Unused capacity*—operating rates in manufacturing still average only 87 percent of capacity, against the 92-percent rate preferred by business managers.
5. *Wasting potential*—men, machines, and materials that lie idle today could readily add about \$30 billion more to our \$600 billion GNP.
6. *The balance-of-payments deficit*—although sharply reduced by the determined steps announced in July, the deficit is still with us. And gold outflows—though only half as large in 1963 as in 1962, and less than half as large in the three years 1961-63 as in 1958-60—have not been eliminated.

EARLY TAX REDUCTION

If we are to master these problems, we must above all enact the tax bill (H.R. 8363)

- not in one or two or three months, but now;
- not in diluted, but in strengthened form, with an immediate drop from an 18-percent to a 14-percent withholding rate.

Far too long, our economy has labored under the handicap of Federal income tax rates born of war and inflation:

- Those rates were designed to curb demand in an economy bursting at the seams.
- But now, when demand and incentives are not strong enough to make full use of our manpower and machines, the tax brake is set far too tight.
- We need to release that brake quickly to put billions of dollars of new consuming and investing funds into the hands of the private economy.

Greatest Fiscal Stimulus

Speedy passage of the tax cut, at the 14-percent withholding rate

- will cut individual income tax collections by \$8.8 billion in 1964, over \$2 billion of which will come from lowering the withholding rate to 14 percent instead of 15 percent;
- will cut corporate tax liabilities by \$1½ billion in 1964;
- will provide a net fiscal stimulus, taking both expenditures and tax cut into account, that will be *three times as great* in 1964 as in any of the years 1961, 1962, and 1963;

—will, in fact, provide a greater net stimulus to the economy in 1964—to jobs, production, income, and profits—*than in any other peacetime year in history.*

The economics of efficiency is in no way inconsistent with the economics of expansion. By combining efficiency with expansion, frugality with compassion:

- we shall hold the fiscal 1965 budget below the fiscal 1964 budget, and cut the deficit in half;
- we shall get a dollar's value for a dollar spent, while not fearing to spend a dollar when and where the Nation will reap a full dollar or more in benefit;
- we shall strengthen our programs to meet pressing human needs; fully satisfy our defense requirements; and respond to the demands of economic progress;
- and we shall, at the same time, provide an unparalleled fiscal stimulus to the economy.

Sustained Expansion

The tax cut will give a sustained lift, year-in and year-out, to the American economy.

When fully effective in 1965, it will send well over \$11 billion annually coursing through the arteries of the private economy.

The resulting stream of purchases by willing consumers and of investment by responsive businessmen will, at full strength, expand the tax cut's initial impact several-fold.

The Nation will then, year-after-year, reap this benefit in the form of

- \$35 to \$45 billion more GNP,
- \$25 to \$30 billion more consumption,
- \$5 to \$7 billion more profits,

than we would attain without the tax cut.

These gains, growing steadily, will at long last lead to a balanced budget in a balanced economy at full potential.

Safeguard Against Recession

For the near term, the tax cut will give us the vital fiscal safeguard we need against recession. It will convert what is already a long and strong advance into *the longest and strongest expansion in our peacetime history:*

- By April, it will have outdistanced all but the long and incomplete climb out of the Great Depression from 1933 to 1937.
- By mid-1965, it will have outlasted even that expansion.

I do not say that we can, at one stroke, wipe out recession or legislate the business cycle out of existence. But vigilant, bold, and flexible

policy can prevent some recessions and nip others in the bud. And we have a great stake in doing so.

The American economy suffered two recessions in quick succession in 1957-58 and 1960-61. If a recession of the same average force were to hit us in 1964 or 1965, it would cost us

- a loss of \$25 billion or more of output;
- a rise of two million in unemployment;
- a drop of nearly 12 percent in industrial production;
- a sag of more than \$5 billion in after-tax profits.

Clearly, by enabling us to avoid a recession, the tax cut will pay us a handsome quick bonus quite apart from its basic long-run benefits.

THE 1964 ECONOMIC OUTLOOK

We enter 1964 with optimism

- riding the strong mount of an expansion that has already crossed the \$600 billion mark, and
- responding to the expected spur of a quickly enacted \$11 billion tax cut.

With the tax cut, promptly enacted, our *gross national product* for 1964 should rise from \$585 billion for 1963 to a projected \$623 billion (understood as the midpoint of a \$10 billion range). But, without the tax cut, our sights would have to be set \$10 to \$15 billion lower—and dashed expectations could turn expansion into recession.

With the tax cut, the *state of business confidence* is strong: business forecasters today foresee a 5- to 6-percent, or even greater, rise in GNP from 1963 to 1964. In contrast, a year ago they foresaw only a 3- to 4-percent rise. Today's business optimism is one of our strongest economic assets in 1964.

With the tax cut, *unemployment* will decline significantly in 1964.

With the tax cut, *profits* will continue to rise, avoiding the decline that usually sets in after the first year or two of a business expansion.

With the tax cut, our *balance of payments* will benefit from basic improvements

- in our ability to compete in world markets as costs are cut directly through lower taxes and indirectly through modernization;
- and in our ability to retain and attract capital as returns on domestic investment rise with higher volume and lower unit costs.

With the tax cut, *consumer spending*—fueled by the extra \$8.8 billion of take-home pay—will propel the economy forward in 1964.

With the tax cut, *business fixed investment* should rise more in 1964 than in 1963, and *housing* and *automobile* demand should remain strong.

With the tax cut, in short, 1964 will be a year of strong, sustained economic advance.

But all this will not come about automatically. It requires, and I confidently expect:

- that *the Congress* will act swiftly;
- that *taxpayers* will respond by putting the released funds to work in the private economy;
- that *business* will resist the temptation to exploit stronger markets by unneeded price boosts;
- that *labor* will resist the temptation to exploit stronger job opportunities by excessive wage demands;
- that *Government* will follow a balanced policy to maintain a favorable monetary climate, while meeting the requirements of our balance-of-payments situation;
- that both *public and private action* will be taken as needed to overcome those pockets of excessive unemployment that remain even in the face of the job-creating stimulus of the tax cut.

PRICE-WAGE POLICY IN 1964

Prospects are favorable for continuing in 1964 our good record of price stability and stable unit labor costs:

First, the price and wage record from which we start is excellent:

- a. The wholesale price index is still below the level of 3 years ago.
- b. The consumer price index has risen only 1.2 percent a year, mostly in services.
- c. Average wage increases have stayed generally within the bounds of productivity increases.

Second, because of wage moderation and rising productivity, labor costs per unit of output have held steady, while volume has risen.

Third, the tax cut will further reduce costs, increase take-home pay, and keep sales and profits rising.

Fourth, with ample supplies of labor and industrial capacity, the force of expanding demand touched off by the tax cut can express itself in more output, income, jobs, and profits rather than inflationary price or wage increases.

Nevertheless, a series of specific price increases in recent months—especially in manufactured goods—gives me some cause for concern.

I do not anticipate a renewal of the price-wage spiral—a spiral that would weaken our expansion and worsen our balance-of-payments position.

I count on the sense of responsibility of the Nation's industrialists and labor leaders

- to extend the excellent price and cost records of recent years
- to maintain price and wage policies that accord with the non-inflationary guideposts that I have asked the Council of Economic Advisers to reaffirm in its attached Report.

In the face of a 44 percent increase in corporate profits in less than three years and the prospect of further increases to come with the tax cut, I see no warrant for inflationary price rises.

On the heels of solid increases in real wages, plus the rise in take-home pay under the tax cut, I see no warrant for inflationary wage increases.

Accordingly:

- I shall keep a close watch on price and wage developments, with the aid of an early warning system which is being set up in the appropriate agencies.
- I shall not hesitate to draw public attention to major actions by either business or labor that flout the public interest in non-inflationary price and wage standards.
- And I shall translate into action the view
 - a. that antitrust policy must remain keenly alert to illegal price-fixing and other practices that impair competition;
 - b. that we must resist new steps to legalize price-fixing where competition should prevail.

OTHER POLICIES FOR 1964

Monetary Policy and Balance-of-Payments Measures

A strong upswing in the economy after the tax cut need not bring tight money or high interest rates, especially when

- our balance of payments is improving so sharply in response to measures begun in 1961 and reinforced last July;
- the budget for fiscal year 1965 will cut the Federal deficit in half and ease pressures on interest rates from Treasury borrowing.

It would be self-defeating to cancel the stimulus of tax reduction by tightening money. Monetary and debt policy should be directed toward maintaining interest rates and credit conditions that encourage private investment.

But monetary policy must remain flexible, so that:

- It can quickly shift to the defense if, unexpectedly, inflation threatens or the balance of payments worsens.
- When monetary measures are not needed as defensive shock troops, they can reinforce fiscal policy in promoting domestic expansion.

Our balance of payments will continue to benefit from the special program launched last July. This requires

- early enactment of the *interest equalization tax*, designed to raise the costs of foreign borrowing in our capital market without forcing up domestic interest rates,
- further economies in dollar outflows* from Government programs, without compromising our efforts to maintain the strength of the free world,
- continued price stability and export promotion* to maintain or improve the competitive position of our exports.

Trade Expansion and Development Assistance

1. *The Kennedy Round.* The United States' 30-year campaign to reduce barriers to world trade—and the intensified pursuit of that goal signalled by the passage of the Trade Expansion Act of 1962—will reach a climax in 1964.

U.S. industry and agriculture are in excellent condition to seize the new opportunities offered by trade liberalization and to weather the adjustments that may be required.

Our goal is a more prosperous America in a more prosperous world.

2. *The developing countries.* Reduced trade barriers will expand exports and help an increasing number of developing countries to become self-supporting.

But for most poorer countries full self-support is still some distance off. We must help them find a path to development through freedom—and freedom through development.

Our development assistance effort must and will be more sharply focused and rigorously administered. We shall encourage others to share more of its burden and seek a larger role for private investment. But a strong development assistance program continues to be vital to our pursuit of peace and stability in the free world.

Agriculture

The contribution to our Nation's economic growth made by rising agricultural productivity is too often overlooked.

We need only look at the restraints placed on national growth in Soviet Bloc countries to understand what a failure in the growth of agricultural productivity can mean to a nation and its people.

Looking forward in 1964, we face a number of challenges in agriculture:

- While net income per farm has grown 12 percent in 1961–63, chronic problems of overproduction remain.
- We need improved *commodity legislation* this year for many of our major commodities.

- The highly successful *Food For Peace* program requires new legislative authority this year.
- We must also provide the *research and development* support necessary to the continued strength, adaptability and growth of American agriculture.

Labor and Manpower Policies

No matter how mechanized it becomes, our economy is still an organization of *people*—working with tools. In 1964 we must redouble our efforts to meet these problems of our working people:

1. *Automation.* Technological change is a prime mover of our economic growth—but it can lead to painful job displacement.

—A special high-level commission should be established to determine how we can best gain the benefits of automation while minimizing its human costs.

—As a starting point, I commend to it the analysis of this problem which the Council of Economic Advisers has made in Chapter 3 of its accompanying report.

2. *More efficient labor markets.*

—Displaced workers must be retrained and helped by improved Federal-State placement and counseling services to find their way back to fully productive lives.

—And we must strengthen our education and training facilities at every level to give our youth the background and skills demanded by our rapidly developing economy. The Youth Employment Act remains high on our agenda.

3. *Unemployment insurance.* The burden of displacement on the individual must be eased by extending the coverage and increasing the benefits of our unemployment insurance programs.

4. *The Fair Labor Standards Act.* Coverage should be extended to over 2½ million workers who lack overtime coverage or are not protected at all—among them, 650,000 hotel, motel, restaurant, laundry, dry-cleaning, and farm-processing workers.

5. *Working hours.* We should and will solve our present unemployment problem by expanding demand, not by forcing the standard work week down to 35 hours. This would only redistribute work, not expand it.

At the same time, the regular use of heavy overtime may be unreasonably curtailing job opportunities in some industries.

Accordingly I shall ask for legislation authorizing *higher overtime penalty* rates on an industry-by-industry basis where tripartite industry committees determine that such rates could create more jobs without unduly raising costs.

Transportation and Technology

Our expanding economy and growing population place ever-rising demands on the Nation's transportation system. It is particularly urgent that the Congress now enact legislation before it

- to assist our cities in modernizing their mass transportation facilities;
- to revise and strengthen our national transportation policy and place more reliance on the creative force of competition.

The Federal Government provides major support for the research and development which underlie our striking technological advances. In the past much of our research and development has been connected with national defense. Now, as military outlays level off, we face

- a challenge to apply the Nation's growing scientific and engineering resources to new socially profitable uses;
- an opportunity to accelerate the technological progress of our civilian industries.

The Federal Government should join with private business and our universities in speeding the development and spread of new technology. I have directed the Department of Commerce to explore new ways to accomplish this.

Housing and Community Development

Americans generally are better housed than the citizens of any other nation. Much of this could not have been accomplished without the encouragement and help Government has given to our private financial institutions.

Authorizations expire this year for several of our major programs. They need to be renewed and extended

- to *renew the decaying areas* of our cities, while minimizing the burden of dislocation on families and small businesses;
- to allow cities to acquire land for *open-space urban use* and to facilitate better *urban planning*;
- to strengthen our program of *low-rent public housing*;
- to provide for construction of more *specialized housing for the elderly*.

THE WAR ON POVERTY

In the State of the Union Message, I announced that this Administration was declaring unconditional war on poverty in America. I shall present the details of the attack, including legislative proposals, in a later special message to the Congress.

Americans today enjoy the highest standard of living in the history of mankind. But for nearly a fifth of our fellow citizens, this is a hollow achievement. They often live without hope, below minimum standards of decency.

The per capita money income of these 35 million men, women, and children was only \$590 in 1962—against \$1,900 per capita for the Nation as a whole.

We cannot and need not wait for the gradual growth of the economy to lift this forgotten fifth of our Nation above the poverty line.

We know what must be done, and this Nation of abundance can surely afford to do it.

The Role of Prosperity and Faster Growth

Today, as in the past, higher employment and speedier economic growth are the cornerstones of a concerted attack on poverty:

- In the Great Depression mass unemployment made poverty all too common an experience.
- Since 1947, prosperity and progress have reduced the incidence of substandard incomes from one-third to one-fifth of the Nation.
- But the erosion of poverty slowed measurably after 1957.
- The tax cut will once again generate jobs and income at a pace that will provide an escape from poverty for many of our least fortunate families.

But general prosperity and growth leave untouched many of the roots of human poverty. In the decade ahead, the forgotten fifth must be given new opportunities for a better life.

There are two major prongs to our specific attack on poverty in America:

- First, to enable every individual to build his earning power to full capacity
- Second, to assure all citizens of decent living standards regardless of economic reverses or the vicissitudes of human life and health.

Building Individual Earning Power

The first approach is the more fundamental.

Let us deny no one the chance to develop and use his native talents to the full.

Let us, above all, open wide the exits from poverty to the children of the poor.

These are the keys to earning power:

1. *Education.* Poverty and ignorance go hand in hand:
 - Of families headed by a person with only a grade school education, 37 percent are poor. Of those headed by high school graduates, only 8 percent are poor.
 - We must upgrade the education of all our youth, both to advance human well-being and to speed the Nation's economic growth.

—But, most vitally, and with Federal support, we must upgrade the education of the children of the poor, so that they need not follow their parents in poverty.

2. *Health.* The poor, and the children of the poor, are handicapped by illness and disability that could be avoided:

—Largely as a result of the ill health that grows out of poverty, we rank below many other countries in the conquest of infant and maternal mortality, in average life expectancy and nutrition.

—We must speed and intensify our efforts to make good health more accessible to the poor.

3. *Skills and jobs.* We need to help both young adults and older workers acquire marketable skills by the programs already indicated.

4. *Community and area rehabilitation.* Concerted community action, with new Federal assistance, can break the dismal and vicious cycle found in too many of our rural and urban areas:

—The cycle of poverty: inadequate schools, drop-outs, poor health, unemployment—creating delinquency, slums, crime, disease, and broken families—thereby breeding more poverty.

—The cycle of chronic depression: regions needing new economic uses for their idle or underutilized human and physical resources, but too poor to provide them alone—and therefore unable to break out of their depression.

The Area Redevelopment Act must be renewed and improved, and rural communities must be helped to find new economic strength.

Furthermore, in a forthcoming special message, I shall propose a new program to deal with our Nation's most distressed major region, Appalachia.

5. *Equal opportunity.* Forty-four percent of nonwhite families are poor. Deficiencies of education and health and continuing job discrimination depress the earnings of Negroes, and other nonwhites, throughout their lives.

—Only 40 percent of nonwhites—compared to 70 percent of whites—complete high school.

—Infant mortality is nearly twice as high, maternal mortality four times as high, for nonwhites.

—The life expectancy of a nonwhite man at age 20 is nearly 5 years shorter than for his white contemporary, and shorter than the average life expectancy reported in some 40 foreign countries.

—Unemployment rates for nonwhites are generally double those of whites.

Even beyond civil rights legislation, the fight to end discrimination requires constructive action by all governments and citizens to make sure—in practice as well as in principle—that all Americans have equal opportunities for education, for good health, for jobs, and for decent housing.

Providing a Decent Living

The second prong of the attack on poverty is to protect individuals and their families from poverty when their own earnings are insufficient because of age, disability, unemployment, or other family circumstances.

1. Too many of the *poor and disabled* today fail to receive aid under the eligibility requirements of our Federal, State, and local network of programs of insurance and assistance.

2. For the *aged*, enactment of the proposed program for hospital insurance under social security is the first order of business.

3. For the *unemployed*, permanent legislation to strengthen unemployment insurance is urgently needed, as indicated above.

A Versatile Attack

The tactics of our attack on this ancient enemy must be versatile and adaptable. For the sources of poverty vary from family to family, city to city, region to region:

—A solution will not be found in any single new program, directed from Washington and applied indiscriminately everywhere.

—Instead, we urgently need to bring together the many existing programs—Federal, State, local, and private—and focus them more effectively in a frontal assault on the sources of poverty.

—Most important, we shall encourage and assist communities and regions to develop their own plans of action; to mobilize their own resources as well as those available under Federal programs.

Only in this way can we assure that the Federal funds devoted to the war on poverty—over \$1 billion of new funds in the first year—will be invested wisely and well.

AMERICA'S ECONOMIC CHALLENGE

In 1964 and beyond we seek a free and growing economy which

—offers *productive employment to all* who are willing and able to work;

—operates at the *full potential* of our human and material resources;

—*encourages free enterprise*, innovation, and competition by citizens in all walks of life;

—*avoids setbacks from recession or inflation*;

—generates *steady and rapid growth in productivity*—the ultimate source of higher living standards—while providing the new skills and jobs needed for displaced workers;

—*meets ever more fully the needs and preferences of our citizens*,

as freely expressed in the market place and in the halls of governments;

- provides increasing leisure*, and satisfying ways to use the time, to those who wish it;
- safeguards the security of the Nation and the free world* by assisting efficiently the economic development and political independence of the less developed countries;
- promotes *mutually advantageous trade* with other countries, and progressively reduces barriers to international competition;
- earns enough in free international transactions to *balance our external payments* and yet meet our world responsibilities;
- distributes fairly* the fruits of economic growth among consumers and producers, workers and employers;
- moves steadily toward the American dream of *equality of opportunity* for all citizens—regardless of race, religion, sex, or residence, regardless of social and economic status at birth;
- permits every American to produce and to earn to the *full measure of his basic capacities*;
- eliminates*, with the compassion and foresight of which a free and abundant economy is capable, *avoidable suffering and insecurity* from the lives of our citizens.

These aspirations are not easy to fulfill—but neither are they beyond our powers.

The policies—public and private—we must pursue are not waiting to be discovered. They are at hand and we must use them.

Our main reliance is on private ingenuity, initiative, and industry. But it is the obligation of government

- to support the vibrant, steady growth of the economy;
- to expand the opportunities of free enterprise;
- to guard against its excesses;
- and to serve the economic interests of all the people.

The Federal Government,

- working closely with labor, business, and agriculture, yet respecting the economic and political freedoms of individuals;
- working closely with State and local governments, yet careful not to trespass on their domain

faces the economic challenges of 1964 with confidence.

Strengthened by the programs I have outlined in this Report, the Nation will move steadily toward the realization of its full potential.

